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# ECONOMICS

Paper 0455/01

Paper 1 (Core)

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

## General comments

1,207 candidates took this paper in November 2003 and the mean score was 20.7, the highest mean mark since 1998. This is a commendable achievement for the candidates.

The hardest questions on the paper proved to be **Questions 7, 21, 29 and 33**. On **Question 7**, the large numbers of candidates wrongly responding **A** or **C** show some misunderstanding of the nature of share prices and their relationship to profits. In **Question 21**, 45% of candidates chose **C** and only 27% the key **A**. These candidates confused total costs and fixed costs, or failed to notice that the question asked for fixed costs. **Question 29** saw 53% choosing option **B** and 20% the key of **A**. This may have been because candidates misunderstood the meaning of regressive taxation and confused it with proportional taxation. For **Question 33** about 29% of candidates chose the key **C**, but about the same number chose **D**, strangely concluding that it was not true that inflation existed throughout the period. The failure to choose the key is presumably related to not understanding that inflation brings about a fall, not a rise, in the purchasing power of money.

Other items where one of the distractors proved more popular than the key were **Questions 3, 20 and 26**. For **Question 3**, 40% chose option **D** and 36% the key **B**. This may have been confused a planned economy with a market economy. For **Question 20**, 60% chose option **D** and 30% the key **B**. It is likely that those who chose the incorrect option may not have noticed that the chart referred to hourly earnings and not total earnings. For **Question 26**, 48% chose option **A** and 37% the correct key **C**. Those choosing **A** may have assumed that the money from exports always went into the government's revenue account, or else they simply confused a budget surplus with a balance of payments surplus.

Paper 0455/02

Paper 2 (Core)

### Comments on specific questions

#### Question 1

- (a) Candidates were asked to state what is meant by investment. Many candidates were able to answer this question in terms of additions to the stock of capital goods. Some, however, expressed the answer in terms of money; this was incorrect.
- (b) Candidates were expected to comment on the fact that the figures were not adjusted for inflation and that they related to the prices that were current at the time the statistics were produced.
- (c)(i) Candidates were expected to define economic growth in terms of increases in GDP.
- (ii) In answering this question, many candidates had demonstrated in the previous answers that they knew what 'investment' and 'economic growth' meant, but they failed to show the link between the two concepts, which is what the question asked. It was not sufficient to simply redefine both the terms without an explanation of how a rise in investment might cause an increase in economic growth.
- (d) There were some good answers to this question; candidates were required to explain how an increase in economic growth could result in a change in other economic indicators such as a rise in incomes, a rise in employment, a change in government revenue or a better use of resources. Some candidates wasted time on their answers by dwelling on the drawbacks of economic growth - the question only asked for the benefits of growth.
- (e) The information is imprecise about which sector is most significant. It is true that both agriculture and diamonds have increased substantially and that these are part of primary production. It is also true that the information states that the industries in the secondary sector have declined. However, there is no information about service industries and, although it is likely that the primary sector is the most significant, the information gave only percentage figures and no absolute statistics. It is not possible to say without absolute figures which sector is definitely the most significant. Many candidates stated that it was possible to determine the most significant sector and that this was agriculture.

#### Question 2

- (a) Candidates often explained that a subsidy was given by the government to producers and that this was likely to reduce price. No mention was made of output. The diagrams to support this were not well drawn. In many instances the supply curve was shifted incorrectly to the left and the labels on the diagram were either incomplete or non-existent. This was a pity as the diagram is a standard diagram which should not have been difficult to reproduce and explain.
- (b) Candidates were able to discuss the effect on profits, revenues and costs but not always as clearly as was hoped. The disease affected revenues, and farmers were not able to cover their costs. Costs would have increased as farmers would have had to replace livestock. As a result, profits decreased. The extent of the decrease would have been affected by the subsidy. Better candidates mentioned the likely short-term effects and contrasted these with possible long-term effects as farmers might have changed to other types of farming.

#### Question 3

- (a) The better candidates were able to explain that all four factors were involved in the decision. Land was bought; capital was used in the construction of the visitor's centre which was managed by labour. Entrepreneurial skill was used to co-ordinate the project. A simple list of the four words identifying the factors was not sufficient to gain the full marks for this question. The answer should have explained how the factors were involved.
- (b) Candidates were expected to discuss how the increase in the tourist trade might have affected employment and incomes in the area. They could have balanced the increase in both of these with the loss of housing or other amenities. In any question that asks for a discussion candidates should draw an overall conclusion. If they present this with introductory words such as, 'therefore', or 'it may be concluded' or 'as a result it may be said that', it aids the overall style and presentation of the answer. Not many candidates did present their comments in such a way and not many formed an argument which led to a conclusion.

