Examiners' Report/
Principal Examiner Feedback

Summer 2012

International GCSE Economics (4EC0)
Paper 01

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International GCSE Economics 4EC0/01 June 2012

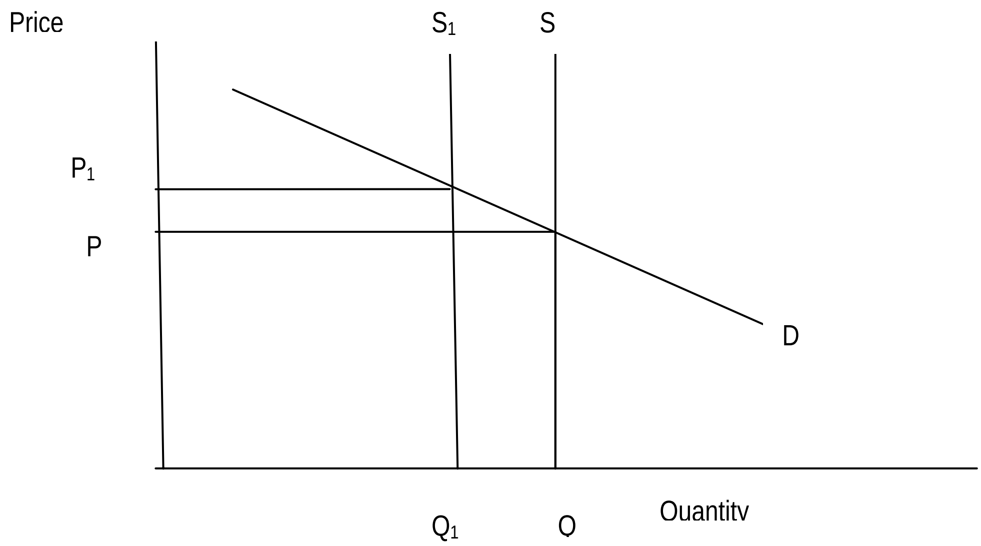
The second June session of this examination produced some exceptional scripts. However it also produced some mistakes which we have seen in the past.

- Candidates failed to read the question e.g. in Question 4(a)(iii). The question asked for advantages and disadvantages of a trading bloc for firms but some candidates wrote of economies and consumers.
- Failure to attempt every question. No attempt = zero marks.
- Repeating the answer to previous questions e.g. Question 1 (b)(ii). By defining price inelastic which was required in (b)(i) the candidates wasted valuable time.
- Some careless mistakes could have been avoided if candidates had taken time to study data. In Question 3 (a)(iii) many gave figures other than -2.8% e.g. 3%.

Teachers should bring mistakes to the attention of candidates' not just examples of good practice.

Question 1

(a)(i)(iv) A minority labelled the demand and supply curves incorrectly so scored zero. The correct completed diagram achieving 4 marks should have looked like the following:



(a)(v) Few problems.

(a)(vi) The most popular incorrect response was "there is no opportunity cost".

(b)(i) Too many defined price elasticity of demand and not *price inelastic demand curve.*

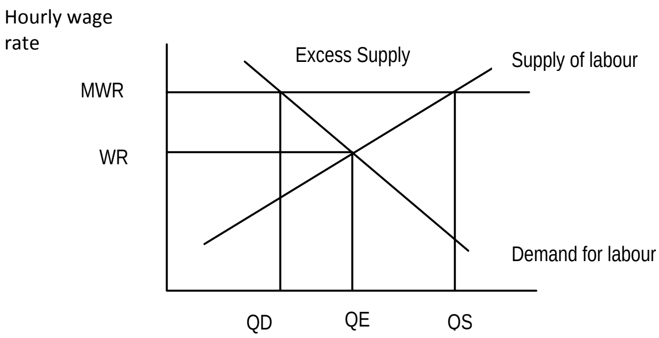
The correct response should have been simple and concise:

"A given percentage change in price will lead to a smaller percentage change in quantity demanded. If price increases total revenue increases. If price falls total revenue falls."

(b)(ii) Most candidates could explain why flour is inelastic and why chocolate is elastic. Better candidates could look at the conditions which might make flour more elastic and chocolate less elastic.

"I agree that it is likely that demand for flour is likely more price inelastic than the demand for chocolate. This is because flour could be seen as more an essential good (as a food staple) whereas chocolate is more of a luxury. There are also several goods that could be substitutes for chocolate – wine, sweets etc. However, there are also several substitutes for flour, which people could switch to if the price went too high, examples might include: potatoes and rice. For some people who are addicted to chocolate it may become a necessity with an inelastic demand curve. I would conclude by saying that it not easy to pigeon hole these two items as to whether they are price elastic/inelastic."

