

# ECONOMICS

Paper 0455/12  
Multiple Choice

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

## General Comments

The questions for which most candidates selected the correct answer were **2, 3, 4, 5, 10, 16, 19, 22, 29** and **30**. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions which were answered correctly by fewer than 40% of the candidates were questions **7, 8, 9** and **21**.

## Comments on Specific Questions

**Question 7** was answered correctly by 34% of the candidates who chose option **A**. 45% chose option **B**, 14% chose option **C** and 7% chose option **D**. No information is given about the costs of operation so it cannot be concluded that the costs are cheaper than the other shops (**B**). Consumers, recognising better value, switch their purchases of goods to the cheaper shop which results in continued profits.

**Question 8** was answered correctly by 35% of the candidates who chose option **B**. 14% chose option **A**, 26% chose option **C** and 24% chose option **D**. The new notes merely replaced the old notes so there was no increase in the money in circulation. The answer recognises one of the functions of money. As there were notes in use originally, option **A** was implausible, options **C** and **D** would not apply if the new notes merely replaced the old notes.

**Question 9** was answered correctly by 30% of the candidates who chose option **A**. 54% chose option **B**, 7% chose option **C** and 9% chose option **D**. A person previously employed in a travel company (**B**) would be less likely to have the required experience of security systems than a person currently employed in the industry (**A**). A recently qualified person (**C**) would not be likely to have the experience required and a person with a large family (**D**) would not find the accommodation offered suitable.

**Question 21** was answered correctly by 35% of the candidates who chose option **D**. 30% chose option **A**, 2% chose option **B** and 33% chose option **C**. For the real value of money to rise, it is not sufficient for the rate of inflation to be rising but more slowly than previously. When this happens prices still rise and, therefore, the real value of money still falls. For the real value of money to rise, prices must be falling, which would be shown on a graph as a negative rate of inflation. The only country that had a negative rate of inflation was **D**. It would benefit candidates if they could be advised to practise questions which require an understanding of the difference between a reduction in the rate at which prices rise and a fall in prices.

# ECONOMICS

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Paper 0455/22  
Structured Questions

## Key Messages

It is important that candidates directly address the question set. This session there were a relatively high number of answers, especially to question part **(d)** on the optional questions, that did not discuss the relevant topic. Indeed, in some cases, candidates appeared to be giving a prepared answer to a different question.

On question part **(b)** of the optional question, some candidates identified points but did not explain them. It is important that candidates recognise they need to go beyond just stating points.

Some candidates did not bring out relevant analytical links in their answers to question part **(c)** on the optional questions and did not provide strong analysis to underpin their attempts at evaluation in their answers to question part **(d)** in the optional questions.

Most candidates' handwriting was perfectly legible. A few candidates' handwriting was, however, very difficult to read. It is important that candidates ensure that what they write can be read.

There were very few rubric errors with the vast majority of candidates answering the required four questions. They also clearly indicated which question part they were answering.

## General Comments

This was the first March session for Paper 0455/22. Seven hundred candidates took the paper and there was a full range of performance. Some candidates produced excellent answers which showed an impressive depth of knowledge and understanding and very well-developed analytical and evaluative skills. The lucidity and perception of their answers was very impressive. It was a pleasure to read these answers.

A number of candidates coped relatively well with question parts **(a)** and **(b)** on the optional questions. They did, however, do less well on part **(c)** and struggled with part **(d)**. Indeed, generally, candidates found question part **(d)** to be the most challenging. Some struggled with applying their knowledge and understanding to answer the specific questions asked.

Other candidates provided relatively long answers but the answers did not contain much relevant economics and some revealed confusion over key economic terms and concepts.

There were a few candidates who just copied out parts of the extract to provide answers to all the parts of **Question 1**. Most candidates, nevertheless, coped quite well with **Question 1** and there was evidence that a higher proportion of candidates were aware of the need to evaluate in their answers to the two 'discuss' questions. There was also evidence that most candidates did pay careful attention to the information in the extract.

In terms of the optional questions, **Question 5** and **Question 7** appeared to be the two least popular questions and **Question 6** the most popular. There was, nevertheless, a more even spread of questions selected than in previous sessions. It is pleasing to see that the largely macroeconomic questions were as popular as the largely microeconomic questions.

As has been shown before, there seem to be certain topics that candidates find difficult. On this paper the two topics that candidates struggled with the most were regulation (**Question 3(d)**) and the fertility rate (**Question 5(a)**).

