ECONOMICS

Paper 0455/11
Multiple Choice

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

Key messages

In order to achieve a high score on this paper, candidates are required to hold a broad understanding of the range and scope of the topics in the syllabus. This is especially the case when an item requires the candidates to perform operations on graphical, numerical, and/or diagrammatic data where, although the topic may be familiar, the specifics of the context are not.
To have a clear understanding of what is required, it is important for candidates to read through each item very carefully, taking note of any directions and especially any bold text before selecting a response.

General comments

The questions for which most candidates selected the correct answer were **1**, **4**, **9**, **17**, **20**, and **26**. These questions covered different parts of the syllabus and were set to test different skills.
The questions for which the fewest candidates selected the correct answer were **2**, **14**, **15**, **19**, and **30**. These were answered correctly by the fewest candidates.

Comments on specific questions

Question 2 was answered correctly by 47 per cent of the candidates who chose option D. 23 per cent chose option C, 18 per cent chose option A and 12 per cent chose option B. The factors of production for which the reward can be agreed/set before production takes place are labour with a set wage reward, land with a set rental reward and capital with a set interest reward where the reward for capital can be agreed before production takes place as payment made to the owners of capital for the use of their assets. This leaves enterprise as the only factor of production for which it is not possible to set the level of reward before production takes place. Only option D satisfies these conditions.

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Question 14 was answered correctly by 32 per cent of the candidates who chose option **D**. 31 per cent chose option **B**, 25 per cent chose option **A** and 12 per cent chose option **C**. Labour can be viewed as a variable cost and therefore the relative decrease in the number of workers employed as the firm became more capital intensive would lead to lower variable cost as a percentage of total cost. 31 per cent of candidates chose option **B** thinking output per worker would be likely to decrease. A profit maximising form would retain the workers providing the greatest productivity and therefore the output per worker per hour is likely to increase. 25 per cent of candidates chose option **A** thinking labour is a fixed cost of production.

Question 15 was answered correctly by 43 per cent of the candidates who chose option **B**. 34 per cent chose option **A**, 17 per cent chose option **D** and 7 per cent chose option **C**. A fixed cost is one that does not change as the quantity of output changes. Of the options provided 'insurance' is the only one where the cost of the item would not change as production altered. 34 per cent of candidates chose option **A** thinking electricity is a fixed cost. However, a firm is likely to use more or less electricity as output increases or decreases, making it a variable cost of production. The vast majority of candidates realised that raw materials represent a variable cost of production.

Question 19 was answered correctly by 48 per cent of the candidates who chose option **C**. 26 per cent chose option **B**, 22 per cent chose option **D** and 4 per cent chose option **A**. The item shows the impact of an indirect tax in a market where price elasticity of demand (PED) is zero. 48 per cent of candidates worked out that this would mean the entire burden of the tax would fall on the consumer with the full value of the tax represented by the increase in market price paid by consumers in the market. 26 per cent of candidates thought the impact of the tax would be shared between consumers and producers. This would be the case if the PED had any no zero value. 22 per cent of candidates thought the impact of the tax would fall entirely on the producer. This would only be the case if the value of PED was infinity. Most candidates understood that the government would receive revenue from such a tax.

Question 30 was answered correctly by 28 per cent of the candidates who chose option **A**. 33 per cent chose option **C**, 30 per cent chose option **B** and 9 per cent chose option **D**. When the financial inflows in the current account exceed the financial outflows, the current account is in surplus. Of the options provided a current surplus could only be increased by option **A**, lower prices for the country's exports which would increase the value of exports as more were sold. 33 per cent incorrectly chose option **C** which is incorrect as economic growth is likely to increase the value of imports, increasing the financial outflow thus reducing a current account surplus. 30 per cent incorrectly chose option **B** which is incorrect as a higher exchange rate would make the country's imports appear cheaper and exports appear more expensive which will increase the financial outflow thus reducing a current account surplus. Most candidates realised that a recession in a trade partner country would reduce financial inflows to the economy.

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Paper 0455/12
Multiple Choice

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

Key messages

In order to achieve a high score on this paper, candidates are required to hold a broad understanding of the range and scope of the topics in the syllabus. This is especially the case when an item requires the candidates to perform operations on graphical, numerical and/or diagrammatic data where, although the topic may be familiar, the specifics of the context are not.

To have a clear understanding of what is required, it is important for candidates to read through each item very carefully, taking note of any directions and any bold text before selecting a response.

General comments

The questions for which most candidates selected the correct answer were **2**, **4**, **6**, **20**, and **26**. These questions covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **13**, **17**, **18**, **19**, and **25**.

Comments on specific questions

Question 13 was answered correctly by 39 per cent of the candidates who chose option **B**. 25 per cent chose option **A**, 22 per cent chose option **D** and 14 per cent chose option **C**. External economies of scale would shift the average total cost (ATC) curve shown. Internal economies of scale or diseconomies of scale would lead to a movement along the ATC curve. 39 per cent of candidates recognised this and selected option **B**. 25 per cent of candidates incorrectly thought the shift in the ATC curve would result from difficulties in controlling the firm, that would lead to a movement along the ATC curve. 22 per cent of candidates incorrectly thought the shift in the ATC curve would result from technical economies of scale that would lead to a movement along the ATC curve.

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Question 17 was answered correctly by 52 per cent of the candidates who chose option **B**. 20 per cent chose option **C**, 19 per cent chose option **D** and 9 per cent chose option **A**. Real GDP is defined as the value of nominal (money) GDP with the effects of changes in the price level removed. From the options provided the only situation in which real GDP could rise would be if nominal GDP was rising faster than inflation, 52 per cent of candidates realised this. 20 per cent of candidates were confused by the inclusion of the population as a variable that has no bearing on the question. 19 per cent of candidates chose option **D**, not realising that inflation would be an important factor to consider, thinking nominal GDP rising was a sufficient condition on its own. The vast majority of candidates were not confused by the distractor **A** stating nominal GDP (was) rising at a faster rate than employment.

Question 18 was answered correctly by 51 per cent of the candidates who chose option **B**. 42 per cent chose option **C**, 5 per cent chose option **A** and 2 per cent chose option **D**. This item tested a definition. The money supply is defined as the total quantity of money available within the economy, this was recognised by just over half of the candidates. Option **C** proved a strong distractor with candidates incorrectly thinking the money supply is simply defined as the total quantity of money issued by the central bank. Most candidates were not distracted by options **A** and **D**.

