

ECONOMICS

Paper 2281/11
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2, 11, 15, 18, 19, 20, 25, 26, 27, 29, and 30**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **7 and 21**. These questions were answered correctly by fewer than 50 per cent of the candidates.

Comments on specific questions

Question 7

Question 7 was answered correctly by 49 per cent of the candidates who chose option **D**. 18 per cent chose option **A**, 14 per cent chose option **B** and 19 per cent chose option **C**. The question shows a diagram indicating total fixed cost, total variable cost and total cost. The fixed cost is represented by the horizontal line, or RS. Above that is added the variable cost of PR. However, with no fixed cost the variable cost would start at zero and is shown as the upward sloping line from O to Q. At output S, the variable cost is, thus, QS. PQ (option **A**) is the fixed cost; PS (option **B**) is the total cost.

Question 21

Question 21 as answered correctly by 31 per cent of the candidates who chose option **A**. 58 per cent chose option **B**, 8 per cent chose option **C** and 3 per cent chose option **D**. The economy in the question could achieve point X if all its resources were used. Point Y in option **A** represents a situation where some of the resources, in this case labour, are not fully used. Point Y in option **B** represents a different economy where all the resources are completely used and point X is not attainable.

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Paper 2281/12
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1, 4, 11, 26** and **30**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **3, 6, 9** and **16**. These questions were answered correctly by fewer than 40 per cent of the candidates.

Comments on specific questions

Question 3

Question 3 was answered correctly by 31 per cent of the candidates who chose option **C**. 31 per cent chose option **A**, 9 per cent chose option **B** and 29 per cent chose option **D**. The boundary of the production possibility curve shows the maximum amount of production available to an economy using all its resources. The boundary would not change simply because consumers changed their buying preferences (option **A**). If resources were previously unused, the original position of point K would be inside the production possibility curve, the use of those resources would move K nearer to, or on to, the curve, not beyond it (option **D**).

Question 6

Question 6 was answered correctly by 33 per cent of the candidates who chose option **B**. 6 per cent chose option **A**, 8 per cent chose option **C** and 53 per cent chose option **D**. Those who chose option **D** confused the reason for a movement along the demand curve and a reason for a complete shift of the curve. A price change for the good would cause a movement along the curve. (option **D**). A decrease in the price of a complementary good would cause more of that good to be demanded and thus also more demand for the original good but with no change in the price of that good. Thus, it would cause a shift in the curve not a movement along the curve of the original good (option **B**).

Question 9

Question 9 was answered correctly by 30 per cent of the candidates who chose option **D**. 25 per cent chose option **A**, 10 per cent chose option **B** and 35 per cent chose option **C**. The question shows a diagram indicating total fixed cost, total variable cost and total cost. The fixed cost is represented by the horizontal line, or RS. Above that is added the variable cost of PR. However, with no fixed cost the variable cost would start at zero and is shown as the upward sloping line from O to Q. At output S, the variable cost is, thus, QS. PQ (option **A**) is the fixed cost; PS (option **B**) is the total cost.

Question 16

Question 16 was answered correctly by 33 per cent of the candidates who chose option **C**. 8 per cent chose option **A**, 4 per cent chose option **B** and 55 per cent chose option **D**. To answer this question candidates had to determine which of the spending by the government was on public goods. Of those listed only law and order and defence are classed as public goods. Option **D**, the most popular option is calculated by adding the expenditures on health and education. These may be provided by the public sector but they are usually classed as merit goods, not public goods.

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<p>Paper 2281/21 Structured Questions</p>

Key messages

Command words matter as they help candidates to know what is expected from them in their answer. For example, in **Section B**, the key command words are usually explain, analyse and discuss and they require different types of responses. Often candidates are asked to define a term for 2 marks. All that is required is a precise meaning but sometimes candidate give a lengthier explanation which is not needed. Questions starting with 'discuss' will often require a balanced and structured answer whereas 'analyse' may well not and may simply require an explanation of a relationship e.g. **Question 2(c)** the relationship between an increase in income tax and the rate of inflation. The meaning of command words used in the exam is set out on page 23 of the syllabus.