(c)(i) The correct diagram is as follows:



(c)(ii) Some confused trade union *"group of workers who join together to improve wages and working conditions"* with a trading bloc.
(c)(iii) Fewer problems with mixed economy *"an economy in which there exists a government (public) sector and a market (private) sector."*
(c)(iv) Too much attention given to the ways in which a trade union can bring pressure to bear on employers and not enough on why trade unions might succeed or fail to increase wages and avoid unemployment. A good response is shown below.
"Trade unions use collective bargaining to try to increase wages. They can put pressure on firms to increase wages by threatening industrial action e.g. strikes. However if wages increase the firm faces increased costs. If these are passed on to the consumer demand will fall, if they are absorbed by the firm profits will fall so the firm may decide to reduce the number of workers. If the workers can be replaced by machines then it may become more cost effective to do so as wages rise.
Trade unions are strong if they represent the majority of workers in the firm and if the economy is booming. In these circumstances the trade union may be able to increase wages and maintain employment. However in times of recession the trade union will find it difficult to protect jobs let alone increase wages."

Question 2

2(a)(i)(ii) Vietnam is a developing country. To explain the candidates had to refer to <u>changes</u> in the percentage GDP per sector.

"In Vietnam, a developing country, the primary sector from 2000 to 2009 is still large (24%) but falling in importance (21%) while secondary and tertiary both grew."

(a)(iii)(iv)(v) Few problems.

(b)(i) the usual confusion between "production" and "productivity".

(b)(ii)(iii) The most common mistake was when candidates referred to either changes in GDP or employment but didn't understand that productivity required the relationship between the two.

"The primary sector employs 52% yet it only produces 21% of GDP. This shows inefficiency and low productivity in the sector. The secondary and tertiary sectors have higher productivity e.g. the secondary sector provides 40% of GDP with only 20% employment."

(b)(iv) *"I would agree with this to a limited extent. In the secondary sector productivity can be increased by division of labour which can lead to the greater use of machinery. When the workers are trained to use the machines then fewer workers are need but more is produced.*

Similarly in the primary sector more machines can be used e.g. tractors and fewer workers employed but the primary sector depends on factors outside the control of man e.g. the weather. So even if a farmer uses fertilisers and the latest farming methods the yield can be destroyed by drought or flood and so productivity is reduced.

So in some circumstances it is true to say that it is easier to increase productivity in the secondary sector but if good conditions prevail it may be that in the primary sector productivity can increase simply by better harvests on the other hand productivity can fall just as easily!"

(c)(i)-(iv) Few problems except it would appear candidates who had not understood the question stem at the beginning confused public limited company with the public sector.

(v) Most candidates gave both advantages and disadvantages with the better candidates mentioning the role of the government.

"Monopolies have both advantages and disadvantages for consumers. One advantage is that monopolies, since very profitable, can invest heavily in research and development, improving their products and thereby provide better and improved quality products. They may also sell the products at a lower price, for their average costs may reduce due to economies of scale. Monopolies are price makers and produce unique products, therefore, consumers have less or no choice and have to pay high prices. Since the monopolies have no competitors to compete with them, they may also cut back on research and development as it is after all a cost and consumers are forced to buy the good as no substitutes are available.

Overall the existence of monopolies may be bad to consumers as they have no competition. However, there are also acts and government policies that are used against unfair monopolies examples are the Consumer Protection Act and the Office of Fair Trading."

Question 3

(a)(i)(ii)(iii) In (iii) candidates made some minor mistakes e.g. not stating economic growth was negative and also not stating the correct figure e.g. -2.9% instead of -2.8%!

(a)(iv) The most common incorrect choice was "Frictional" instead of "Cyclical".

(a)(v) Explanations of falling economic growth, falling GDP, unemployment were not acceptable. Instead candidates could have responded with *"falling standard of living"*, "*closure of businesses*" and "*government budget deficits*" but NOT balance of payment deficits.

(b)(i) Taxation and government expenditure is called Fiscal policy!

(b)(ii) Few problems encountered with this question.

(b)(iii) Some well thought out responses.

"Reducing direct taxes (e.g. income tax) will give individuals more money in their pockets to spend. The demand in the economy will only occur if the people go on and spend the money on more goods and services. To do this people must have confidence to spend. Otherwise they are likely to store the money away in banks until such time as they have the confidence to spend and invest again. We have seen this in UK business in the last few years as business and banks sit on profits and equity after the 2008-9 recession rather than investing it. To create demand a government not only needs to reduce direct taxes but also create confidence. By reducing indirect taxes rather than direct taxes goods and services would become cheaper so this could also create demand as more people may be able to afford them. However if the goods necessities or worse imports then demand will not increase very much within the economy.

A government should consider reducing both to be confident in increasing demand in the economy."

(b)(iv) Most candidates managed to identify two main items.

(b)(v) Candidates could give lots of examples of government expenditure but did not develop their responses nor attempt to question if it would always reduce unemployment. A good response is shown below.