Question 19 was answered correctly by 37 per cent of the candidates who chose option **D**. 31 per cent chose option **C**, 25 per cent chose option **A** and 7 per cent chose option **B**. Supply-side policy leads to an increase in potential output/growth which will not put inflationary pressure on the economy. 37 per cent of candidates realised this choosing option **D** as the macroeconomic policy most likely to achieve economic growth and price stability at the same time. 31 per cent of candidates chose option **C**, monetary policy. However, expansionary monetary policy could lead to demand-pull inflation and price instability. 25 per cent of candidates chose option **A**, fiscal policy. However, expansionary fiscal policy could lead to demand-pull inflation and price instability. Very few candidates thought import barriers would be the correct answer.

Question 25 was answered correctly by 51 per cent of the candidates who chose option **D**. 44 per cent chose option **A**, 3 per cent chose option **B** and 2 per cent chose option **C**. This item contained a table of data regarding the birth rate, death rate and net migration for several countries. Statements were provided from which candidates were to select the only one that could be correct. Just over half of the candidates successfully deduced that only option **D** could be correct. This was achieved by calculating the natural rate of population increase in each country (birth rate – death rate). The strongest distractor was option **A** selected by 44 per cent of candidates. Presumably candidates confused the only negative net migration figure in the table for a decrease in the population. Very few candidates were distracted by options **B** and **C**: a simple observation of the data was required to determine neither could be correct.

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> **Paper 0455/13**
> **Multiple Choice**

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

Key messages

In order to achieve a high score on this paper, candidates are required to hold a broad understanding of the range and scope of the topics in the syllabus. This is especially the case when an item requires the candidates to perform operations on graphical, numerical, and/or diagrammatic data where, although the topic may be familiar, the specifics of the context are not.

To have a clear understanding of what is required, it is important for candidates to read through each item very carefully, taking note of any directions and any bold text before selecting a response.

General comments

The questions for which most candidates selected the correct answer were **1**, **2**, **10**, **14**, and **18**. These questions covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **5**, **11**, **22**, **29**, and **30**.

Comments on specific questions

Question 5 was answered correctly by 27 per cent of the candidates who chose option **B**. 33 per cent chose option **D**, 23 per cent chose option **C** and 16 per cent chose option **A**. This item required the candidates to calculate a firm's total revenue from given data, before and after an increase in supply of 50 per cent at all price levels. The candidates then had to calculate the change in the firm's total revenue. The original revenue is $400 ($40 × 10) the new revenue is $360 ($30 × 12) the revenue therefore decreases by $40. 27 per cent managed to complete this item correctly and select option **B**. 33 per cent selected option **D** which would have been the answer if there had simply been a 50 per cent increase in the firm's total revenue. Fewer candidates opted for **C** and **A** which could also be derived from incorrect calculations using the data given.

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Question 11 was answered correctly by 42 per cent of the candidates who chose option **C**. 36 per cent chose option **A**, 19 per cent chose option **B** and 4 per cent chose option **D**. Candidates were asked to consider conditions under which household saving is most likely to occur. These would be:

- when the inflation rate is low, this ensures the opportunity cost of saving is low
- when the interest rate is high, this ensures the opportunity cost of saving is low relative to consuming now
- when the unemployment rate is low, this means households are more likely to have spare disposable income to save.

42 per cent of candidates made these judgements correctly and selected option **C**. 36 per cent of candidates selected option **A** as they incorrectly thought that a high inflation rate and a high unemployment rate would lead to household saving.

Question 22 was answered correctly by 57 per cent of the candidates who chose option **C**. 31 per cent chose option **A**, 8 per cent chose option **B** and 4 per cent chose option **D**. This item required candidates to know what is measured by the labour force survey (LFS). 57 per cent of candidates knew that this is the unemployed population. 31 per cent incorrectly thought the LFS measures the number of workers on the national minimum wage. 8 per cent incorrectly thought the LFS measures the proportion of women in the labour force. 4 per cent incorrectly thought the LFS measures trade union membership.

Question 29 was answered correctly by 42 per cent of the candidates who chose option **B**. 22 per cent chose option **D**, 20 per cent chose option **C** and 16 per cent chose option **A**. Candidates were shown a foreign exchange market diagram for the Indian rupee to US$. There was an increase in the supply of Indian rupees illustrated in the diagram by a rightward shift of the supply curve and a depreciation in the value of the Indian rupee. Candidates were asked, 'What could cause the change in the exchange rate?' 42 per cent of candidates selected the correct answer, 'an increase in demand for imports by people in India', realising that this would require an increase in supply of Indian rupees to the foreign exchange market to obtain the US$ to purchase the imports. 22 per cent chose 'greater purchases of its own currency by the Indian central bank' not realising that this would shift the demand curve for Indian rupees (and the supply curve for US$). Similarly, those incorrectly selecting options **C** and **A** failed to realise that these would both cause increases in demand in this market.

Question 30 was answered correctly by 59 per cent of the candidates who chose option **A**. 24 per cent chose option **B**, 13 per cent chose option **C** and 4 per cent chose option **D**. Candidates were given records of selected items in the current account of the balance of payments of country X. Candidates were asked, 'By how much did the balance on the current account of country X increase?'

The items recorded would generate the following outcomes:

- country X exports $200m of goods = + $200m
- country X imports $50m of services = – $50m
- country Y's citizens working in country X send home to relatives $25m = – $25m
- country X sends country Y $75m of aid = – $75m

This gives a current account increase for country X of $50m, (200 –50 –25 –75) which 59% of candidates correctly calculated. The other incorrect options were obtained by making some incorrect calculation using some or all of the data provided. The least common error made was to simply add all the values given together, just 4 per cent of candidates chose this option.

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Key messages

There are two key messages that can be taken from candidate responses in this examination: firstly, the importance of reading the instructions on the question paper (and the wording of the questions themselves) very carefully before attempting answers; secondly, the need to produce reasoned discussions with depth in the longer (**part d**) questions of *Section B*.

The instructions to **'read the source material carefully before answering Question 1'** and **'refer to the source material in your answers'** are to be found at the start of pages 2 and 3 of the question paper. The answer to **Question 1c** for example (explain one factor that can influence labour mobility between countries) was to be found in the source material, and therefore any other factor, such as wage differentials or family ties, not to be found in the source material, could not be credited as answer.

Lack of substance was often demonstrated in candidate responses to the optional **part d** questions, when **Question 1g** and **Question 1h** (6 mark questions) were found to be much longer than responses to these 8 mark questions. The key to a strong (Level 3) answer in **part d** questions is depth of response, with a reasoned discussion of both sides of the question, using economic analysis in order to evaluate the question. Answers that consist of only a couple of short paragraphs are unlikely to attain the depth of response required for these questions. Time allocation is therefore a very important part of examination technique, with 24 out of 90 marks available for the three d part questions.