General comments

Generally speaking, candidates used the source material well in answering the questions in **Section 1**. The only issue was with **Question 1(f)** as the majority of candidates did not understand that in figure 1.1 the size of a country's current account balance was expressed as a percentage of GDP. This was because the countries were of different size and expressing the balance in \$m would have given a misleading comparison. Too many candidates did not analyse whether or not the inflation rate affected the size and direction of the current account balance. The data showed that only 2 countries have a current account balance surplus, but this was rarely picked up by candidates. Instead, many just described the percentages for the inflation rate and current account balance without identifying the relationship.

Candidates should spend a few minutes at the start of the exam, or after they have completed **Question 1**, determining which three questions to answer in **Section B**. They should look carefully at the **part (d)** questions as they carry the most marks. There were quite a few cases of candidates answering **parts (a), (b)** and sometimes **(c)** before deciding to start another question when presumably they realised they could not give a good answer to **part (d)**. It is also important that candidates do not cross out any work if they do attempt all four questions in **Section B** as the examiner will mark all their work and the three questions with the highest marks will count. There were a limited number of candidates where the answer they had crossed out actually gained more marks than the replacement question.

Comments on specific questions

Section A

Question 1

- (a) Less than half the candidates got this question right. With a population of 1.2 m and a birth rate of 10.2 per cent, the correct calculation was $1.2 \text{ m} \times 10.2 / 1000 = 12\,240$, as the birth rate is calculated as the number of births per 1000 of the population. Quite a few candidates arrived at an answer of 10 200 as they simply multiplied 10.2 by 1000. In quite a few cases the answer given was 122 240 as candidates divided by 100 and not 1000.
- (b) The most common correct answers given were GDP per head and HDI. Life expectancy and education which were also mentioned in the source material were also frequently identified by candidates. A few incorrectly stated GDP which is not an indicator of living standards unless expressed as per head (or per capita). Some candidates selected terms in the source material that are not used as indicators of living standards, e.g., income and highly qualified workers.

- (c) It was common for candidates to write out in full the two sentences in the source material that stated that the bad weather had led to global grape production falling by 35 per cent resulting in a shortage. Some candidates correctly wrote about the bad weather but then did not explain why this caused disequilibrium in the market. In many cases they just stated that production had fallen by 35 per cent. A few did not mention bad weather but did show some understanding by stating that disequilibrium was caused by a fall in supply without a change in demand which was an acceptable answer to give.
- (d) There were three possible reasons in the extract material for why well-educated workers tend to work past retirement age. First, they were well paid and therefore motivated to continue working. Second, their income enabled them to be healthy and therefore were fit to continue to work. Third, their jobs did not require physical strength which lessens with age. Most candidates did identify two reasons but often only gave one explanation, e.g., did not explain why remaining healthy enabled them to continue working. A few approached it from the angle of why low-educated workers tend not to work past retirement age, e.g., *'their health would be affected by things such as machines and pollution'* and this approach was also acceptable.
- (e) A rise in the retirement age usually increasing the size of the labour force and reducing the numbers receiving a pension. Thus, the government benefits from extra tax revenue, e.g., from income tax or sales tax as people remain at work. The government also spends less on pensions as fewer people have retired. The majority of candidates demonstrated they understood at least one of those effects. A small minority of candidates mistakenly believed that raising the retirement age would lead to the government having to pay out more in pensions or benefits. Others wrote about the effect on younger workers being unable to find jobs as they were still filled by older workers. This might be an outcome, but the question was about the impact on the government's budget. Others expressed the view that the government would have to spend more on healthcare, hospitals and homes for old people which again is an incorrect analysis of people working beyond retirement age and more to do with an aging population.
- (f) In general, there were few strong answers to this question. Overall, answers were weak with many not even identifying the inverse relationship. Many candidates simply described the differences in the percentages between inflation and balance of payments. They did not appear to understand that a negative percentage for current account balances meant that the country had a deficit, and a positive percentage meant a current account balance surplus. The question requires candidates to analyse the data and look for a trend and any exceptions. Few managed to do this but many did correctly identify that the relationship was inverse, e.g., that the higher the rate of inflation, the higher the current account deficit. A common error was to describe the data, e.g. *'In Iceland, the inflation rate was 3 per cent and the current account balance was 6 per cent which is 3 per cent higher'* or *'Mongolia has a high rate of inflation, and the current account balance is -16 per cent'* whereas the correct analysis would be *'Mongolia has the highest rate of inflation and the highest current account balance deficit at -16 per cent of GDP.'* Quite a few correctly explained that Iceland/Slovenia were different, e.g. *'The inverse relationship applies for all countries except for Iceland and Slovenia because both their inflation rate and current account balance were positive.'* Surprisingly, quite a few candidates wrote about the relationship between interest rates and current account balance.
- (g) Most candidates showed in their answer that they understood what caused a PPC to shift to the right or to the left. Candidates needed to identify, from the source material, factors that affected the level of resources in Cyprus, e.g., land, labour, capital, or enterprise. Generally speaking, candidates were better at explaining what would cause the PPC to shift to the left, e.g., the emigration of entrepreneurs and that the quality of agricultural land was decreasing. The shift to the right could be caused by lower rates of interest leading to more investment and the rise in retirement age and population leading to a larger workforce. Weaker answers tended to discuss changes in the level of production and the effect of the bad weather on grape production which shows a misunderstanding of what causes a shift in the PPC. A PPC shows the productive capacity rather than actual output of a country.

