

# ECONOMICS

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<b>2281/12</b> <b>Paper 12 Multiple Choice</b>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>C</b>	16	<b>C</b>
2	<b>B</b>	17	<b>B</b>
3	<b>B</b>	18	<b>A</b>
4	<b>A</b>	19	<b>D</b>
5	<b>B</b>	20	<b>D</b>
6	<b>A</b>	21	<b>C</b>
7	<b>A</b>	22	<b>D</b>
8	<b>C</b>	23	<b>D</b>
9	<b>B</b>	24	<b>B</b>
10	<b>A</b>	25	<b>D</b>
11	<b>D</b>	26	<b>C</b>
12	<b>C</b>	27	<b>D</b>
13	<b>C</b>	28	<b>C</b>
14	<b>A</b>	29	<b>D</b>
15	<b>B</b>	30	<b>D</b>

## General comments

The mean mark was 18.5, which is slightly lower than the mean mark of 19.2 on this paper for June 2018.

The questions for which most candidates selected the correct answer were **4, 8, 10, 11, 21, 25** and **29**,

These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **2, 14, 18, 23**, and **28**. These questions were answered correctly by fewer than 40 per cent of the candidates.

### Comments on specific questions

**Question 2** was answered correctly by 31 per cent of the candidates who chose option **B**. 5 per cent chose option **A**, 55 per cent chose option **C** and 9 per cent chose option **D**. Options **B**, **C** and **D** are on the production possibility curve and would be preferred to **A**, but the question asks which would show the highest potential for long run economic growth. The greatest potential for this would be where there were more capital goods that would allow increased production. Option **B** has the most capital goods.

**Question 14** was answered correctly by 29 per cent of the candidates who chose option **A**. 17 per cent chose option **B**, 36 per cent chose option **C** and 18 per cent chose option **D**. The fixed costs are shown as a horizontal line. The sloping lines represent variable costs (starting from O) and total costs (starting from the level of fixed costs) and, as these sloping lines are parallel, so the distance between variable costs and total costs (WX) is fixed costs, option **A**. (Fixed costs could also be measured at YZ but that was not an option.)

**Question 18** was answered correctly by 36 per cent of the candidates who chose option **A**. 23 per cent chose option **B**, 23 per cent chose option **C** and 17 per cent chose option **D**. The imposition of a tax would shift the supply curve to  $S_2$  and the equilibrium to  $Q_2$ . The tax is represented by the distance between the lines  $S_1$  and  $S_2$ . The price of the product rises to the intersection of  $D_1$  and  $S_2$  but the quantity sold decreases. The total increase paid by the consumer is  $U + V$ .

**Question 23** was answered correctly by 22 per cent of the candidates who chose option **D**. 1 per cent chose option **A**, 73 per cent chose option **B** and 4 per cent chose option **C**. In January 2016, the rate of inflation fell from 3 per cent to 2 per cent. The rate of inflation fell but there was still inflation, prices were still rising. The most popular choice was option **B**. It is a common misunderstanding to think that when the rate of inflation falls, prices fall. They do not. When the rate of inflation falls there is still inflation. Prices still rise but at a slower rate than previously.

**Question 28** was answered correctly by 31 per cent of the candidates who chose option **C**. 42 per cent chose option **A**, 18 per cent chose option **B** and 8 per cent chose option **D**. The significant statement is that oil is said to be price-inelastic. There will be a larger proportionate fall in price, than any proportionate increase in demand, when the price of oil falls. Therefore, demand for US dollars to pay for the oil will fall (option **C**).