**Question 4**

- (a)(i) This question required candidates to explain that a lack of skill or education or training might result in a lack of good human resources. This question was well answered by most candidates.
- (ii) This part was not so well answered, but Core candidates could have explained it in terms of the concentration on a few goods or a lack of variety of products or services.
- (b) Candidates should have explained that while it may be true that people in developing countries might be poorer on average it does not mean that all people in developing countries will be poor. Candidates could have commented on the extent or inequality of income distribution, maybe with a comparison with the likely situation in developed countries.

**Question 5**

- (a) Candidates were expected to state that the trade restrictions could take the form of quotas, tariffs, embargoes or regulations. Many were able to answer this correctly.
- (b) There were seven marks available for discussing the immediate effects, whereby more exports would probably affect the visible (goods) current account rather than the invisible (services) account. National income in poorer countries could rise, with consequent effect on employment, but there may also be increased imports that would alter the overall position in developing countries. The final result might depend on which tariff barriers existed in the first place and which were abandoned. There was scope to discuss the longer term effect on the employment structure, industrialisation and the development and exploitation of resources.

<p><b>Paper 0455/03</b>  <b>Paper 3 (Extended)</b></p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>C</b>	21	<b>A</b>
2	<b>C</b>	22	<b>C</b>
3	<b>B</b>	23	<b>B</b>
4	<b>C</b>	24	<b>B</b>
5	<b>A</b>	25	<b>B</b>
6	<b>A</b>	26	<b>C</b>
7	<b>B</b>	27	<b>D</b>
8	<b>A</b>	28	<b>A</b>
9	<b>C</b>	29	<b>A</b>
10	<b>B</b>	30	<b>B</b>
11	<b>D</b>	31	<b>C</b>
12	<b>C</b>	32	<b>C</b>
13	<b>C</b>	33	<b>B</b>
14	<b>D</b>	34	<b>C</b>
15	<b>D</b>	35	<b>A</b>
16	<b>D</b>	36	<b>B</b>
17	<b>B</b>	37	<b>B</b>
18	<b>C</b>	38	<b>C</b>
19	<b>B</b>	39	<b>B</b>
20	<b>C</b>	40	<b>D</b>

**General comments**

1,744 candidates took this paper in November 2003 and the mean score was 24.6 - the highest mean score since 1999.

**Questions 16, 25, 36 and 40** were particularly easy for the candidates, with over 80% choosing the correct answer.

**Question 14** proved to be the hardest question on the paper, answered correctly by only 36% of candidates. It is surprising that this topic is not better known, and that some of the good candidates chose distractor **C**, as if they interpreted 'price-elastic' as meaning 'of unitary price elasticity'.

For **Questions 18, 19, 26 and 29**, one of the distractors proved more popular than the key. For **Question 18**, 45% chose option **A**, and 41% the key **C**. This may have been because they did not calculate the percentage increase correctly or that they misunderstood the term 'real wage'. For **Question 19**, 51% chose option **D** and 40% the key **B**. It is likely that those who chose the incorrect option may not have noticed that the chart referred to hourly earnings and not total earnings. For **Question 26**, 46% chose option **A**, and 44% the correct key **C**. Those who chose **A** may have assumed that the money from exports always went into the government's revenue account, or have confused a budget surplus with a balance of payments surplus. **Question 29** saw 45% choose option **B** and 40% the key **A**. This may have been because candidates misunderstood the meaning of regressive taxation and confused it with proportional taxation.

Overall, the candidates performed very well compared with recent previous years.

<p><b>Paper 0455/04</b> <b>Structured Questions</b></p>
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**General comments**

The performance of candidates seemed to be broadly in line with that of previous years on this paper. There were again some excellent answers to the paper and those candidates are to be congratulated on their hard work. However, there are several points that might be helpful in enabling other candidates to achieve higher marks by using their knowledge and understanding in a more effective manner.