General comments

There was a noticeable increase in the number of candidates who did not adhere to the instructions on the question paper this year. Candidates are requested to answer **Question 1** (all of *Section A*) and **three questions** from *Section B* but some candidates answered all of the questions available, whilst others only answered three questions in total (i.e. only two questions from *section B*). Candidates are at a considerable disadvantage if they do not take time to read the instructions on the first page of the question paper carefully because time spent attempting an unnecessary extra question could have been spent developing answers to other questions.

Another noticeable issue was the growing number of candidates who choose to answer a seemingly random selection of questions in no particular order. There is no justification in examination technique for this highly unusual approach. It puts the candidate at a considerable disadvantage because each of the optional questions is based upon a theme, with that theme indicated in the stem material. The purpose of this material is to help the candidate to focus upon particular topics, but a scattered approach prevents focus upon the subject matter contained in each group of four questions (parts a to d). It is therefore advisable, although not compulsory, to answer these questions together if possible.

Comments on specific questions

Section A

Question 1

(a) Almost all candidates were able to divide 8.9m by 10m to calculate the percentage of foreign nationals living in the UAE as 89 per cent.

(b) Candidates who had 'read the source material carefully before answering **Question 1**' usually had little difficulty with this question because the features of globalisation identified were to be found in the second paragraph (two from: connection through migration, trade in goods and services, sharing of ideas, and technological development). Candidates who had ignored these instructions however, by introducing features not found in the source material, were unable to score marks on this question.

(c) As with the previous question, those who followed the instructions on the question paper, especially 'refer to the source material in your answers', were able to produce good answers by referring to either the 'many daily flights' or the 'technological development' to be found in the source material.

(d) A majority of candidates were able to cover half of the response required for this question by explaining one advantage of producing a product with price inelastic demand but few were able to explain a disadvantage. The key to a good answer was to use the concept of **revenue** changes: when price increases revenue increases (an advantage) but when price falls revenue decreases (a disadvantage). Although it was not essential to explain this idea by using revenue changes, it made the answer much clearer. Very few candidates however appreciated that it was necessary to consider a decrease in price in order to explain a disadvantage.

(e) This was a question that involved analysis of a graph rather than a table of numbers. Identifying and explaining the relationship seen in the graph (positive) proved reasonably straightforward for most candidates but correct further development of answers was rare. Good answers looked closely at the graph and demonstrated an understanding that lines below the 0 per cent change level indicate falling oil prices and current account balance, whilst lines above 0 per cent indicate that they are rising. Incorrect interpretation of the graph however meant that many candidates assumed that a falling line meant falling prices, whereas they were only falling when they were below the 0 per cent level.

(f) Unfortunately, there was a large number of candidates who did not have a clear understanding of production possibility curves (PPC). The most frequent misconception was confusion with supply and demand diagrams, with candidates labelling the axes as price and quantity, rather than with two goods (e.g. capital goods and consumer goods). It was also common to see the axes without any labels at all. Good answers were able to draw two PPC curves and label them correctly to indicate an outward shift due to technological progress. For the final analysis mark it was necessary to do more than simply describe the shift from PPC1 to PPC2 but to explain that this indicated the economy's ability to produce more.

(g) Those candidates who referred to the source material in their answer were able to produce a comprehensive discussion of whether or not luxury tourism and financial services have helped economic development in Dubai. Good answers identified spending by tourists, employment in services, or increased tax revenues, continuing by explaining how they led to economic growth, higher incomes or better healthcare for example. The 'other side' of the discussion could then be identified and explained from the source material, for example high use of water resources and unequal income distribution of income. The most frequent weakness in answers was ignoring the requirement for a second side to the discussion and therefore limiting the scope of the potential response.

(h) It was rare to see a comprehensive answer to this discussion of the benefits of a fixed exchange rate and a considerable number of candidates made no attempt at an answer whatsoever. This question however was a compulsory part of *Section A* and those candidates who neglected it put themselves at a considerable disadvantage. Every effort is made to look closely at answers in order to discover relevant material but, if a candidate leaves a blank paper, there is no possibility of marks being awarded. Demonstrating a simple understanding that fixed exchange rates are stable and do not change in value, for example, would have been given credit.

The relatively few good answers to this question considered the importance of stability and the confidence amongst both consumers and investors. The disbenefits were then considered, with the dangers of inflation and the problems of meeting other macroeconomic objectives, being the most popular approaches here.

Section B

Question 2

(a) Identifying two ways of measuring unemployment, the claimant count and the labour force survey was a straightforward exercise for most candidates. A sizeable minority however gave incorrect or vague answers, such as GDP per head or a formula for measuring the percentage unemployed..

(b) Answers to this question were generally of a good standard, with candidates finding it a straightforward task to identify two factors influencing living standards, such as income, cost of living or education, and then explaining how these factors could improve or possibly reduce living standards. The main weakness in many answers was to give tax alone as a factor, without explaining how this is linked to the disposable income that determines ability to purchase goods and services. Other candidates identified two factors without developing these answers with explanations.

(c) This question was not well-answered on the whole, chiefly because many candidates did not understand that the 'market forces' in question are demand and supply. A surprising number of answers discussed the government's role, especially the imposition of minimum wages, without realising that market forces omit any government's involvement. To score well, it was necessary to consider how both supply and demand determine wages in a market. Only a small number of answers however considered both, and most candidates only considered demand. The best responses explained the concept of derived demand – how an increase in demand for a product is translated into increased demand for labour and then, as a result, higher wages.

(d) **Question 2** turned out to be the most challenging one overall and the option that was chosen by the fewest candidates. This was particularly noticeable in this **part (d)** question where there was generally a weak understanding of the nature of free trade, especially with regard to exports and imports. Some candidates even believed that 'free' literally meant no cost in this context. The following is a Level 2 response that has some depth and makes good use of economic analysis but it is one-sided. The lack of a second side to the discussion means that it cannot achieve a Level 3 response:

'Free trade may lead to economic growth because as there are less regulations to trade country may export more to other countries. Exports cause economic growth as more people can buy things from your country, increasing the aggregate demand. The increase in exports also means an increase in demand for countries goods and services. This may cause an increase in employment rate and therefore more people having income available to consume from country and contribute to economic growth.'

Question 3

(a) Most candidates were able to define privatisation in terms of a transfer of assets from the public sector to the private sector. Weaker responses tended to concentrate on only one aspect of the transfer, such as 'the firm stops being part of the government'.

(b) This question was well-answered overall, with candidates able to identify greater efficiency and faster capital equipment for example, as ways in which technological innovation can benefit firms. The main weakness in answers was only identifying ways and not developing the answer further, for example by explaining how lower prices and lower labour costs could be achieved by this technological innovation.