The vast majority of candidates used their time well and there were very few question parts omitted.

## **Comments on Specific Questions**

### **Section A**

#### **Question 1**

- (a) A relatively high proportion of candidates misinterpreted a fall in the economic growth rate as a recession. It is important that candidates recognise the difference between a fall in an economic growth rate and a fall in output resulting in a recession.
- (b) The focus of this question was on the functions of a central bank and the specific measures it can take to reduce a fall in the exchange rate, that is buying the domestic currency using foreign exchange reserves and raising the rate of interest. A number of candidates wrote about general measures to reduce inflation rather than concentrating on the measures a central bank uses to influence the exchange rate.
- (c) This was a generally well-answered question with most candidates exploring the likely rise in price due to the increase in the tax on the imports of gold. Fewer candidates referred to the impact of the fall in the exchange rate on the price of gold but those who did tended to produce good answers.
- (d) There was a range of performance on this question. Some candidates produced perceptive answers about the overall trend, the difference in the trend at the start and at the end, and the greater percentage rise in export revenue. Other candidates just described what happened each year without any interpretation.
- (e) There were some strong answers to this question, with clear explanations of how, for example, a cut in corporation tax can increase investment. The question did, however, reveal the common confusion over the meaning of investment. Candidates who did not focus on spending on capital goods, mistakenly wrote about raising the rate of interest.
- (f) There were some good answers to this question which explored the benefits to both households and the economy of households borrowing more and then examined the possible disadvantages, particularly in relation to the levels of debt and the effects on inflation and the demand for imports. Answers did, however, reveal some confusion about the meaning of the term 'disposable income'. There was also some confused thinking, with candidates writing that households would lose their savings if people borrowed the funds generated even if they repaid them. Some candidates also wandered off the focus of the question by examining in some depth the measures the government could take to encourage more borrowing without linking back to the effects of more borrowing.
- (g) This was generally well answered, with a relatively high number of candidates being able to bring out the meaning of opportunity cost and here linking it to the quantity of onions sold on the home market. A number of candidates, however, did reveal some confusion by stating that opportunity cost is 'the cost of selecting the (next) best option', rather than sacrificing it.
- (h) There was the full range of responses to this question. There were some perceptive and well-thought-out answers which considered the influencing factors, including weather, productivity, demand, the price of other countries' onions, the exchange rate and whether the export tax would continue. Some candidates wasted some time by exploring in some detail how, for instance, a period of good weather could result in India being a net exporter and then repeating many of the same points in reverse in relation to India being a net importer. A number of other candidates just copied parts of the extract without any attempt to interpret the information. For example, some wrote that as India was already the second largest exporter it would continue to be so without explaining why this might be the case.

### **Section B**

#### **Question 2**

- (a) This was well answered. Candidates showed a good awareness of the implication of resources being limited whilst wants are unlimited.
- (b) This was not so well answered. A relatively high number of candidates concentrated on how prices change rather than why. A number also drew diagrams which were not explained in a relevant way.

The strongest answers recognised how consumers and producers respond to shortages and surpluses.

- (c) Candidates' understanding and use of production possibility curves (PPC) has improved and there were some strong answers to this question. Some candidates, however, showed a movement along a PPC rather than a shift of the PPC to the right. Other candidates drew a demand curve rather than a PPC and some mislabelled the axes.

Those candidates who drew an accurate and relevant diagram, as would be expected, produced stronger written comments. Most were able to recognise that an increase in land would increase productive capacity but not all explained why.

- (d) This was one of the best-answered questions. There were some strong and lucid answers which included a relatively high number of points. There were some particularly good comments on the possible effects on economic growth, the balance of payments, living standards and the environment.

### Question 3

- (a) Price elasticity of supply proved to be a well-understood part of the syllabus with most candidates able to provide a relevant definition.
- (b) There was a range of responses to this question but the performance was generally good. A number of candidates produced good comments on how retained profits can be used to finance investment and to reward shareholders. A few candidates showed some confusion between profit and revenue. For example, a number wrote that profit is needed so that firms can pay wages.
- (c) Candidates did not have any problems identifying factors that determine which countries a multinational company produces in. What differentiated the quality of the answers was whether they analysed these factors. Those candidates who did bring out why the factors are important did well. Those candidates which just stated what the factors are and ignored the command word in the question 'Analyse' did less well.
- (d) Some candidates did produce strong answers to this question, bringing out how regulation can prevent monopolies driving up price, stop wages being driven down and make some producers take externalities into account. There were some good references to supermarkets, particularly in terms of how regulating their opening hours and stopping them jointly engaging in price fixing could benefit small shops and consumers in the long run. Unfortunately, a relatively high number of candidates revealed some confusion about the nature of regulation. Indeed, a number of candidates wrote about the general advantages and disadvantages of multinational companies and the general advantages and disadvantages of the public and private sectors without addressing the specific question set.