- Candidates should be given clear guidance that when a question asks for an explanation or a discussion, a simple list of items is insufficient. The points must be presented in the form of sentences and paragraphs with at least a brief comment on each one. On the other hand, when the question asks for points to be listed or identified, then a brief set of bullet points is required and not a lengthy description to explanation, which is a waste of the candidate's time.
- A number of candidates did not seem to take notice of the mark allocation in brackets at the end of each sub-section of a question and they sometimes wrote as much for a section carrying eight marks as for a section carrying only three marks.
- It has been mentioned many times in these reports that candidates should be encouraged to use diagrams where appropriate. When diagrams are used they should be drawn neatly and accurately with correct labels for the curves and the axes.
- In order to gain high marks in questions that use the words 'discuss' or 'evaluate', candidates need to present more than one side of an argument and then come to a conclusion. They should also be prepared to state their own point of view on the matter. Many answers present the case for or against the advantages and disadvantages, but then finish the answer without a conclusion. This is a pity and prevents the candidate achieving the highest marks. Candidates should be encouraged to read the question carefully and to realise that their view of the matter is significant. When they have presented the evidence required by the question, they should not be afraid to indicate what weight should be given to that evidence. They should decide whether, for example, the advantages outweigh the disadvantages, or the case for a given change mentioned in the question is greater than the case against. They should then clearly state what they conclude.

- Candidates should check that the pages that they have written are in the correct order and that each question number and section letter is clearly shown in the margin. There were a few candidates who submitted scripts that had their pages tied together in the wrong order.
- While most candidates conformed to the instructions on the question paper, a few answered more than the required number of questions and some answered all of the questions on the paper. Candidates should be encouraged to answer the number of questions required and no more.

### Comments on specific questions

#### Question 1

- (a) Some candidates were able to define 'investment' in terms of additions to the stock of capital goods. However, too many candidates thought that investment was money put into such things as shares or stocks with a view to making a profit.
- (b) Only a minority of candidates were able to state correctly that 'at current prices' meant that the figures were not adjusted for inflation. Many believed that the phrase meant the prices at the present time.
- (c)(i) Many candidates were able to define economic growth correctly in terms of an increase in the Gross Domestic Product of a country.
- (ii) In this section candidates needed to explain that investment is likely to lead to an increase in productive capacity, thereby leading to increases in real output. A number of answers linked increased spending to increased output, but there were few clear expositions that referred to increases in productive capacity.
- (d) There were some good answers to this question, which required candidates to explain how an increase in economic growth could result in a change in other economic indicators such as a rise in incomes, a rise in employment, a change in government revenue or a better use of resources. Some candidates wasted time on their answers because they dwelt on the drawbacks of economic growth. The question only asked for the *benefits* of growth.
- (e) This section caused a number of problems for candidates, many of whom took the figures at their face value and accepted the implied statement that the primary sector must be the most important because it had grown most in the period in question. Only the more perceptive answers showed an understanding of the need for absolute figures for all three sectors and not just the growth figures for the primary and secondary sectors to make a valid conclusion.

#### Question 2

- (a) This question was handled well by candidates who gave accurate descriptions of a subsidy together with correct diagrams that showed a shift to the right of the supply curve. The most common error involved diagrams in which the supply curve was moved to the left.
- (b) Candidates were able to discuss the effect on profits, revenues and costs, but not always as clearly as was hoped. The disease affected revenues, and farmers were not able to cover their costs. Costs would have increased, as farmers would have had to replace livestock. As a result, profits decreased. The extent of the decrease would have been affected by the subsidy. Better candidates mentioned the likely short-term effects and contrasted these with possible long-term effects as farmers might have changed to other types of farming.
- (c) The majority of candidates were able to state that price elasticity of demand was a means of measuring the responsiveness of the demand for a product when there was a change in its price. Most candidates gave the correct explanation of how price elasticity is calculated and some gave a clear analysis of the possible range of values that price elasticity might have supported by appropriate diagrams.
- (d) The answers to this part of the question were often less convincing, especially from those who tried to answer it with a poor understanding of the concept of price elasticity of demand. Some candidates were able to explain the relationship between changes in the price of a good and the total revenue gained from its sale when the elasticity is either greater or less than one. However, there were too many vague answers that showed little understanding beyond the fact that changes in price would cause changes in the level of demand for the farmer's product.