(c) As was the case in the previous question, the best answers developed the question beyond a simple identification of the effects of increased competition and analysed each of the effects identified. Thus the question clearly discriminated between those candidates who merely identified lower prices, better quality and reduced profits for three marks, and those who developed these concepts by explaining how lower prices would attract more customers, how improved quality would provide more satisfaction, and reduced profits could be due to fewer customers.

(d) The following candidate answer is a two-sided reasoned response that makes use of economic analysis to discuss how education can help achieve macroeconomic aims of government and also why it might not. It lacks depth however and the points are not fully developed, therefore it is a high Level 2 response.

'Macroeconomic aims may be achieved if the government improves education due to several reasons. First, improved education will increase the amount of skilled workers and will therefore increase labour productivity. As a result, more products will be produced at lower prices and more demand for labour will achieve the economic aim of full employment. In addition to this, better education will allow firms to increase their output and to reduce prices, which will increase consumption and production. The macroeconomic aim achieved is economic growth.

On the other hand, improving education may not help a government achieve macroeconomic aims. To begin with, skilled workers may choose to work outside and due to their skills they may end up working in another country. Also, more education may lead to a technological progress so less firms will hire people and they will replace them with capital, labour or machinery. This will lead to unemployment.'

Question 4

(a) There was a clear distinction, in answers to this question, between those candidates who understood that tariffs are taxes on imports and those who did not have a clear understanding of the nature of tariffs. Thus it was common to see taxes mistakenly given as an alternative to tariffs whilst others correctly gave quotas and embargoes for both marks.

(b) Whilst most candidates seemed to have a reasonable understanding of the nature of both substitutes and complements, there was a considerable number of candidates who did not have a clear understanding of the purpose of the question. This involved them taking 'coffee substitutes and complements' as one item, rather than separating the answer into two parts by treating substitutes and complements completely separately. Taking the two parts together produced answers that were too vague and usually incorrect. So, most candidates were able to identify tea as a substitute for coffee or, more rarely, sugar as a complement to coffee but many were not able to develop the answer further. The best answers clearly explained how a rise a in the price of a substitute for coffee would lead to an increase in the demand for coffee, then explaining how a rise in the price of a complement would lead to a fall in demand for coffee. The weakest answers got this idea the wrong way round, explaining for example how the demand for tea is affected by the price of coffee.

(c) This question was well-answered on the whole, with candidates able to offer a wide range of possible reasons for government intervention. The most popular and successful approaches were to consider demerit goods and monopolies. In the first example, candidates were able to develop their answers with reference to overconsumption of products in the market, leading to external costs such as pollution. For the second example, candidates explained the problems of high prices, low quality and reduced choices and analysed how governments can address these issues. Weaker responses tended to examine only one method of intervention, rather than the reasons, such as tariffs or subsidies, but did not consider market failure at all.

(d) The following response scored full marks because, whilst far from perfect, it is a reasoned discussion that examines both sides of the economic argument in some detail to discuss whether or not high tariffs can reduce unemployment. It clearly addresses both sides and shows a clear understanding of the economics of tariffs. It is therefore a strong Level 3 response.

'High tariffs may reduce unemployment due to many reasons. Firstly, they encourage demand of domestic goods since imports may become more expensive. Tariffs are a tax imposed on imports from abroad. An increase in demand causes firms to produce more as a response which allows them to gain higher profits. This may lead firms to hire more workers to expand, which reduces unemployment. Furthermore, the jobs involved in extracting raw materials increase due to this increase in production. This also decreases unemployment. Furthermore, as firms gain higher profits and expand, the government has tax (corporate tax) firms which increases their tax revenue to spend on education or training schemes which in the long term causes a decrease in unemployment.

On the other hand, high tariffs may lead to retaliation from other countries and exports from the country become expensive. This may even lead to a trade war. The firms which depended heavily on exports as their sales may be affected and lose profits. This would lead to more people becoming unemployed as they can not afford having to pay workers due to losses. Furthermore, the jobs involved from exporting goods may also be affected, furthering unemployment levels.

Furthermore, if the country starts importing less due to high tariffs, the firm which imported many raw materials and resources from abroad for their production processes, may experience losses and also lead to unemployment as they lay off some workers because their cost of production (involving expensive foreign raw materials) increases.'

Question 5

(a) Most candidates had a good understanding of labour mobility and were able to define it in terms of geographical or occupational mobility to produce a complete answer. The small number of candidates who did not fully answer the question tended to ignore the importance of 'ability to move' and simply identified workers moving jobs.

(b) Most candidates took this question to be about 'old people' and their spending and saving patterns. The focus of the question was about change however, i.e. a population where the average age is increasing or where there is a shift towards the older age group. Very few candidates considered the decline in the proportion of young people in the population, especially children, but this could have been a successful approach to this question. Good answers usually explained changing saving and spending patterns in terms of changes to income, such as reduced income from employment in retirement leading to reduced spending and reduced ability to save for the same reason. There were however a number of valid approaches to answering this question and a consistent argument was the key to a successful response.

(c) The responses to this question were generally good, with most candidates able to identify the extra demand from tourists for goods and services, such as food and accommodation, as a potential cause of inflation. Good answers also considered the extra workforce, the increased incomes that could lead to cost-push as well as demand-pull inflation. It was however necessary for candidates to specify demand-pull and/or cost-push, rather than just 'inflation', because 'increase inflation' was part of the question asked. There were however some candidates who confused tourism with immigration, assuming that tourists would be coming to a country for employment and that they would put pressure on things such as education and housing. This approach was not valid and could not be credited.

(d) The following is a strong Level 3 response. It covers both sides of the argument in depth and concentrates on the focus of the question, reduction of poverty, throughout the discussion.

'Fiscal policy is effective in reducing poverty. Expansionary fiscal policy cuts taxes and increases government spending, this increases spending in the economy as people have more disposable income, so increases AD and increases GDP (economic growth) creating jobs for everyone. People will be able to get a job that may not require many skills and so poor people earn income and are able to buy basic necessities, improve their health etc. Expansionary fiscal policy increases govt. spending and this govt. spending provides public goods like healthcare, education, infrastructure, all which allow poor people to get a job, not be ill so that they can work and also does not have to pay expensive medical treatment. Govt. can use progressive taxation to redistribute income and help the poor with unemployed benefits for example through to a reduction in income inequality which benefits the poor.

However, it may not be effective because economic growth due to expansionary fiscal policy may not create jobs for the poor because they may not have the needed/demanded skills and public education is not guaranteed to be of good quality (if it is provided from govt. spending). There may be regressive taxes which affect mostly the poor. These are taxes on products which are taxed to everyone, it affects mostly the poor because a good/basic good may be using a higher proportion of their income, so they do not have any left for other basic necessities. Economic growth can lead to inflation which will affect the poor by raising prices of products that they cannot afford.'

