

# ECONOMICS

**Paper 2281/12**  
**Multiple Choice**

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

## General comments

The questions for which most candidates selected the correct answer were **Questions 1, 3, 14, 20, 21, 22** and **30**. These questions were answered correctly by 70% or more of the candidates.

Three questions were answered correctly by fewer than 40% of the candidates. These were **Questions 5, 27** and **29**.

## Comments on specific questions

### Question 5

**Question 5** was answered correctly by 28% who chose option **C**. 6% chose option **A**, 15% chose option **B** and 51% chose option **D**. High prices and low investment may well occur in market systems however their existence does not mean that there is market failure. A lack of competition and, as a result, the possibility of a monopoly could well lead to an inefficient allocation of resources. This would be a market failure.

**Question 27**

**Question 27** was answered correctly by 35% of the candidates who chose option **A**. 31% chose option **B**, 20% chose option **C** and 14% chose option **D**. Those who chose option **B** confused the trade in goods (visibles) with the trade in services (invisibles). Tea in option **B** is trade in goods. Although in option **A** Ugandan exports are being carried, it is the service of transport (invisible) that is being provided by Kenya.

**Question 29**

**Question 29** was answered correctly by 29% of the candidates who chose option **D**. 21% chose option **A**, 18% chose option **B** and 32% chose option **C**. The question asked about a rise in the deficit on the current account of the balance of payments, that is, what would make the deficit worse. This could happen if payments into the country decreased, or it could happen if payments out of the country increased. Option **B** was a decrease in the payments into the country and would therefore cause a rise in the deficit on the current account of the balance of payments.

# ECONOMICS

---

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

## Key messages

- Candidates need a good understanding and knowledge of international trade because it can help to give greater depth to answers to questions concerning general micro and macroeconomic performance, such as **Question 4(d)**, as well as to specific international trade questions.
- Candidates can provide short answers to the **(a)** parts of questions. For all other questions, it is important that candidates explain the points they make. For example, a good response to **Question 3(b)** is: *Better quality of education provided (identification) makes people more skilled so able to produce more in a given time (explanation). Technical advances (identification) make machines more efficient so can produce more output in less time (explanation).* In contrast, a weak answer is: *Productivity may increase because of specialised workers (identification) and higher wages (identification).* There can be no reward for explanation in this answer.
- Lack of explanation is even more significant in answers to the **(c)** and **(d)** parts of questions. An example of a poor response to **Question 1(h)** is: *People who become unemployed will not get another job.* This may or may not be true, but the point must be established by *explaining: some people who become unemployed may find it difficult to get another job as they will become deskilled.*
- Candidates must consider the stimulus to each question in **Section B** because it gives context, e.g. 'most of Mali's workers are employed in agriculture' provides context for an answer to **Question 4(b)**.
- It is also important that candidates apply their knowledge and understanding to answer the specific question set. For example, in response to **Question 4(d)**, a number of candidates wrote about the advantages and disadvantages of a country specialising. Greater specialisation might or might not have resulted from an increase in the size of a country's gold mining industry increasing but this is only one possible consequence. In answers to **Question 7(d)**, some candidates focussed more on how supply-side policy measures could increase economic growth, rather than specifically on how they might or might not lower average costs of production.
- When a question asks for analysis of data in a table, e.g. **Question 1(e)**, candidates should first explain the expected economic relationship for the data presented in the table. They should then consider the data provided and whether it follows the expected pattern. To answer the question, candidates must analyse how/why the data provided meets, or is an exception to, what is expected. Candidates can provide an example of an expected relationship, an exception, or a trend shown in the data to help to explain their analysis. They should consider a trend over the time period given, not just describe the numeric differences shown.

## General comments

Some candidates change their answers either by adding extra comments at the end of the answer booklet or crossing out and re-starting or starting a different question. It is understandable that candidates may make changes to their answers or change their minds, but they should be encouraged to take the time to carefully read and consider the question, *and plan how they can answer it*, before they start to write anything. When a change is necessary, candidates should indicate clearly that there is extra work later in the answer booklet so that Examiners can immediately go to the extra work and take it into account when awarding marks. Should a candidate wish to cross out work, they should simply put a diagonal line through it.

## **Comments on specific questions**

### **Section A**

#### **Question 1**

- (a) Many candidates identified two pairs of substitutes from the extract such as driverless cars and bus travel. Less successful candidates identified pairs not in the extract and/or explained why the pairs were substitutes, which was not required.
- (b) Most candidates recognised that supply was expected to exceed demand and were able to relate this to the market not being in equilibrium.
- (c) Most candidates were able to calculate the PES of 2.5 as  $20\% / 8\%$ . Some candidates got the wrong answer because they used the formula for price elasticity of supply the wrong way round. It is important for candidates to learn basic formulas and definitions.
- (d) A number of candidates did not read the question carefully enough so wrote about benefits not costs. The majority who answered the specific question only identified two external costs so did not gain marks for explanations. The best answers provided clear explanations, particularly of the reduction in pollution and accidents.
- (e) Strong candidates used the correct approach and provided clear analysis of the relationship between educational spending and unemployment rate. A number also mentioned other influences on unemployment. Less successful candidates needed to refer to Table 1.1 and/or go beyond listing the figures from the table without any interpretation.
- (f) Good answers discussed both sides of the question. There was some particularly good analysis of the possible impact on employment, economic activity and the environment. Less successful candidates needed to use a wider range of social effects and apply economic theory.
- (g) Some candidates were able to explain how two of the reasons referred to in the extract could reduce the power of trade unions. Other candidates needed to explain the reasons they used and the government reducing the power of trade unions needed to be better explained.
- (h) Most candidates considered first why a rise in unemployment may be harmful and then why it might not. This gave a clear structure to their answers. There were some particularly good comments on the effect of unemployment on the government's budget, worthy of maximum marks on one side of the discussion, for example: *A rise in unemployment is harmful because the government will have to give out more state benefits. The government will spend more and receive less, since they would earn less tax revenue. This could lead to a budget deficit.*