- (h) What was meant by capital-intensive production was understood by most candidates. Candidates generally did better on the benefits stating lower costs and prices, better quality goods, faster and more efficient production. Answers for why it might not be beneficial were less well done although good answers described less variety of goods, higher maintenance costs, and equipment might break down. Quite a few candidates assumed consumers were also employees and wrote about being replaced by capital equipment and losing their jobs. This approach would not gain marks as it falls outside of the scope of the question.

Question 2

- (a) This was correctly answered by many candidates as they understood that the foreign exchange rate was the price or value of a currency in terms of another currency. Some gave examples, e.g., £1 = \$1.2. Weaker answers got the idea of the comparison with another currency, without stating price or value. Very weak answers confused this term with the balance in value between total imports and total exports, e.g., *'it's when a country exchanges goods and services with another country at a particular rate.'*
- (b) This question was not well answered as candidates struggled to identify causes; often explaining why exports were more expensive than imports rather than the total value of exports was greater than imports. Good answers explained the impact of higher demand for exports arising from better quality goods or cheaper goods due to low inflation or weaker currency or specialisation. They also commented on imports being low because of recession in the home economy or protective measures in place. Some mentioned high value exports such as oil and gas not unexpected given the current high world market prices of energy. Weak answers used incorrect analysis, e.g., that a high rate of inflation led to exports having a higher value leading to the value of exports being higher than imports.
- (c) Most candidates showed a good understanding of both income tax and inflation rate. Good answers simply stated that higher income tax reduced disposable income, reducing consumer spending and total demand which led to lower prices and lower inflation. A few stated lower demand-pull inflation. The strongest answers also commented that if workers asked for pay rises to offset lower disposable income. This would lead to firms putting up prices as their costs had risen causing cost-push inflation. Quite a few candidates mistakenly only referred to changes in demand for a good - a microeconomic term - whereas the question was about macroeconomics. A few confused income taxes with taxes on goods and wrote about it leading to higher prices and increasing the inflation rate.
- (d) The term economic growth was understood by most candidates. Good answers were well balanced with reasons for why the government should aim for it and why it should not. Answers tended to be stronger on the reasons for economic growth. These included higher output, more employment, better standard of living and more tax revenue to develop the economy and help reduce poverty. Common answers for why it should not include depletion of resources, environmental issues such as pollution and inflation. Weak answers tended to pick up one or two points without developing them whereas strong answers covered more points with greater depth.