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Key messages

- Candidates need to make use of the information in the source material in their answers to the questions in **Section A**.
- In analysing the relationship between data on two economic variables in **Section A**, candidates should decide what is the expected relationship, whether there is evidence of a direct or inverse relationship, support their decision with evidence from the table or graph, explain the relationship, consider whether there are any exceptions and explain why such an exception or exceptions may have occurred.
- There needs to be some depth to the answers to **Question 1f** and **Question 1g.** Candidates should develop and build on the information in the source material.
- Candidates should read the stems at the start of questions in **Section B**. The stems put questions in context and can help avoid confusion between terms.
- In the **(a)** questions in **Section B**, candidates need to aim for accuracy and clarity.
- In the **(b)** questions in **Section B**, candidates need to explain the points they make rather than just stating them.
- The **(c)** questions in **Section B** require clear analysis which link points in a logical manner.
- Candidates need to answer the **(d)** part in **Section B** in depth on both sides. They should bring in a number of economic concepts in their answers.
- Candidates should avoid confusion between demand for one product and total demand for products and between a government budget deficit and a deficit on the current account of the balance of payments.

General comments

In this session **Question 3** proved to be the least popular optional question. Most candidates answered **Question 1** first and most did make good use of the source material in their answers.

The majority of candidates answered all the required questions with only a small proportion of candidates omitting certain questions, However, over recent sessions, there has been an increase in the number of candidates who answer all four of the optional questions rather than the required three questions. This is not a good strategy. It means that the candidates cannot devote sufficient time and attention to all the questions.

There has also been an increase in the number of candidates who answer the questions out of order. This also often turns out also not to be a good strategy. For example, a candidate who answered the optional questions in the order: **Question 2b**, **Question 4b**, **Question 4c**, **Question 3d**, **Question 4d**, **Question 2a**, **Question 3a**, **Question 3c**, **Question 4c**, **Question 2c** and **Question 3b**, appeared to forget to answer **Question 2c** and may not have fully appreciated the different depth required by the different questions.

Comments on specific questions

Section A

Question 1

(a)   Most candidates answered this question. A small number calculated the percentage of the Jordanian labour force who are employed and a small number omitted answering the question.

(b)   There was a mixed performance on this question. Some candidates correctly identified the two components of the current account of Jordan's balance of payments from the source material. A number of candidates misidentified import tariff revenue as a component and others showed their

misunderstanding of the components of the current account by identifying other points from the source material including employment.

(c) Some candidates were able to interpret the information in the source material to recognise that Jordan was experiencing cyclical unemployment. A proportion of candidates misinterpreted the information, thinking that demand for only one or two products had fallen, affecting a few industries.

(d) Most candidates correctly identified the advantages of lower prices and higher quality that the Jordanian economy could gain. The main area of difference in the answers was in the strength of their explanations of how the mergers could result in these advantages and how these advantages could benefit the economy. There were some strong answers which explained, for example, how lower prices could explain Jordan/s exports of tourism.

(e) This was generally well answered. Many candidates recognised there was an inverse relationship between birth rate and average age. There was some good supporting evidence provided and many candidates recognised the Maldives/Venezuela was an exception. In addition, some candidates provided a clear explanation of the expected relationship.

(f) The quality of most of the demand and supply curves drawn and the written analysis were good. However, a small number of candidates got the demand and supply curves round the wrong way. What was more surprising were the candidates who drew production possibility curve diagrams and those who did not include any diagram in their answers.

(g) There was a number of relatively straightforward points in the source material that candidates could develop. There some strong answers which explored how the use of renewable energy could improve the environment whilst recognising one or two reasons why the Jordanian government might be advised not to spend more on renewable energy.

An example of a strong answer:

The Jordanian government should spend more on renewable energy as there is going to be a higher demand for it because of the increasing population. Moreover, spending on renewable energy can reduce environmental damage and can be relatively cheap in the long run. Renewable energy is not as environmentally damaging as non-renewable energy as it is likely to create fewer external costs such as pollution.

On the other hand, the decision by the government to spend more on renewable energy will create an opportunity cost. The money can be used to go on other facilities like public goods, merit goods and many more. Furthermore, renewable energy relies on favourable weather conditions and these do not always exist. So, there may be disruption in the provision of energy which can harm firms and households.

(h) Candidates found this a more challenging question than **Question 1(g)**. Some just quoted the source material without developing the points. For example, some candidates wrote that a higher interest rate would affect investment but did not go on to explain whether it would be likely to increase or decrease investment.

Confusion was shown over several aspects of this question. In particular, a relatively high number of candidates appeared to think that increased spending by Jordanians on imports would increase Jordan's total demand and output. There was also confusion shown over the effect an appreciation in the exchange rate on export prices and import prices.

The strongest understanding shown was on the likely effect a higher interest rate would have on saving, borrowing, spending and total demand.

An example of a strong answer:

A higher interest rate will increase the cost of borrowing, leading to lower spending in the economy. This may prevent inflationary pressure caused by excess demand. Stable prices could result in higher economic growth. This is because a lower inflation rate will cause greater confidence which can increase investment and output.

However, a higher interest rate can discourage FDI in the country due to the high cost of borrowing. The lower investment could lower GDP and reduce the chance to decrease unemployment. Moreover, a higher interest rate may attract foreign savings. This will increase demand for Joran's currency, leading to currency appreciation. This would increase export price, leading to lower demand for exports and lower output.

Section B

Question 2

(a) Most of the candidates who selected **Question 2** were able to identify two relevant places where a production point could be located. Some candidates illustrated the points on a PPC diagram.

(b) The vast majority of candidates were able to identify two relevant reasons why someone may switch from eating in one restaurant to eating in another restaurant. The three main reasons given were a change in price, a change in income and a change in quality. Where the answers differed was in whether they provided an adequate explanation. There were some good answers which, for example, explored the relationship between income, purchasing power and the type of restaurant people would select to eat in.

(c) There was a range of quality in the answers to this question. Some candidates focused on just one or two reasons why a chief executive of a bank is likely to be paid more than a waiter. The strongest answers explored in some depth why, for example, the possession of more qualifications by a chief executive might result in a higher wage. These answers also explored the influence of demand and supply, with some candidates examining both the level of demand and supply and also the price elasticity of demand and supply. It is always useful for candidates to make use of demand and supply analysis when examining wage differentials.

