

Edexcel IGCSE

Economics

4350

November 2006

advancing learning, changing lives

Examiners' Report

Contents

Paper 1F.....	3
Paper 2H.....	8
Paper 03.....	14

Economics IGCSE 4350 Paper 1F
November 2006

The first autumn session of this paper produced a small number of candidates so the scope for feedback using examples from their work is limited and generalisations have limited value. However, as with the summer session, the candidates entered at this level were those who would have found the Higher level too challenging. This paper, weighted towards testing knowledge, understanding and application, allows Foundation level candidates to fulfil their potential and the best candidates amongst them to achieve a C grade.

The common mistakes mentioned in the summer report were also present in this examination.

- Too many answer spaces were left blank. Candidates should try to attempt every question.
- Imprecise definitions i.e. candidates using their own words led to confusing statements.
- Requests to refer to the data or give examples was often ignored.

As with any new examination, candidates should be guided through past papers. There are now two papers and two reports at each level with which teachers can familiarise themselves and their students on the requirements of this new examination. Hopefully, as teachers become more confident with the specification and the assessment criteria, the students will improve their understanding of the subject and their examination technique.

Question 1

(a) All parts of this question required candidates to use the information in Figure 1a. However, some candidates ignored this instruction and lost marks.

(i)(ii) Instead of giving the correct responses (i) 2NZ\$ and (ii) 50,000kg some stated that the *"equilibrium price could be found at the intersection of demand and supply"* and that the equilibrium quantity demanded and supplied could be found at the *"equilibrium price"*.

Marks were awarded to candidates who correctly showed the equilibrium price and quantity on the diagram.

(iii) Too often candidates gave the results of a shift of supply and demand rather than the factors which cause these shifts. Teachers must emphasise the difference between "factors," which cause shifts, as distinct from "results" of the shifts .

(iv) Candidates should have looked at Figure 1a and used the figures to give the following.

Price: NZ2\$	Quantity: 50,000	Total Revenue: NZ\$100,000
--------------	------------------	----------------------------

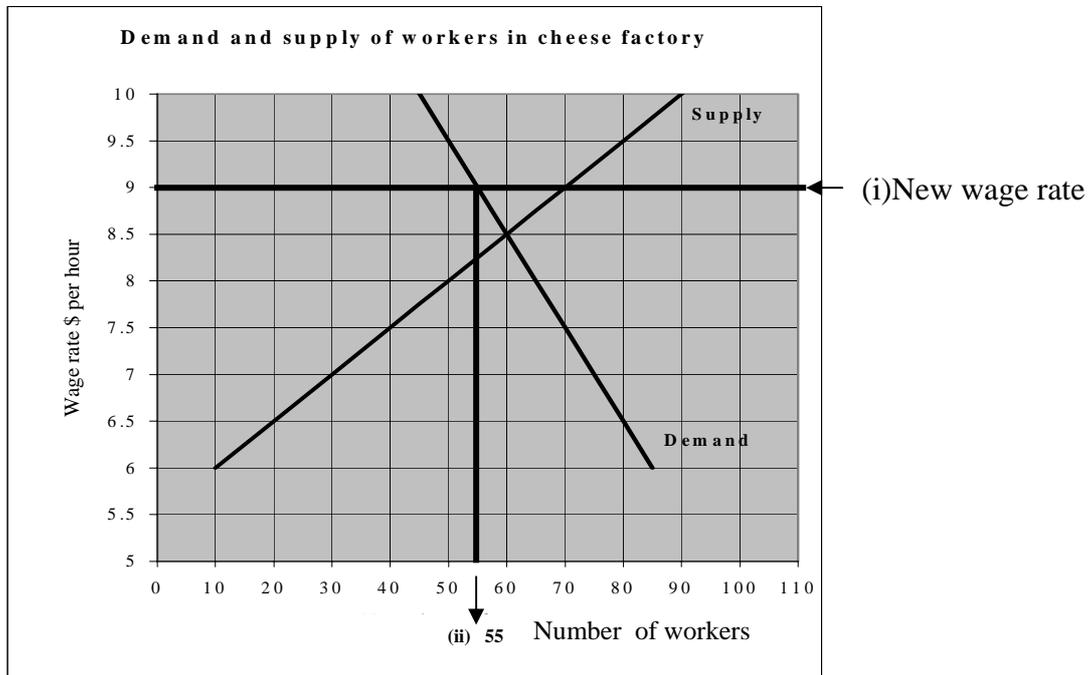
Price: NZ1.5\$	Quantity: 60,000	Total Revenue: NZ\$90,000
----------------	------------------	---------------------------

Therefore as price falls total revenue falls.

In most cases the calculation was incorrect and several omitted to give the change in total revenue.