Question 3

- (a) A wide range of answers were possible for this question and many candidates correctly identified two influences. Common influences given were price, quality, and advertising of the goods; plus, the income and tastes/habits of consumers. There were a few wrong answers which for some reason did not relate to what a person may buy but why demand for a product may be high.
- (b) Candidates showed a good understanding of what was a demerit good. Good answers explained two ways of reducing consumption such as tax on the good making it more expensive and less affordable to buy and a government advertising campaign to provide information on the harmful effects of consuming the good. Weaker answers tended to identify a way without explaining the impact, e.g., *'government should place quotas on imports of demerit goods.'* In some cases this simply meant that they stated that imposing a tax would lead to lower consumption which was in the question. A few mistakenly referred to giving subsidies to merit goods in the belief that merit goods were an alternative to demerit goods, which is usually not the case.

- (c) Most candidates were able to analyse at least one reason why a worker would want to join a trade union. The most common reasons given were greater bargaining power for higher wages and better working conditions. Strong answers were able to give depth to their answers citing other reasons such as protecting rights, increasing job security and service provided by trade unions to their members. Weak answers often only gave one reason and, in some cases, believed that the trade union was the employer.
- (d) Strongest answers were from candidates who were able to discuss both why tertiary workers would normally receive higher pay than primary sector workers, but also why in some cases primary workers may get paid more. Common reasons given were that of higher demand and lower supply of tertiary workers due to skill levels and value added to the product or service they provided. For primary workers, reasons why some might be paid more included dangerous occupations e.g., gold mining or working with high value-added product, e.g., oil. A few noted that cleaners were usually low-paid and worked in the tertiary sector. Weaker answers tended to be one-sided or simply reversed the argument for tertiary workers when explaining why primary workers got paid less. A few confused primary workers with the secondary sector. A few made the valid point that a primary worker in a developed country might be paid more than a tertiary worker in a developing country.

Question 4

- (a) The majority of candidates understood that privatisation was 'the selling of firms in the public sector to the private sector.' A few mistakenly referred to a public company becoming a private company which is not the same thing as both are in the private sector.
- (b) Most candidates understood that absolute poverty meant a lack of necessities and/or low income. A few gave an example of under \$2 a day or referred to lack of housing, food, or clothing. Relative poverty was less understood. Most knew that those with relative poverty had less income than others but were unable to explain how this relativity was measured. A typical answer was 'Relative poverty is when a person can afford their basic needs but compared to another person cannot afford all their wants.'
- (c) The term specialisation was understood by most candidates although a few did not apply their analysis to firms but to individual workers which resulted in weak answers. For most, the benefits for firms were explained well. Quality and lower prices led to higher demand, higher sales /revenue for firms and therefore higher profits. It led to good brand image and reputation. Strong answers also often explained how such firms benefited from economies of scale. Weak answers often lacked depth and, in some case, included disadvantages of specialisation which was not required by the question being asked.
- (d) Supply-side policies were not understood by many candidates. Instead, weak answers often referred to other policy measures such as fiscal and monetary policies which affected the level of unemployment. Answers often concentrated on how government could reduce unemployment, and, in some cases, no supply side measures were mentioned. Strong answers were well balanced with a discussion on how actions such as education and training for workers and subsidies and grants for firms would encourage more employment of workers. The reasons why not were less well discussed. The most common reasons given was that it took longer to implement than other policies and that firms might not use any subsidies given to them to employ more workers but keep it as profit or invest in capital equipment instead.

Question 5

- (a) This question was well answered with most candidates identifying that the reward for labour was wages and for land it was rent. Weak answers instead referred to other features such as profit or having a job for labour and building premises or 'plants and crops' for land.
- (b) Answers to this question were poor as many candidates were unable to relate earning higher income to mobility of labour. Some thought it simply meant working faster or greater job satisfaction. Others explained that higher income meant that they would simply move to jobs with higher pay. Good answers explained that higher income meant that workers could afford to move other areas for jobs increasing geographical mobility or use the income to get better qualifications or skills which would improve their occupational mobility.