(d) Most candidates showed an awareness of the meaning of free trade, A relatively high number of candidates showed an understanding of how free trade could provide the incentive and means by which firms could lower average total cost of production. There was also some good exploration of why free trade may not increase economic growth. In particular, there was some analysis of how free trade may reduce a country's output as a result of dumping of products by foreign firms and some infant industries going out of business because of their inability to compete with larger foreign industries.

An example of a Level 3 answer in which the candidate explored both sides in some depth;

Free trade will remove barriers to trade and this may increase economic growth. It allows most firms to expand their markets abroad as taxes and limits on their exports will be removed. This makes much larger markets, Firms producing on a larger scale may enjoy lower average costs and so they may become more price competitive. With lower costs of production and more consumers to sell to, they may increase their output resulting in higher GDP.

Free trade can encourage more investment which can result in innovation. Better quality products can increase international competitiveness. This leads to higher export demand, improving net exports, increasing total demand and boosting economic growth.

However, free trade may not increase economic growth. Removing trade restrictions, such as tariffs, will reduce government revenue. This can lead to limited opportunities for economic growth as the government may spend less on education and healthcare.

Moreover, free trade increases competition in the home market. Imports may cheaper as they will no longer have tariffs on them. Free trade can cause dumping. Other countries' firms may sell their products in the country below average cost. The increased competition may cause infant industries to shut down as well established foreign industries may be benefiting from economies of scale and so be able to charge lower prices. If the greater competition resulting from free trade results in the country's firms shutting down, GDP will fall.

Question 3

(a) Some candidates defined foreign exchange rate rather than a foreign exchange market. A number of other candidates defined a product market.

(b) The two main reasons explained were labour having a cost advantage over capital and labour being able to provide personalised services. There was some good explanation of these and other reasons. It was pleasing that candidates showed a good understanding of both labour and capital,

(c) Some candidates found this to be a challenging question, A number just defined economic growth and the balance of payments. Some appeared to be confused about the nature of balance of payments stability. There were, however, some answers which provided good analysis, exploring the relationship between, for example, economic growth, income, consumer expenditure, demand for imports and the current account of the balance of payments.

(d) There was a good understanding of a market economy shown by the vast majority of candidates who answered this question. Most answers tended to be stronger on why such an economic system is likely to have a high level of poverty rather than why the level of poverty might be low. The strongest answers explored the impact of lack of provision of public goods, lack of ability to purchase merit goods and lack of government support to vulnerable groups. Some of these answers also examined how a lack of government intervention may influence the distribution of income.

While tending not to be as strong, a proportion of candidates did explain in a logical way how a market economy might reduce absolute poverty by putting competitive pressure on firms to keep their prices low and how it may promote efficiency which can increase output and employment.

An example of a Level 2 answer which provided some explanation on both sides:

In a market economy, there is no government intervention so that private sector firms will only produce the products with more demand. They will not produce products for those who cannot afford them. This may mean people will experience absolute poverty, not getting enough access to basic necessities.

In addition, some people may not gain access or much access to education when they cannot afford it due to lack of government intervention, People who are uneducated will not be able to get skilled and so may be unemployed or have low income. Moreover, here will be no public transport and people may have to pay a high price for private transport.

However, a high level of poverty may not occur in a market economy because forms will compete, charging affordable prices and producing good quality. Basic necessities may be cheap which will make them affordable to the poor.

Question 4

(a) Most candidates were able to define an extension in demand accurately. However, some candidates confused an extension in demand with an increase in demand.

(b) The two most popular external costs included in candidates' answers were air pollution and damage to the natural environment, The strongest answers brought out why these are adverse effects on third parties. Some candidates, however, explained possible external costs of producing oil rather than exploring for oil and others explained two private costs of oil exploration.

(c) This was generally well answered. Candidates showed a good awareness of the tertiary sector, living standards and how a growth in the tertiary sector can increase living standards. Some of the strongest answers brought out not only the possible effect of a growth in the tertiary sector on incomes and employment but also on, for example, working conditions. Focusing on particular industries in the tertiary sector, most commonly education and healthcare, helped some candidates to explore the topic.

(d) Candidates tended to show a good awareness of the nature of unemployment. Some answers were rather narrowly focused, considering only one or two influences on whether workers who lose their jobs are likely to stay unemployed for a long time. The main influence considered was the level of skill possessed by the unemployed workers.

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Some candidates produced strong answers, which considered the type of unemployment experienced, mobility of workers and level of unemployment benefit. An example of a Level 3 answer which was strong on both sides:

If workers lose their jobs, they might be unable to get back their job. If a worker is specialised and the market which he is specialised in is no longer there, the worker my stay unemployed if he does not have the skill to get another job. Cyclical unemployment can be a cause of a person's unemployment, If the economy has low aggregate demand and is in recession, the worker may stay unemployed for a long time. Structural unemployment can be of two types, regional and technological If the firms in the region where the worker was unemployed goes through regional unemployment, the worker may stay unemployed for a long time as there is no jobs available in his town, Moreover, if the job of the worker is replaced with technology and if firms find capital-intensive production cheaper, the worker might not get a job as capital does better work than him. If a person is geographically immobile and occupationally immobile, the person will not be able to find a job, so he will be unemployed for a long time.

On the other hand, if the workers are geographically mobile, they will be able to move to different places and may get another job. Also, if workers are occupationally mobile, they will be able to change between jobs and can get employed again, As workers want money to fund their families, they try their best to find jobs, so most workers will not stay unemployed for a long time. Frictional unemployment could be a factor of their unemployment. If this is the cause, the worker may be able to find a job with a different firm as they are in between jobs and they are searching to be employed. So, they will not be unemployed for a long time. A cut in unemployment benefit may reduce the time people take to move from one job to another job.

Question 5

(a)   The two most common answers given were tour guides and hotel workers. Some candidates gave two examples which were not directly related to the tourism industry.

(b)   There were some answers to this question which explained, for example, how a good transport system could reduce costs of production and so increase the size of firms' markets. There was also some good explanation of how a good transport system could increase geographical mobility of labour and so reduce unemployment, However, some candidates just stated that a good transport system would encourage firms to produce a higher output without providing any explanation as to why this might occur.

(c)   This was well answered. There were some good links provided between, for example, the number of firms, the pressure to keep prices low and the benefit low prices could provide for consumers. There was also some good analysis of the effects of a competitive market on quality, choice and responsiveness of firms to changes in demand.

(d)   There were a few candidates who showed that they did not understand what is meant by a trade union. These candidates tended to confuse it with a trade bloc. However, most candidates did recognise the role of trade unions and the candidates who provided the strongest answers linked the effects of an increase in trade union membership to changes in output, employment, inflation, the current account of the balance of payments and living standards.