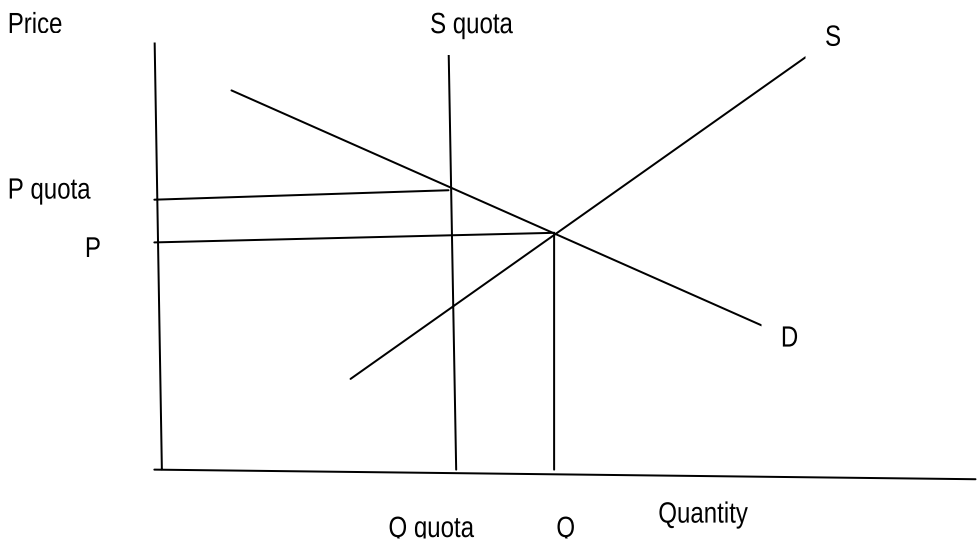
"It can be expected that an increase in government expenditure would decrease unemployment in the short-run. This is because, as a component of aggregate demand, government expenditure on helping businesses e.g. by subsidies enables businesses to supply more and they may, in turn, employ more people. Government may also decide to directly employ people e.g. building roads, hospitals, which will have a very clear effect on the unemployment rate.

However, if increased government spending is on unemployment benefits then this may discourage workers from finding employment.

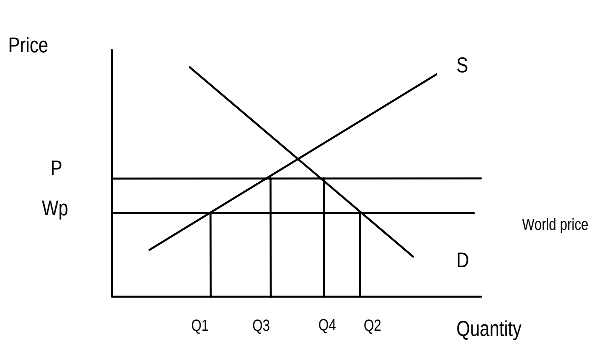
If the spending is financed through higher taxes, this can be a drain on the economy and actually reduces aggregate demand (the consumer element). Also, if the spending is financed through borrowing future generations will have to pay this back through higher taxes in the future – which will likely lead to higher unemployment in the future. These higher taxes may also be a disincentive to work/production. Government will have to carefully balance short and long term prosperity."

(b)(vi) As always supply side policies seem neglected and many candidates failed to identify two of them.

Question 4
(a)(i) No major problems.
(a)(ii) Candidates who failed to read the question and therefore failed to see that it referred to consumers failed to score marks.
(a)(iii) As in (a)(ii) candidates who failed to read the question and ignored the reference to “firms” failed to score.
“When a country joins a trading bloc, the production of firms increases due to the larger market and increased demand due to free trade. Therefore they are likely to experience economies of scale because production increases and average costs reduce. Free trade increases the competition within the trading bloc, therefore firms increase efficiency and produce quality goods at lower costs. Even though advantages exist certain disadvantages occur. When countries are in trading blocs, local firms may face competition from large, powerful ones. As a result, local firms may have to shut down due to the fierce competition. Even the large firms may face problems as increased production may lead to diseconomies of scale and the firms' average costs will start to increase. In my opinion a firm may benefit from a trading bloc if there is no fierce competition or if the firm can adjust and compete successfully.”
(a)(iv) Some candidates incorrectly identified giving finance to countries as a function of the WTO.
(b)(i) Two diagrams were acceptable. The simplest diagram is shown below
1



2
A simple explanation plus the above diagram achieved full marks.
“The government imposes an upper limit on imports (S shifts from S to S quota) so price also rises (P to P quota) leading to a fall in demand.”
A more complicated diagram was also acceptable.



"The domestic producers supply Q1 but the demand is Q2 so imports = Q1 to Q2
If the government imposes a quota Q3 to Q4 then the domestic producers will now supply Q3 so prices rise to P."
(b)(ii)(iii) If candidates chose anything other than Diagram B then their explanation scored zero.
(b)(iv) Definitions of quotas and tariffs achieved no marks as they had been previously asked for in (b)(i) and (iii). Instead candidates had to compare the two and reach a reasoned decision.
"Yes quotas are more effective in reducing imports. This is because to hope for a reduction on imports through a tariff is highly dependent on price elasticity of demand. If the commodity is elastic, then a tariff can be effective, however if the commodity is inelastic, the consumers won't reduce their demand by very much and the importers will continue importing. However quotas impose a limit on how much can come into a country. No matter how much is demanded there is an upper limit to how much can be imported whereas with a tariff more can be imported as long as consumers are willing to pay a higher price. The quota not only limits supply but also leads to an increase in price so consumers are hit twice."
(b)(v) The main problem occurred when candidates identified quotas and tariffs which scored zero because they had not read the question.

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