- (c) Most candidates were able to draw an accurate diagram showing how greater awareness of the benefits of eating fruit would lead to an increase in demand and higher prices. There were some errors such as wrong labelling of the demand and supply curves, the shifting of the supply curve rather than the demand curve and mixing up the price and quantity labelling of the axis. A few also did not show the change in equilibrium in the market for fruit but got everything else right!
- (d) Some candidates did not understand that a market economic system did not include government intervention, so they often discussed involvement of the government in applying taxes and providing public goods. Better answers concentrated on the benefits of competition both for firms and consumers based upon the profit motive for firms. Strong answers looked at the impact on economic growth and ability to compete internationally. Strong answers also mentioned that the profit motive led to the provision of demerit goods and lack of public and merit goods. This could lead to market failure and the creation of monopolies if there was no government intervention.

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<p>Paper 2281/22 Structured Questions</p>

Key messages

The performance on **Section A** was generally strong. Candidates made good use of the source material. The exceptions to this were the answers to **Question 1(c)** and **Question 1(f)** where a proportion of candidates did not make use of the fact file, in the case of **Question 1(c)**, and did not refer to the evidence in Table 1.1 in the case of **Question 1(f)**. In terms of **Question 1(f)**, it was important that candidates analysed the data provided. They should have explained the expected relationship between the two sets of economic variables, considered what evidence in the data supported this and whether there was an exception.

A relatively high proportion of candidates could have improved their performance on the **(d)** questions in **Section B** by explaining the points they made and by examining the questions in more depth. For example, in their answers to **Question 5(d)**, some candidates wrote that an increase in output would benefit firms as it would increase their profits. They did not, however, explain how higher output might affect both revenue and costs.

A small proportion of candidates answered all four optional questions rather than the three required. As mentioned in previous reports, this is not a good use of time.

This session, there was an increase in the number of candidates adding additional points at the end of their papers. It is more straightforward for Examiners to consider these if they are identified as e.g. **Question 2(d)**, **Question 4(c)** and **Question 5(d)** rather than 1, 2 and 3.

It is important that candidates understand key economic concepts. As mentioned in previous PERTS, candidates need to know the difference between productivity and production. A high proportion of candidates this session showed a confusion between the two in their answers to **Question 1(e)**, **Question 2(c)**, **Question 4(c)** and **Question 5(d)**. A relatively high number of candidates, in their answers to **Question 4(c)**, also did not seem to understand that the unemployed are included in the labour force.

General comments

There were some excellent answers produced. A relatively high proportion of the answers to the **(c)** question parts in **Section B** were impressive. These provided relevant links and were logically structured. As indicated in Key messages, the main area for improvement needs to be in the quality of answers to the **(d)** questions in **Section B**. Candidates need to explore answers in detail, considering both sides and making use of relevant economic concepts. Candidates should devote approximately twelve minutes each to answering these questions.

There was little evidence of candidates running out of time. There was, however, evidence that some candidates did not use their time appropriately. Some answered the **(a)** questions in **Section B** in more detail than required and some repeated points in their answers to the **(d)** parts.

It appeared that candidates took care in reading the questions carefully this session. There was little misinterpretation of the questions.

Comments on specific questions

Section A

Question 1

This was generally well answered with some particularly strong answers to **Question 1(g)** and **Question 1(h)**.

- (a) The key issue here was that a number of candidates did not take care about the size of Bhutan's GDP. For example, some candidates multiplied \$3,259 by 0.8 (rather than 0.8m) and arrived at a figure of \$2,600 rather than \$2,600m (\$2.6 bn).
- (b) Most candidates did identify life expectancy and GDP per head. Some, however, referred to just GDP and others quoted 'life expectancy, freedom, social support, trust, generosity and GDP per head' without selecting the relevant time.
- (c) A number of candidates wrote about a high level of government spending without considering the relationship between government spending and taxation. Those candidates, however, who did look at the fact file recognised that Bhutan's government spending exceed its tax revenue and that there was a budget deficit of \$70m.
- (d) Some candidates wasted time by describing, in some depth, the primary and tertiary sectors before starting to answer the specific question. However, the question was generally well answered. Many candidates identified higher pay as a possible reason and linked this to the possible high skills of workers in the tertiary sector. A high proportion of candidates wrote about better working conditions, often on the form of, for example, a cleaner and safer environment.
- (e) A number of candidates confused productivity with production and concentrated on more machines producing more goods and services. Those candidates who did link to productivity, did this by explaining how new capital goods may incorporate advances in technology and how more skilled workers could speed up the production process and result in higher output per resource unit.
- (f) A number of candidates provided strong analysis. They started by explaining that higher GDP per head would be expected to be associated with higher net immigration. They then provided evidence from Table 1.1 to support the positive relationship. They recognised that Kenya/Mozambique was an exception as Kenya had the second lowest GDP per head (Mozambique had the lowest GDP per head) but the highest net emigration (Mozambique the second highest net emigration). A number of the strong answers explained how a high GDP per head would attract migrants who move in search of higher living standards.