(v) If candidates understand elasticity they should know that when price falls and total revenue falls, elasticity of demand is inelastic. Few candidates answered this correctly.

(b) Candidates were required in parts (i) and (ii) to show the new minimum adult wage rate and the number of workers employed at the minimum wage on Figure 1c. The correct responses are shown below.



(iii) Using the information on Figure 1c the correct response should have been: 5 workers (60-55).

(iv) Most candidates gained one mark for reasoning that older workers are more skilled but failed to gain the second mark by giving a valid explanation i.e. young workers have to be trained. Good responses were given e.g.

"The reason is that the adults are more experienced while the youths are still in the training stage."

(b) (i)(ii)(iii) Too many candidates had little knowledge of the reasons for and the effects of minimum wage rates so failed to score on any parts of this question. Despite clearly being shown in figures 1b and 1c some candidates assumed that a minimum wage rate meant that the government introduced a wage rate below the market equilibrium. Candidates were not penalised for this incorrect assumption but because of their lack of knowledge their responses were poor. Part (iii) required a balanced argument:

"An advantage is that a minimum wage will increase the standard of living of low paid workers as they will have more to spend. They may even work harder as they will be motivated by the increase in wages. However, there are disadvantages as firms will see their costs increase and may have to make some workers unemployed. I think it will depend on how many workers are unemployed and if they can easily find other jobs."

Question 2

(a)(i) Most candidates could give a correct example of primary industry. Unfortunately, too many failed to give a correct explanation of primary sector.

(ii) Candidates used Figure 2a and usually gave the correct percentages employed for the two countries.

(iii) This question required candidates to apply their knowledge and some found this quite difficult so left the question blank.

(b)(i) The four factors of production should be known by candidates. Surprisingly few could explain capital and enterprise.

Capital: goods used to produce other goods. (Money used to purchase factors of production was also allowed.)

Enterprise: organises factors of production and bears the risk.

(ii) Many candidates were confused between productivity and production. This led to answers which gave ways of increasing total production not increasing productivity. Productivity of labour = amount produced per worker (Total production/number of workers)

Total production = total amount produced by all factors of production.

Responses which included "increasing the number of workers" were incorrect.

Good responses would have been,

"If the wage rate is increased it will motivate the workers to produce more."

"If workers are trained and become more skilled they will produce more."

(c)(i)(ii)(iii) Those candidates who could correctly define external costs and give an example usually went on to explain two ways in which a government can reduce them.

(iii) *"Governments can make laws to control the pollution made by firms and give them a limit on how much waste can be released into the environment. This will discourage firms but it may also slow down economic growth.*

The government can encourage firms perhaps by grants to develop new technologies which reduce pollution. However this might still be costly to the business and they may reduce production and this may cause unemployment."

Question 3

(a)(i) A simple definition was required, *"number of workers without a job who are willing and able to work expressed as a percentage of the whole population"*.

(ii) Figure 3a was understood by the majority of candidates and the correct answer, 2001, given.

(iii) Another definition required but too often this was left unanswered.

(iv) A simple task of identifying the type of unemployment - seasonal, but still some candidates failed to recognise this from the information given in the question.

(b)(i) Supply side measures are included in the specification but appear to cause problems to candidates. At Foundation level candidates simply leave questions

blank when they encounter topics with which they are unfamiliar. The question asked for one measure. This should have led candidates to the most popular and well known measure - training. The explanation of how this reduces structural unemployment should then have been straightforward.

"Training gives workers new skills which will enable them to find jobs in industries which are expanding rather than closing down."

(ii) Other policy measures could have included grants to firms to start up in areas of high unemployment.

(c) (i) Negative economic growth indicates recession. As 2002 appears to be zero and 2003 and 2004 negative any of these answers was acceptable.

(ii) Once again the inability to provide an adequate definition prevented some candidates from achieving marks for this question.

(iii) A good response included both the advantages and disadvantages (gains) of economic growth.

"Economic growth means higher production and therefore lower unemployment. It usually leads to an increase in the standard of living for the people of the country. However, it can lead to pollution e.g. air and rivers and the depletion of non-renewable resources e.g. oil. It will depend on how well a government controls the disadvantages like pollution as to whether or not the gains will outweigh the disadvantages."

Question 4

(a)(i) Yet again candidates struggled with a set of definitions which should have produced succinct, precise responses.

(ii) Most candidates knew that the WTO (World Trade Organisation) has something to do with trade and countries but few could identify its functions.

(iii) This question confused many candidates. Their responses did not answer the question. A typical incorrect response was *"prices are low"*. The answer should have been a logical response e.g.

1. To protect employment in their own agricultural industry.
2. To reduce imports to help cut a balance of payments deficit.