**Question 3**

- (a) The better candidates were able to explain that all four factors were involved in the decision. The land was bought by the RSPB; capital was used in the construction of the visitors' centre, which was managed by labour. Entrepreneurial skill was used to co-ordinate the project. A simple list of four words identifying the factors was not sufficient to gain full marks for this question; the answer should also have explained how the factors were involved. Many incorrect answers stated that the capital involved was the donations given to the RSPB.
- (b) In the answer to this question candidates were expected to discuss how the increase in the tourist trade might have affected employment and incomes in the area. They could have balanced the increase in both of these with the loss of housing or other amenities. In any question that asks for a discussion candidates should draw an overall conclusion. If they present this with introductory words such as 'therefore' or 'it may be concluded' or 'as a result it may be said that', it aids the overall style and presentation of the answer. Not many candidates did present their comments in such a way and not many formed an argument that led to a conclusion.
- (c)(i) Most candidates were able to give correct examples but they could not always give a clear explanation of the term private cost.
- (ii) Social costs were less well explained or defined as the sum of private costs and external costs, and the examples given were too general in that they did not relate to both aspects of the definition.
- (d) Most candidates made an attempt to consider whether the protection of rare birds should be the responsibility of a government or a private charity but many of the answers were rather superficial and did not really get very far. For example, there was very little discussion of the idea of market failure and the possible need for action by the government. Furthermore, a number of candidates did not seem to understand what was meant by a private charity, thinking that it was out to make a profit.

**Question 4**

- (a)(i) This question required candidates to explain that a lack of skill or education or training might result in a lack of good human resources. This question was answered well by most candidates.
- (ii) This part was not so well answered though; it could have been explained in terms of the concentration on a few goods, a lack of variety of products or services or in terms of concentrating on a single sector in the economy rather than on producing in the primary, secondary and tertiary sectors together.
- (b) Candidates should have explained that while it may be true that people in developing countries might be poorer on average it does not mean that all people in developing countries will be poor, and there would usually be a few rich people. Candidates could have commented on the extent or inequality of income distribution, maybe with a comparison to the likely situation in developed countries.
- (c) A few candidates did not seem to understand what was meant by the occupational distribution of the population and wrote about the population structure. However, there were some good answers, which discussed the likely distribution in terms of a very high percentage in the primary sector, some in the secondary sector but a very small percentage in the tertiary sector.
- (d) There were some good answers to this final part of the question. In terms of the structure of the population, a developed country would be likely to have a lower birth rate and this would have the effect of slowing down the rate of growth of population, leading to an ageing population. In terms of its occupational distribution, the relative size of the primary sector would be likely to fall, whereas the percentage employed in the tertiary sector would be likely to rise.

**Question 5**

- (a) Candidates were expected to state that the trade restrictions could take the form of quotas, tariffs, embargoes or regulations together with a brief description of each. Many were able to answer this correctly.

- (b) There were seven marks available for discussing the immediate effects whereby... would probably affect the visible (goods) current account rather than the invisible... account. National income in poorer countries could rise, with consequent effect on employment... but there may also be increased imports that would alter the overall position in developed... countries. The final result might depend on which tariff barriers existed in the first place and which... were abandoned.

There was scope to discuss the longer-term effect on the employment structure, industrialisation and the development and exploitation of resources.

- (c) There were also some good answers to this final part of the question. Many candidates recognised that it might be useful to produce as many products as possible and to protect the domestic producers, but that this might lead to the protection of inefficient producers. It might therefore be better to apply the principles of absolute and comparative advantage and take advantage of specialisation but there was a danger that this could lead to some domestic producers going out of business, leading to an increase in unemployment. The better answers weighed up all of these arguments before coming to a reasoned conclusion. However, some candidates tended to take one side or the other thereby restricting the number of marks that they could achieve.

### Question 6

- (a) Many candidates recognised that a retail price index measured the rate of inflation by analysing changes in the general level of prices over a period of time in relation to a base year.
- (b) There were some very competent answers to this part of the question, with candidates clearly contrasting demand-pull and cost-push inflation. There was also some useful discussion of monetary and imported inflation. A few candidates, however, misunderstood the meaning of the word 'causes' and developed their answer to the previous part on the measurement of inflation.
- (c) Again, there were a number of good answers to this final part of the question with candidates demonstrating a clear understanding of why inflation was a problem and why governments might be worried about the rate of inflation because of its potential effects on spending and saving, investment and economic growth and the balance of payments. Only the best candidates referred to distortions in the distribution of income and wealth.