Some candidates, however, were confused and wrote about some countries, GDP per head exceeding their net immigration figure while others had a lower figure for GDP per head than the figure it had for net immigration. A number of candidates, in their explanation, wrote about the relationship between GDP rather than GDP per head and net migration. What was disappointing, was the number of candidates who answered the question without any reference to the evidence provided.

- (g) Most candidates revealed a good understanding of the nature of enterprise. Many drew on the source material in an intelligent way and examined a number of reasons both why enterprise may have increased in New Zealand after 2019 and why it might not have done so. There were some particularly good comments linked to changes in government spending, possible tax changes, improvement in education and immigration. An example of a strong answer:

Yes, to an extent, it is likely that enterprise would have increased after 2019. This is because the increased government spending on mental health, child poverty and pollution is an instrument of expansionary fiscal policy. This means it would boost total demand, raise productivity and encourage investment. Moreover, as New Zealand experiences inward net migration, it is highly likely that some of these immigrants would set up new enterprises and increase the customer base. However, perhaps due to an increase in corporation taxes to earn revenue and spend on welfare, it may serve as a disincentive for starting enterprises in New Zealand. Furthermore, if the consumer confidence is low and the public is uncertain about future finances, saving is likely to increase,

reducing economic activity. Total demand and GDP could fall, stopping firms being set up and expanding.

- (h) This was well answered. Many candidates showed a good awareness of the likely impact on living standards of higher consumer expenditure and higher government spending. An example of a good answer is:

A cut in income tax rates would increase living standards. Lower income tax rate means more disposable income, which increases consumer spending. Consumers can buy more of their wants, increasing satisfaction and living standards. As consumer spending increases, demand for products will rise, so will the demand for workers. This will increase employment, and hence income. This will reduce poverty.

A cut in income tax rates, however, may not increase living standards. Lower income tax rate means less tax revenue for the government. This will reduce government spending on other areas such as health care, education and infrastructure. As the spending on healthcare decreases, the quality will decrease as well. This may decrease life expectancy and hence lower living standards. Lower spending on education decreases the literacy rate, so people may only be able to get low-paid jobs, which also lowers living standards.

Some candidates, however, wrote about people's income rather than their disposable income rising and a number appeared to think that an increase in the ability to save would be a disadvantage.

Section B

Question 2

The strongest performance was on **Question 2(c)** with most candidates doing well.

- (a) Candidates identified a variety of forms of money. A proportion of candidates identified ways of transferring money, such as cheques, rather than the form of money itself.
- (b) The most common functions explained were acting as banker to the government, issuing bank notes and operating monetary policy. A number of candidates confused the functions of a central bank with those of a commercial bank. These candidates wrote about providing loans to households and firms.
- (c) A high proportion of candidates analysed a number of connected reasons why a government might want to have lower unemployment as its main aim. A good starting point was to mention that unemployment might be at a high rate. Candidates made some good points about the impact on economic growth, government spending and tax revenue and living standards. In analysing the impact on economic growth, however, some candidates confused productivity and production. These candidates wrote that lower unemployment would increase productivity. The impact on productivity is uncertain and if more low-skilled workers are employed, production may rise but productivity may fall. A number of candidates, having analysed why a government may have it as its main aim, then analysed why it might not have it as an aim. This was not required.
- (d) The strong answers to this question contrasted how demand-pull inflation and cost-push inflation may affect producers. A number also distinguished between creeping inflation and hyperinflation, the effects on planning, borrowing and international competitiveness and the different impact on producers making products with elastic and inelastic demand. However, a number of candidates just stated points. For example, some wrote that inflation would reduce demand for producers' products without considering what might have caused the inflation.