An example of a Level 1 where the candidate stated two relevant points but did not explain them;

An increase in trade union membership will benefit an economy because it promotes cooperation between workers and the firm. Rights of workers will be taken into consideration and so their productivity and efficiency will rise.

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Key messages

It was good to see that there were only a few candidates that did not follow the rubric requirements for this paper. Candidates are required to answer only three of the four questions in **Section B**. Should a candidate attempt all or parts of all four questions, then Examiners will mark all their work and the three questions with the highest marks will count. For this reason, it is best for candidates not to cross out what they think is their weakest answered question as this is not always the case. However, there is a growing trend of candidates jumping about between questions rather than answering all **parts a, b, c** and **d** before moving onto the next question. It is understandable that this may happen when, at the time of answering a question, a candidate is unsure what the answer will be and leaves that to the end. However, quite a few candidates in this exam left all their **part d** answers in **Section B** to the very end. **Part d** answers have the highest marks, and it is unwise to leave them all until the end in case they run out of time. The four questions in **Section B** have a stem at the beginning which is included to give some guidance on answering the questions. Unlike the extract material in **Section A**, answers do not need to use information in the stem, although they can refer to it.

General comments

There were some very strong answers to the paper but also quite a few weak answers. In general, weaker candidates lacked understanding of key economic terms. They also showed a lack of focus and depth in those questions requiring analysis and/or evaluation. The strongest candidates were able to show both analysis and some evaluation across a range of questions. Slightly fewer candidates attempted **Question 5** than any other question in **Section B**. This might be because it was the last question. However, those that did attempt this question performed less well overall than for the other questions in **Section B**. There were very few strong answers for 5c and 5d.

Where some candidates did less well in answering a question, the main reason was misunderstanding what was required by the question. For example, **Question 4c** was about economic development, which is a clearly defined term in the syllabus, but it was common for weaker candidates to interpret this as meaning the same as economic growth, which has mainly different causes. **Question 2d** was also less well answered than other **part (d)** questions in **Section B**. Again, this was mainly because some candidates interpreted a question about how the disadvantages of a market economic system could be overcome by government intervention as a question relating to government macroeconomic intervention e.g. economic growth, reducing unemployment and controlling inflation rather than changing how resources are allocated.

Comments on specific questions

Section A

Question 1

(a) Most candidates were able to give a correct calculation of $10,650 or £0.010650 m. The data could be found in the Belarus fact file and was calculated by dividing the total cost of car produced ($340.8 m) by the total number of cars produced (32,000). A few made an error in the calculation e.g. $106,500. A few mistakenly divided the number of cars by the total cost and arrived at a figure of $93.89.

(b) The extract material stated that there was both a public sector and a private sector which was the correct answer. However, a common error was to use just the information in the Belarus fact file

and state the tertiary sector and the public sector. Some referred to the agricultural sector or state-owned firms

(c)   This was reasonably well-answered. The extract material refers to a rise in price level caused by increases in the price of energy which pushed up costs of production. Therefore, most candidates identified cost-push inflation and either stated this was due to the higher energy costs or simply higher costs of production. Weak answers either stated demand-pull or cost-pull inflation, or simply did not state what type of inflation it was but often gave the two characteristics stated in the extract material. Others quoted the 9.9 per cent inflation rate stated in the Belarus fact file and often mistakenly linked it to a high unemployment rate. Other terms used included frictional and contractional inflation.

(d)   Most candidates were able to explain that the two reasons for the PPC of Belarus shifting to the left were the decline in the size of the labour force and a decrease in the number of candidates going to university. Strong answers stated that the first reason affected the quantity of resources available whilst the second reason affected the quality of resources available to Belarus. A typical weak answer was 'not using fully resources available e.g. labour.' A few drew the PPC shift to the left which was not required but gave no explanation. Quite a few identified other factors, such as a high rate of inflation, which would not cause a shift in the PPC curve.

(e)   Table 1.1 showed a straightforward positive relationship between life expectancy and HDI. Many candidates recognised this and correctly explained that life expectancy was one of the components of HDI and that a higher life expectancy would result in a higher HDI. Most candidates also stated that the exception was Belarus and Thailand. Belarus had a shorter life expectancy but a higher HDI value than Thailand. A common error was to simply describe the data from the table without any analysis. For example, stating 'Norway has a life expectancy of 82.4 years and an HDI value of 0.957 and Uganda a life expectancy of 63.4 years and an HDI value of 0.544.' This does not explain the relationship. There needs to be a comment that Norway had the higher life expectancy and a higher HDI value than Uganda.

(f)   This was well answered. Most candidates drew a correctly labelled diagram with the supply curve shifted to the right and stating there was a reduction in cost or increase in supply or reduction in price. Weaker answers often showed a shift in the demand curve rather than supply or in some cases did not label the axes or equilibriums correctly. A very weak answer was a totally incorrect D/S diagram with the comment 'subsidising the milk will cause an increase in demand for milk.'

(g)   Most candidates believed that the construction of electric vehicle charging stations would benefit the economy. Some focused on environmental benefits of less air pollution and improvement in worker's health. Others focused on the fact that it would increase employment leading to an increase in total demand and therefore economic growth. Strong answers were also clear that there was an opportunity cost as government funding could have been spent elsewhere e.g. on education and health and that there was no guarantee that there would be an increase in electric cars over petrol and diesel as they may be too expensive to buy. Some weaker answers missed the point that the question was about the benefit to the economy and wrote about the benefit to individuals instead.

(h)   There were many strong and well-balanced answers given. Common answers given as to why people should be fined included that it would encourage people to apply for jobs more quickly, reducing government spending on unemployment benefits and leading to higher output. There were also some strong arguments against fines. The most common was that if unemployment was structural or cyclical that might not be any suitable jobs and it was better for the government to increase training and support to the unemployed who may not have the skills required to assist them getting a job. Fining them was unfair. Many also pointed out that fining some unemployed people could lead to greater debt and poverty. Weaker answers generally had fewer points in support and were often one-sided. A few weak answered concentrated on the possibility of unemployed being jailed if they did not pay the fine.

Section B

Question Two

(a)   Nearly all candidates were able to identify two influences on the proportion of income saved by households. The level of income and number of people in the household were very common

answers given. Some candidates unfortunately gave two similar influences e.g. disposable income and level of taxes or cost of living and inflation. Some gave influences not related to households e.g. GDP per head or profits.

(b) This was well answered. Characteristics of monopolies were clearly understood by most candidates. The most common answers were about the firm controlling the market with few competitors. This enabled them to create high barriers to entry and set prices. Other answers included that they were large firms which gained economies of scale and therefore had low average costs, making high profits. Weaker answers tended to have fewer characteristics rather than incorrect ones. A typical brief answer was 'Monopolies do not have competitors, and they have absolute market power.'