# ECONOMICS

2281/22

Paper 22 Structured Questions

## Key messages

Candidates do best when they:

- Allocate their time effectively. Answers to the **(a)** parts only need to be brief. The length and depth of answers would then be expected to increase from 'explain' questions to 'analyse' questions and finally to 'discuss' questions.
- Read the questions carefully. It may be useful to underline key words.
- Consider their answers before writing them. Some candidates write confused statements that wander off the point of the question.
- Recognise it is the quality rather than the quantity of words written that is important. While answers to the 'discuss' questions should be of a reasonable length, candidates should be selective in what they include. For example, some candidates seemed to write all they knew about arguments for and against imposing import tariffs in their answers to **Question 3(d)** rather than focusing on reasons why import tariffs might and might not reduce unemployment.
- Give explanations in the 'explain' questions. Some candidates just identify points. For instance, a number of candidates identified two causes of an increase in a country's HDI in answer to **Question 4(b)** but did not explain them.
- Provide relevant links in the 'analyse' and 'discuss' questions. For example, 'a shortage of available new workers' provides the link between 'a fall in unemployment' and 'higher wages' in **Question 5(d)**.
- Answer 'discuss' questions in a direct and structured way, for example use one paragraph for each point. Some candidates produced good answers which made clear from the start what question they were answering and which examined both sides of the question.
- Recognise the difference between total and average variables. For example, in answering **Question 2(d)** what is significant is not whether a larger output will mean higher total costs but whether it will mean higher *average* costs (*per unit sold*).
- Use appropriate economic terms accurately, e.g. do not confuse productivity and production.

**Please note the new instructions for this examination paper from 2020:**

### **Section A**

Read the source material carefully before answering **Question 1**.

Answer **all** parts of **Question 1**.

Refer to the source material in your answers.

### **Section B**

Answer any **three** questions.

Each question is introduced by stimulus material.

In your answer you may refer to this material and/or to other examples that you have studied.

Essentially, candidates must refer to the source material in their responses to **Question 1** in **Section A**, but do not have to refer to the stimulus material in their responses to **Questions 2–5** in **Section B**. The stimulus in **Section B** questions provides a focus, guiding candidates towards the relevant areas of economics that will be required in their responses.

## General comments

The number of candidates who answered more than three optional questions continues to decline. Most candidates answer **Question 1** first and answer the question parts in order which is generally the best approach.

The use and accuracy of diagrams was generally good and candidates seem confident in their application.

There was an increase in the number of candidates who did not number the question parts they answered or did not number them accurately. For example, some candidates answered **Question 5(a)** and wrote **5(a)** at the start. They then answered **Question 5(b)** but wrote **6(b)**.

There was quite an even spread of optional questions selected. **Question 2** was the most popular and **Question 4** the least popular.

The question parts which candidates seemed to find the most challenging were the **(b)** and **(c)** parts in **Section B**. In some cases, candidates did not seem to think through carefully enough what the questions were asking.

### Comments on specific questions

#### **Section A**

##### **Question 1**

Most candidates made good use of the extract / source material and most coped well with the 'discuss' questions.

- (a) Most candidates were able to identify two factors that influence an individual's choice of occupation. Candidates need to spend their time wisely by not giving more than two factors, not writing a lot about the significance of two factors and not quoting the extract at length without clearly identifying two factors.
- (b) Candidates tend to understand opportunity cost and have the ability to apply it in different contexts. All candidates need to understand the idea that something has been given up / forgone in favour of something else.
- (c) Some candidates calculated the figure accurately. Others used the right method, but thought the answer was 2560 rather than 2.56 million. A few calculated 4% of the labour force rather than 4% of those in employment. Candidates should be aware that often, when there are 2 marks for a calculation, 1 mark can be awarded for a correct method even if the answer is wrong so it is beneficial for candidates to show their workings.
- (d) A number of candidates produced strong answers to this question, showing a good understanding of influences on the size of a country's population. Most candidates recognised that the birth rate had fallen and explained a reason why. Others needed to study the extract/source more carefully because they did not pick up on the reference to 'the fall in the death rate'.
- (e) Some excellent answers examined the data to conclude that most of it indicated an inverse relationship between the average hours worked and productivity. Evidence was provided, an explanation given and an exception was recognised. Other candidates need to understand that a descriptive approach, such as 'average hours worked per week were approximately 28 hours and productivity was \$65 in France while average hours worked were about 26 in Germany and its productivity was \$68' was not appropriate. Some candidates also need to look at the data very carefully so they find trends and exceptions about the relationship asked for, in this instance average hours worked and productivity.
- (f) A high proportion of candidates provided good links between a cut in income tax and a change from deflation to inflation. Within these links, there was good use of economic terminology including 'disposable income' and 'demand-pull inflation'. Quite a lot of candidates went on to discuss reasons why a cut in income tax might not be effective in increasing the price level. Particularly good awareness was shown of how confidence can influence consumer spending and saving.
- (g) There were a number of perceptive answers with some interesting comments about how both demand and supply of labour had been increasing in line with each other and the impact of low economic growth. Fewer candidates referred to the priority of trade unions, but those who did often explained the impact on wage rises in a clear way. Other candidates needed to develop their