An example of a Level 4 answer which provides good coverage of the possible effects of inflation on producers with some depth:

Inflation is a sustained increase in price levels over time.

Inflation is very beneficial to producers as it increases their profits. As prices rise, if the demand is inelastic, revenue will increase. They may be able to expand and grow as a result. It might increase investment which will increase productivity and output. It will also reduce the real value of their debts, allowing them to pay it off easily and get rid of the burden. This would allow them to expand

as they would have more money available to spend as they would not have to use money to pay back the debt.

The inflation rate may be lower than the inflation rate of other places, thus the firms would be able to export their goods as there would be a high international market for them. This would increase profits and would be beneficial for producers.

However, because of the inflation, labourers would demand higher wages, if the trade unions are strong, they may succeed. This would increase the total cost of production and thus the price of the good, causing cost-push inflation. This could cause a wage-price spiral with a reduction in output and profits. The cost of raw materials may also be the cause of inflation and this would not be beneficial. Producers may also face menu costs. Lastly, due to an increase in profits, they might be pushed into a higher tax bracket, increasing the tax paid. This reduces the profits and is not good for producers.

Question 3

The performance on this was question was evenly spread over the question parts.

- (a) Most candidates were able to define a production possibility curve. Some just drew a diagram. A diagram was not asked for and does not provide a definition.
- (b) This was quite well answered. Many candidates wrote about the difference in the extent to which the two products were necessities and the proportion of income that their purchase takes. A smaller proportion wrote about the possible difference in the availability of substitutes and whether the purchase could be postponed.
- (c) Most candidates drew an accurate diagram and analysed the impact on quantity and price. A small proportion of candidates mislabelled the axes. They labelled them as demand and supply or the vertical axis as income. A number of candidates labelled the demand curves as supply curves and the supply curve as a demand curve.
- (d) The majority of candidates recognised the difference between the public and private sectors. Many wrote about the difference in the objectives of the two sectors. Some candidates made good use of economic theory in their answers. A number of candidates, however, seemed to think that because the public sector would be unlikely to charge a high price, it must not be a monopoly. Some other candidates assumed that the government would make a loss without mentioning the relationship between revenue and cost.

An example of a Level 2 answer which is reasonable on both sides, but which lacks depth:

The public sector should be responsible for all internet services as the public sector is controlled by the government, and the government would take into account the standard of living of individuals in an economy. The public sector aims to improve welfare and would try to ensure that all individuals have access to the internet by charging a low price. This can reduce poverty and may increase the productive capacity of the economy as it could improve the quality of labour.

However, the public sector is not profit-motivated. It may be providing service that are not of good quality. It may also be placing restrictions on certain websites that speak ill of the government in order to prevent citizens from bad-mouthing the government. Private sector firms, on the other hand, would have a profit incentive. They may provide better quality services to consumers to receive greater sales and, in turn, a higher profit.

Question 4

This was the least popular question. Some candidates struggled with **Questions 4(a)** and **4(b)** but there were some strong answers to **Questions 4(c)** and **4(d)**.

- (a) A number of candidates who answered this question seemed unaware of the meaning of dumping. Some candidates were, however, able to give a clear definition of the term.
- (b) There were some good answers to this question which linked, for example, lower demand for exports with lower demand for the currency. A number of candidates, however, showed confusion

between a depreciation and an appreciation in a foreign exchange rate. Even more candidates wrote about a fall in the internal value of the currency without providing a link with the external value.