(c) Answers covered both push and pull factors. Many answers were about migrating for better job opportunities with higher pay which would lead to a higher standard of living such as better education and health services. Some answers concentrated on push factors such as war and famine and climatic change in their home country. Again, weak answers simply had less depth of explanation in the causes given. Often a cause was given but there was no explanation why this led to migration.

(d) This question was not well answered. The main reason for this is that many candidates lacked focus on a market economic system. Answers should have been about how the government addresses issues of overprovision and overconsumption of demerit goods and under provision and underconsumption of merit and public goods. Strong answers highlighted the use of indirect taxes, regulation and price control but also explained that this could result in government failure if applied incorrectly due to lack of accurate information. Again, weaker answers had less depth in the discussion and were often one-sided and limited to actions that could be taken. The weakest answers wrote about the use of fiscal and monetary policies to address inflation and unemployment which revealed incorrect understanding of the requirement of the question.

Question Three

(a) The majority of candidates correctly identified two decision-makers. The most common ones were the government, firms and households. A few wrongly identified systems such as micro-economics and macro-economics; others wrote supply and demand or the price mechanism.

(b) Most candidates did well on this question. Firstly, most clearly saw there was an inverse or negative relationship between tennis racquets and badminton racquets which were competitive goods which acted as substitutes to each other. Equally, candidates also saw that there was a direct or positive relationship between tennis racquets and tennis balls. A small number of candidates took a different approach by relying too heavily on the information in the stem. Their answer simply made the point that in Indonesia, more people played badminton than tennis and therefore demand for badminton racquets would be higher than for tennis racquets. This might be true, but it was not an acceptable answer to the question.

(c) This question was simply about why one type of job, in this case cleaners, earned a low wage. The syllabus relates worker's earning to demand and supply for the job and the level of skill required. Good answers applied these concepts to cleaners. Strong answers wrote about the low-level skill meant that many workers could do the job and therefore supply was high, and firms were able to pay low wages as they could easily be replaced. Some candidates explained that cleaners were often women and worked part-time and often did not belong to a union so had weak bargaining power. A few commented upon the fact that they could be replaced by machines or that many cleaners came from groups who were often discriminated against e.g. women, older persons and immigrants. There were few weak answers. Weaker answers tended to cover just a couple of the above points and often lacked depth in explanation e.g. 'Most cleaners earn low wages because of their lack of qualification and skills.'

(d) There were a wider range of answers given to this question. Strong answers were well balanced. Reasons for taxing sports equipment included it being a source of tax revenue that could be used by the government to encourage wider participation in sport amongst those on low incomes or spent on education and health care provision. Quite a few answers suggested that rich people tended to spend more on sports equipment and could afford to pay the taxes. Arguments for not taxing sports equipment was more narrowly focused and concentrated upon the fact that sport was a merit good, and that taxation could reduce the health and wellbeing of people. A few answers

lacked focus and mistakenly suggested that it would lead to greater importation of sports equipment from abroad based on the belief that the tax was only imposed on home produced sports equipment. Other weak answers drew heavily on the stem material and thought it was fair to tax badminton players who could earn large amounts of prize money.

Question Four:

(a) Whilst most candidates showed some understanding of what was meant by supply, only a few gave a correct definition that supply was the willingness and ability to provide a good or service. A typical weaker answer gave either willingness or ability but not both. Examples of a weak answer were 'when demand is met' or 'supply is the amount you get per unit of price'.

(b) A significant number of candidates were unable to give a clear explanation of the difference between the private sector and the public sector. Strong answers stated that the private sector were firms owned by individuals whose motive was to make profits whereas the public sectors was owned by the government and the objective was to improve the overall welfare of society. Weaker answers tended to lack clarity on who owned private sector firms and what was the objective of the public sectors. A typical weak answer was 'a private firm makes profit, but a public firm produces for the benefit of the public.'

(c) This question was not well answered simply because many candidates were unsure about what the term economic development meant. Essentially, economic development is about the level of income and standard of living. Strong answers therefore explained what caused higher levels e.g. better healthcare and education, more natural resources, higher productivity etc. Weaker answers may have covered some of these but not in depth. The weakest answers came from candidates that confused economic development with economic growth and wrote about policy measures taken by the government such as lower taxation and interest rates.

(d) This question was generally well answered by most candidates, many linking with immigration into Singapore, and the strongest answers were well balanced. Benefits discussed included bring new skills, increasing the size of the labour force, raising productivity and assisting economic growth. Factors which were not beneficial included driving down pay rates through greater supply and taking jobs away from local workers. The negative impact on housing and education facilities was also commonly mentioned. Weaker answers were often limited in depth and lacked balance. In some cases, comments related to the impact on the culture of the country in having too many immigrants which was deviating away from the effect on the economy.

Question Five

(a) Few candidates gave a clear definition of a central bank. A common correct response was that it was a government-owned bank responsible for operating the governments' monetary policy. Weaker answers tended to explain its unique activity e.g. setting interest rates or acting as the lender of last resort to commercial banks. A typical limited answer was 'The central bank is the bank controlled by the government.'

(b) Most candidates were able to give at least one clear way in which a commercial bank could attract new customers. Popular responses related to higher interest rates for savings and lower interest rates for loans. Advertising of services offered by banks, opening more branches and improving internet banking were also popular. There were only a few weak answers, and these tended to simply explain services offered by a bank rather than a change which would attract more customers,

(c) This question was not well answered by some candidates. The key reason for this was a confusion between the foreign exchange rate and domestic currency so that answers were about factors causing deflation. Another common error was that a fall in the foreign exchange rate meant that the currency had appreciated. Those that fully understood the term successfully explained that the fall could be caused by the government in the case of a fixed exchange rate, and by increasing the supply or reducing demand for a currency with a floating exchange rate. In some cases, candidates wrote in depth about different causes for an increase in demand e.g. higher interest rates, increase in exports, but then did not explain what could cause supply for the currency to rise e.g. an increase in imports and expectations that the exchange rate would fall further.

(d) Nearly all candidates had a clear understanding of the terms interest rates and inflation. Strong answers were better at explaining that a cut in interest rates would encourage borrowing and reduce saving and that this could lead to more consumer spending resulting in an increase in total demand and therefore demand-pull inflation. Fewer candidates were able to explain well why a cut in interest rates could encourage firms to invest, increasing supply and reducing costs of production and lowering cost-push inflation. Weaker answers tended to lack balance and depth. In some cases, candidates confused interest rates with tax rates. One error was to state that a cut in interest rates would lead to less income earned, therefore reducing spending by consumers which is unlikely to be the case except for those with large levels of savings.