reasoning as to why wage rises have been low in Japan while demand for labour had been increasing.

- (h) There were some strong answers to this question, with candidates exploring the impact of employing more migrant workers on, e.g. the size of the labour force, productivity, total demand and tax revenue. Most candidates considered both the reasons why Japan may benefit and why it may not. There were some particularly good comments on the effect on Japan's balance of payments of migrant workers sending money home to their relatives. A few candidates focussed on possible social impacts instead of the economic impact.

## Section B

### Question 2

This was the most popular question. Those who answered this question tended to find part (b) the most challenging.

- (a) Most candidates could identify two relevant types of business organisation that operate in the private sector. Other candidates need to improve their knowledge of the private sector and not only learn names of firms that operate in it.
- (b) Good responses recognised that demand would become more elastic because of the effect of more firms on the level of competition, choice and power it gives consumers to switch between substitutes. Some candidates limited their answer to the impact on the number of substitutes, but all candidates need to be clear on the difference between elastic and inelastic demand.
- (c) Most candidates drew clear, accurately labelled diagrams and provided strong written analysis. Many candidates correctly recognised that tyres are a complement of cars. Some candidates need to check the focus of the question, the market for tyres in this instance, and some need to practice correct labelling of their diagrams.
- (d) There were some strong discussions based on the significance of economies and diseconomies of scale, the impact of greater market power and the possible reasons why small firms may be able to experience more profit per unit sold. Some candidates need to learn to be precise about e.g. economies of scale resulting in lower *average* costs of production and appreciate the difference between total and average costs of production and revenue. The ability to read questions carefully is also essential because some candidates mistakenly wrote about large firms producing more and so having higher total costs and selling more and so having higher total revenue.

### Question 3

Candidates performed best on the (a) and (d) parts of this question.

- (a) The two most common methods identified were quotas and embargoes. Some candidates need to revise methods of trade protection other than tariffs.
- (b) Those candidates who answered the specific question often provided clear and well-focused answers. Some candidates need to read the question more carefully so the focus of their response is correct because they only wrote about price changes without considering how demand and supply would adjust, or wrote about what causes surpluses and shortages not their elimination.
- (c) Most candidates recognised that improvements in education would result in more skilled workers. A number went on to consider the impact on the types of jobs people do particularly in terms of the sectors in which they will work. Again, if some candidates read the question more carefully they would have focussed on the *pattern* of employment.
- (d) There were some very strong answers which explored the impact of tariffs on unemployment by considering how these may affect price, demand for imports, demand for domestic products and tax revenue. They also considered the impact on unemployment in infant and declining industries. There was some good discussion of the risk of retaliation, the impact on costs of production arising from more expensive raw materials and capital goods, and the possibility of a lack of domestic substitutes.

#### Question 4

This was the least popular question. Candidates found **part (d)** particularly challenging.

- (a) Most candidates recognised that capital goods are used to produce other goods and services. A relatively high proportion of candidates gave an example but this was not required.
- (b) Most candidates explained how an improvement in education and healthcare could increase a country's HDI. Other candidates could improve their performance after identifying two causes by explaining them precisely, for example referring to an increase in income per head and not a rise in total income.
- (c) Many candidates understand production possibility curves and can apply them in different situations; most diagrams were labelled correctly and most curves were drawn to the axes. The accuracy of the diagrams tended to be stronger than the written analysis. A relatively high proportion of candidates need to understand the difference between a decrease in productive capacity and a decrease in output.
- (d) A lot of excellent responses discussed differences in demand, education, healthcare and productivity and explored some interesting points, e.g. differences in motivation to increase GDP and how a given rise in GDP from a low basis would generate a faster economic growth rate than one from a higher basis. Some candidates need to revise this topic more thoroughly.