- (c) What largely distinguished the quality of the answers to this question was the extent to which they focused on the specific question. Some candidates wrote about the benefits of an MNC to a host country without linking them to a reduction in poverty. For example, some candidates wrote about the effect an MNC may have on the host country's balance of payments without examining what effect this might have on poverty. There were, nevertheless, some good analysis of the possible effect of an MNC on employment, tax revenue and government spending to reduce poverty. As with **Question 2(c)**, some candidates approached this as a discuss question, examining both why an MNC might reduce poverty in a host country and why it might not. Candidates were not required to examine why an MNC might not reduce poverty.
- (d) Most candidates mentioned that a very low birth rate might result in a fall in population size. A number recognised that it would reduce the size of the labour force and increase the average age of the labour force. Stronger answers explained the impact of a smaller population on total demand and total output. Some candidates made unsupported statements. For example, some candidates wrote that a smaller labour force would reduce the unemployment rate. Such a statement on its own, does not take into account both the supply and demand for labour.

An example of a Level 4 answer which provides a well-thought-out examination of the question:

Birth rate is the number of births per 1,000 of a population in a given period of time. It could mean that the labour force in a country could fall in the long run. This will mean the country may produce less output in the future, which may reduce GDP of a country as well as income. With fewer young workers, the labour force will be older. Older workers may be less mobile and less up to date with advances in technology. If a fall in the birth rate coincides with no change in the death rate, there may be a fall in the population size, and this could reduce total demand.

However, a low birth rate may be good for a government and country. If a low birth rate is accompanied by a fall in the death rate, then there would be no major change in population size and could be a sign of economic development. Older workers may be more skilled as they will be more experienced. A low birth rate also lowers the dependency ratio in a country. This will reduce pressure on resources and reduce poverty. Similarly, a fall in births will reduce the pressure on a country's resources, allowing more to be conserved and the amount of resources per person will rise. A fall in the birth rate could not only signify development and medical advances but could be offset by immigration into the country. If immigration is high, then a country's population can keep growing, while the country has gained skilled workers, increasing productivity and living standards.

In conclusion, a fall in the birth rate could only be a concern to a government if it is not accompanied by other factors to offset it, or a symptom of a problem such as lack of confidence in the future. The government should work towards an optimum population to ensure all resources are used to their fullest. This will benefit a government and an economy.

Question 5

This was the most popular question with a wide range of responses.

- (a) The strongest answers recognised that supply involves the willingness and ability to sell or provide products.
- (b) The two most common ways that candidates explored were giving subsidies to producers of merit goods and providing information about the benefits of merit goods. Some candidates wrote about ways to reduce the consumption of demerit goods and just stated these would result in the consumption of merit goods. They did not establish why this might occur. These candidates seemed to think that all products could be divided into demerit and merit goods and that if demand for one type fell, the other would rise. An increase in the tax on cigarettes, for example, may reduce demand for cigarettes but there is no guarantee that it would increase demand for merit goods.

- (c) Some answers were limited to explaining that household income would be likely to fall and so they would spend less. The stronger answers also explored the likely change in the pattern of household spending. There was some good analysis linked to necessities, luxuries and the influence on the motives for saving and borrowing.
- (d) The strong answers to this question made good use of economic theory. As well as economies and diseconomies of scale, candidates wrote about the advantages and disadvantages of gaining greater market power, elasticity of demand and the difference between what is produced and what is sold. In contrast, some answers just stated that a firm would benefit from an increase in its output as revenue and profit would rise. Such answers did not take into account what would happen to costs of production. A number of candidates who did discuss costs, wrote that higher output must increase total costs and so reduce profits. These candidates did not compare the impact on both total or average revenue and total or average cost.

An example of a Level 1 answer that stated points rather than explaining them is shown below. For example, it states that if demand is high, a rise in output would increase profits. It does not, however, explain the relationship between higher output, revenue and costs. There is also some confusion about productivity.

It depends on the demand of the product that the company is producing. If it is high then the company will profit, if it is low, then they will face losses. Generally higher output means higher productivity, so having more products and selling it in batches is easier than making a product constantly when it is demand. High output could lead to bankruptcy in some cases. This is because you could have a large stock of products and not be able to sell them leading to giant losses.