### **Section B**

#### **Question 2**

- (a) Most candidates identified two relevant reasons. Weak answers simply stated: *They have high life expectancy*. This was not rewarded as it is just rewording the question.
- (b) Many candidates identified and explained two relevant reasons. A small proportion of candidates mistakenly wrote about the reasons why people may emigrate.
- (c) Most candidates understood what is meant by fiscal policy and some produced perceptive answers, analysing both the impact of lower taxation and higher government spending. Strong links were provided to total demand and total output/GDP. Some candidates needed to be clear about the difference between fiscal policy and monetary policy.
- (d) Candidates made some good points based on sound economics which linked concepts such as improved healthcare with longer life expectancy. An example of a strong answer to one side of the question was: *Low income countries have high birth rates because people want children so they can work and contribute to the family's income. They can help their parents when they are old if no welfare payments are provided by the government.* Other answers were too vague and needed to include economic analysis.

### Question 3

- (a) A number of candidates were confused about the effects of increases in income tax and cuts in wages on saving. These candidates needed to recognise that if disposable income falls, both consumer expenditure and saving are likely to fall.
- (b) Candidates need to understand the difference between productivity and production: these are key terms.
- (c) The most successful candidates produced clear analysis, exploring the impact on both demand-pull inflation and cost-push inflation. Some candidates analysed higher savings rather than investment, reinforcing the need to learn the difference between such key terms.
- (d) There were some interesting and well-argued answers based on a good understanding of the possible causes of the wage differential between young and older workers. Only weak answers contained personal opinions of older and younger people.

### Question 4

- (a) Most candidates were able to identify the education (mean and average years of schooling) component of HDI. Some candidates needed to be clearer with their second component of HDI, for example stating GDP per head rather than just GDP.
- (b) Most candidates showed a good awareness of how resource allocation is likely to change as an economy develops. There were some good comments on the influences of technology and education on resource allocation.
- (c) Strong answers produced clear and accurately labelled diagrams and relevant written analysis on the reasons for and effects of the increase in the supply of cotton shirts. Some candidates made errors on the diagram and a small number of candidates did not draw a diagram or analyse why supply would increase.
- (d) Strong answers used references to living standards, economic growth, employment and the current account of the balance of payments. There were also some interesting comments about the possible external costs that might arise and the poor working conditions which might exist in the industry. Some less successful candidates gave only brief answers.

### Question 5

- (a) Soil and water were the two most common examples given. Some candidates were unable to give two relevant answers.
- (b) Some candidates discussed price elasticity of demand rather than price elasticity of supply while others confused elastic and inelastic supply. A number of candidates wrote in general about price elasticity of supply which did not answer the question. It is important for candidates to read the question set carefully and then use the key concepts that they have learnt accurately.
- (c) Most candidates could relate the influences on demand to why demand for a product may be higher in one country than in another country. Some candidates need to be clear about the differences between influences on demand and influences on supply, and appreciate whether a given supply is accompanied by a high or low demand depends on the influences on demand.
- (d) Some answers recognised the importance of the price of basic foodstuffs for the poor and other arguments for and against government intervention in the market. The main form of government intervention discussed was a subsidy. A good answer to one side was: *Food like rice (necessity) is bought in higher proportion by the poor in comparison with the rich. Government should give subsidies to firms producing these types of food. Firms with lower cost of production could increase output and lower prices so more people can afford it.*

### Question 6

- (a) The majority of candidates accurately identified the differences between an export and an import.
- (b) Only some candidates realised that demand would probably increase but they needed to go on to relate the rise in demand to the country's trade in goods balance.
- (c) A relatively high number of candidates need to understand how a rise in a country's foreign exchange rate would affect export and import prices. More successful candidates appreciated that export prices would rise and import prices would fall and went on to provide strong links to a change in the unemployment rate.
- (d) The strongest answers considered the impact on both the external and internal economy. There was some good discussion on why a reduction in the price and a rise in the quality of a country's products do not guarantee a rise in exports. Less successful candidates needed to expand their answers by making it clear why this might be the case: *Government should not subsidise its exports as they will gain less than they intend to*, is insufficient.

### Question 7

- (a) Most candidates could identify two relevant characteristics. Some less successful candidates need to be clear in their identification of characteristics, for example no barriers rather than low barriers to entry and many sellers rather than several sellers.
- (b) The three main goals referred to were profit maximisation, growth and survival. Most candidates explained the goals they identified.
- (c) There was some good analysis, particularly of the influence of the motives of the owners and the size of the market. Less successful candidates needed to analyse the causes of differences in size, rather than how the size of the firms is measured.
- (d) More successful candidates discussed how a range of supply-side policy measures could reduce average costs of production. They went on to assess whether these measures would always be successful. Less successful candidates needed to provide more links between the supply-side policy measures and average costs of production, rather than just stating they would reduce costs of production, and then discuss how this would affect the macro economy. A few candidates only discussed the effects of lower costs of production and did not mention any supply-side policy measures.