### Question 7

- (a) Weaker candidates tended to make vague statements about increasing profits, but the majority of candidates were able to discuss the principle of profit maximisation in terms of the difference between total revenue and total costs. A few of the more able candidates also discussed it in terms of marginal cost equal to marginal revenue.
- (b) Most candidates recognised that the increase in the number of customers was likely to increase profits, but fewer of them then went on to say that the effect of being willing to pay compensation to certain customers was difficult to determine. If it showed that the company was very confident of its ability to satisfy customers, this was likely to further increase the number of customers and therefore the profits; on the other hand, if a great deal of compensation was paid out, this would have the effect of increasing costs and possibly reducing profits.
- (c) Most candidates demonstrated a sound knowledge and understanding of the different types of business organisation, ranging from the sole trader and the partnership to the private and public limited companies, with a number of the latter operating as multinational companies in different countries. Most argued that the public limited companies would be likely to be the most significant in a developed economy, although many did say that there would still be a role to play for the other types of business organisation as well. Some answers failed to come to a conclusion about which type of business organisation was likely to be the most significant in a developed economy. One error made by a number of candidates was the confusion between a public limited company in the private sector and a public corporation in the public sector.



**Paper 0455/06****Alternative to Coursework****Comments on specific questions****Question 1**

- (a)(i) Most candidates were able to explain that high interest rates would enable them to earn a higher return on their savings.
- (ii) Candidates had difficulty with this section. It was necessary to explain that the rate of inflation was falling so prices were rising at a slower rate; many candidates presumed that prices were falling. It would be worth stressing to candidates that a fall in the rate of inflation means that prices still rise, but at a slower rate. There are often questions on the multiple choice paper that also require this same knowledge which distinguishes a slower rise in prices from a fall in prices.
- (b) The article presents two opinions. Paragraph three suggests that people would be encouraged to save while paragraph four states that people might be encouraged to spend rather than to save. Candidates were required to comment on the reasons why these opposing views might be true. Many, however, only copied out the text in the question paper without a comment. They were credited with finding the correct information but they were not able to obtain full marks because there was no comment on the information they chose. Candidates should be careful to observe that questions sometimes use the word 'comment' and that this requires them to give their opinion.
- (c) Candidates were asked to discuss why the government might be concerned about the lack of financial independence of retired people. They could have debated the need for the government to provide services and facilities for people who are not working. If it is assumed that these people are in the older age ranges, then candidates could comment on the changing structure of the population and the extent to which the lack of financial independence might be a concern, especially if the number of retired people increases not only in absolute terms but in proportional terms. The effect on the government could be discussed both in terms of the changes in government receipts through reduced tax income and in terms of changes in government expenditure.
- (d)(i) A high proportion of candidates were able to explain the term disposable income. For the two marks they should have mentioned that it was the income left after income (or direct) tax, together with social security and other direct deductions, had been subtracted. Stating that it was the income left after tax payments was not credited with the two available marks. Some candidates were more imprecise and stated incorrectly that disposable income was the amount of money that people spent.
- (ii) In this question candidates should have commented on the types of goods purchased, with examples of possible differences in the types of goods. They should also have commented on the proportion of income spent and the proportion of income saved and not just the absolute amounts.

**Question 2**

- (a) The reason for the difficulties faced by Lufthansa was the decline in demand. Most candidates were able to identify this and were credited with the mark.
- (b) To achieve all four marks on this question candidates should have explained the difference between a fixed cost and a variable cost, and then linked that explanation to the example of labour. The crucial point was to give a reason why the type of cost chosen was selected. An answer that stated that it was the variable cost that was affected because labour could easily be changed and the payment to labour varied with output was accepted. Equally, so was an answer that stated that labour was a fixed cost because the labour force was salaried and its payment did not change as output changed. In this case, it would only be in the long run when long term contracts ended that there could be any change in costs.

- (c)(i) Candidates were required to explain two pieces of information. They could select the statistics on the fall in demand, the information about the sales of aircraft or the state of competitors. Merely rewriting the text of the question paper was not sufficient to gain four marks. The information given had to be explained by the candidates.
- (ii) There were various acceptable approaches that could have been adopted to answer this question. For example, candidates could have compared the statistics given with those for other months and previous years. They could also have considered the likely cost of savings and the consequent effect on profits of the sale of aircraft. They could have commented on the position of competitors, discussed the importance of likely future bookings and considered the number of staff on short contracts that were due to end. Most candidates were able to suggest either some of these points or some alternative information that might have been collected. Some candidates were able to explain very clearly different pieces of information that would be useful and to comment on why they might be required.