#### Question 5

This was a reasonably popular question but some candidates did not consider key words in **parts (b), (c) and (d)**.

- (a) Most candidates were able to identify two supply-side policy measures. The three most common measures identified were education, training and a cut in income tax.
- (b) There were some good answers. A number of these concentrated on a more progressive tax system and increased spending on state benefits. There were also some good explanations on the effect of introducing minimum wages which actually went beyond the syllabus, but relevant economics is always welcomed and rewarded. Some answers were restricted because they did not specifically relate to relative poverty.
- (c) Some answers provided clear analysis of the reasons why small shops may be easy to set up. The strongest analysis tended to relate to the relatively low cost involved, the relative ease of raising finance and the possibility of gaining government subsidies. Some answers concentrated on why small shops are easy to run rather than set up so included analysis irrelevant to this question.
- (d) Strong answers explored the impact on the output of firms, demand for that output, costs of production and the ability of firms to expand. There was some good discussion on how a fall in unemployment may strengthen trade unions in their negotiations with firms. Some candidates need to understand more about the impact of a fall in unemployment on productivity because they confused productivity and production and also suggested incorrectly that a fall in unemployment meant an increase in the labour force. It is important for candidates to recognise that the unemployed are included in the labour force. Again, it is important for candidates to find the focus of a question, in this instance firms.

#### Question 6

The performance on this question was generally good. Most candidates coped better with the **(b)** part than on other questions and there were some strong answers to **part (d)**.

- (a) Most candidates were able to identify two reasons why market failure occurs with the existence of external costs and abuse of monopoly being popular choices. The focus of this question was market, not government, failure.
- (b) The vast majority of candidates were able to explain how both the private and public sectors allocate resources in a mixed economic system. There were some particularly good explanations about what each sector is seeking to achieve when deciding how to allocate resources.

- (c) There were some good answers which analysed: the increased price of basic necessities; how state benefits may not rise in line with inflation, how the real value of any savings used by the poor to finance healthcare, for example, may decline and how cost-push inflation may result in some low-paid workers losing their jobs. Some candidates could identify some of the consequences of inflation but need to expand their knowledge, or read the question more carefully, so they go on to analyse them in relation to the poor.
- (d) Most candidates showed good awareness of government aims for the economy and the effectiveness of an increase in government spending to achieve these aims. There was some particularly good discussion of how an increase in government spending on education and infrastructure could help to achieve a reduction in unemployment and an increase in economic growth. Policy conflicts were also well examined, especially in terms of the risk of creating demand-pull inflation and damage to the environment. Maintaining the focus of a discuss question through to the end of an answer is something that candidates must practice so that they can improve their performance in the future. This can be helped by making a brief plan of the answer. This would not waste time in the examination and might well help a candidate to achieve full marks for a question.

### Question 7

This was a popular question. There were good answers but some lack of precision.

- (a) A relatively high proportion of candidates gave the accurate formula for PED. Others need to concentrate to ensure they are precise and learn textbook definitions of key terms and concepts so they are able to gain these easily accessible marks.
- (b) A number of good answers focused on a decrease in demand due to greater awareness of the health risks of eating sugar and an increase in supply of sugar due to a fall in the costs of production. Again, precision in the use of key terms would have benefitted some candidates as would development of explanations for both reasons.
- (c) Some candidates adapted their knowledge of fixed costs well to answer this question and included good analysis of how an increase in the scale of production, greater cost of insurance, a higher interest rate and inflation may increase a producer's fixed cost. Less precise responses were about costs in general and/or variable costs.
- (d) There were some excellent and interesting answers with most concentrating on specialisation in sugar. These answers explored reasons why a country might be able to produce sugar at a low average cost and attract a high number of buyers, as well as the disadvantages and risks involved in devoting a high proportion of the country's resources to sugar production. Some candidates need to develop understanding that a country may concentrate its resources on one or two major industries but division of labour may, or may not, be used within those industries.