### Question 4

- (a) Candidates appeared to be well informed about the nature of a consumer price index and what its function is.
- (b) This was generally well answered. Most candidates were able to identify two functions and explain them. A few candidates confused a unit of account and a store of value. There was also some confusion over the meaning of a standard of deferred payments.
- (c) A small number of candidates confused fiscal policy and monetary policy and a few wrote about measures to increase the price level. Many of those who did answer this question, however, produced strong answers with good analytical links mostly between a rise in the rate of interest and a fall in the money supply and the rate of inflation. Those candidates who selected to write about a change in the exchange rate tended to write clearly about how a rise in the exchange rate could reduce inflationary pressure.
- (d) There was a full range of responses to this question. There were some excellent responses which recognised that the effects of deflation on an economy will be influenced by its cause. These provided good comments on the risk of a downward spiral of demand, output and employment if the deflation is caused by a fall in total demand, whereas a beneficial effect on the current account

of the balance of payments may occur if the deflation is caused by a fall in the costs of production. Some candidates wrote comments that were not fully thought out. For instance, some wrote that a fall in the price level would cause a problem for the government because there would be a fall in the real value of tax revenue. Most, however, did not acknowledge that it may also reduce the amount the government would have to spend on certain items because of lower prices.

#### Question 5

- (a) The fertility rate does not appear to be well understood. Only a relatively small proportion of candidates who answered this question provided an accurate definition. Some candidates confused the birth rate with the fertility rate. A number of candidates thought that the term relates to the fertility of the land.
- (b) This question was reasonably well answered although not all candidates explained the two reasons they identified.
- (c) There were some interesting answers provided that analysed, for example, the changes in the numbers employed in the primary, secondary and tertiary sectors and the proportion of women employed. Unfortunately, a number of candidates confused the pattern of employment with the level of employment.
- (d) This was generally well answered, but some confusions were shown. A number of candidates wrote that a reduction in unemployment would increase productivity when what they meant was production. Others suggested that if there is low unemployment there would be no job vacancies and that wage rates would be low. The strongest answers not only considered the advantages and disadvantages of having a very low rate of unemployment but also recognised why such a low rate would be difficult to achieve.

#### Question 6

- (a) Most candidates were able to define land and to give a relevant example. As in previous sessions, there was some confusion between capital and land.
- (b) A relatively high proportion of candidates did not explain the reasons they identified. Some gave more than the required number of reasons in a list-like answer. There were some good comments on the significance of low levels of education and high unemployment.
- (c) The analysis provided on this question was generally good, with candidates analysing how the types of taxes, what the government might do with the tax revenue and the possible impact on incentives might influence poverty. A few candidates explored some of the possible effects of a rise in tax rates but did not relate these to poverty.
- (d) The strongest answers to this question made use of relevant economic analysis to assess the impact of a fall in GDP. There were some clear comments on the effects on a number of influencing factors and a recognition that a fall in GDP might not mean a fall in GDP per head and that living standards are influenced by more than income.

#### Question 7

- (a) Most candidates were able to produce a reasonable definition of a developed country with the strongest ones recognising that a developed country is one with a high GDP per head among other characteristics.
- (b) This was quite well answered although a number produced a list of a number of reasons but did not explain them. The most popular reasons identified were higher wages, greater promotion opportunities and improved working conditions.
- (c) Some candidates clearly linked a more educated labour force to a reduction in a country's current account deficit by examining the effects on labour skills, productivity and international price and quality competitiveness. A few candidates showed some confusion between a current account deficit and a budget deficit. A number also sought to evaluate by examining why a more educated labour force might not reduce a current account deficit but the question did not require this. The focus of the question is on analysing why it might.

- (d) A small number of candidates who selected **Question 7** did not answer this question part. Most candidates who did answer it were able to contrast the merits of fixed and floating exchange rates. There were some strong answers which explored in depth the effects on, for instance, certainty and government economic policy. These answers revealed an ability to answer the question directly and to structure the responses. A few answers misinterpreted the question and wrote about the advantages and disadvantages of a market economy compared to a planned economy.