(b) (i) Another question based on knowledge i.e. a straightforward definition required.

(ii) Two main points which could have been emphasised by candidates are
Advantage: *"Government borrowing from other countries can lead to economic growth in the country which become the debtor."*

Disadvantage: *"On the other hand loans have to be repaid with interest."*

(iii) The "increase" referred to in the question was the increase in foreign direct investment. However, some candidates thought it to be the discovery of oil. Fortunately some of the effects were the same e.g. increased employment, standard of living but on the other hand it could lead to dependence on other countries/firms.

“The investment could help to develop the oil industry (1 mark) and lead to economic growth (1 mark). This in turn could lead to increased employment (1 mark) and an increase in the standard of living (1 mark) of the people of Sao Tome. However, the country may become dependent upon the foreign investment (1 mark) and may have to put up with pollution as the industry develops (1 mark).”

**Economics IGCSE 4350 Paper 2H
November 2006**

The first autumn session of this paper produced responses suggesting a wide variation in the ability of candidates. Despite recommending in the Summer 2006 report that careful consideration should be given to the level of entry, some candidates were clearly entered for the wrong tier. These candidates found difficulty gaining marks at the Higher tier and may have been more successful at the Foundation level where the questions are more heavily weighted to the lower level skills. There were some exceptional candidates who achieved the highest grades and who are to be congratulated for their ability not only to display their knowledge and understanding of the subject, but also to analyse and evaluate to the highest levels.

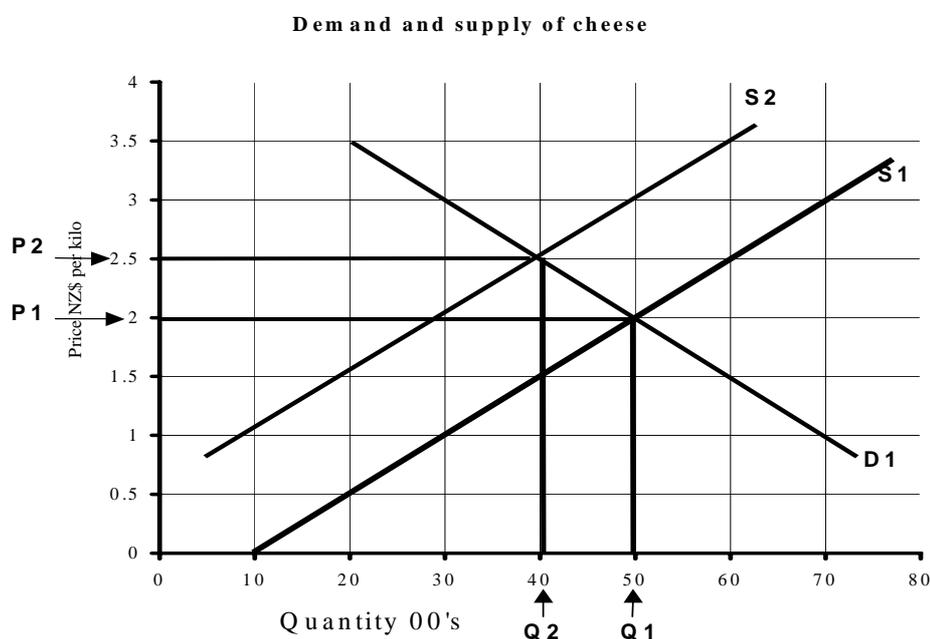
The common mistakes mentioned in the summer report were also present in this examination and teachers should emphasise the importance of the following,

- Attempt all questions.
- Learn definitions.
- Read the questions carefully, giving examples where required.
- Refer to the data e.g. Figure 1a, when requested to do so.

As with any new examination candidates should be guided through past papers. There are now two papers and two reports at each level with which teachers can familiarise themselves and their students on the requirements of this new examination. Hopefully, as teachers become more confident with the specification and the assessment criteria, the students will improve their understanding of the subject and their examination technique.

Question 1

(a) All parts of this question required candidates to use the information in Figures 1a and 1b.



(i)(ii) On Figure 1b the candidates were requested to draw demand and supply curves and indicate the equilibrium price and quantity.

(iii)(iv) A new curve was required to show the effect of an increase in cost - shown as S1 on the diagram together with the new equilibrium price, P2 and quantity Q2. This is shown on the diagram above. Unfortunately there were some candidates who also shifted the demand curve.

(v) In order to determine the elasticity of demand the candidates should have looked at Figure 1a and used the figures to give the following.

Price: NZ2\$	Quantity: 50,000	Total Revenue: NZ\$100,000
Price: NZ1.5\$	Quantity: 60,000	Total Revenue: NZ\$90,000

Therefore total revenue falls.

If candidates understand elasticity they should know that when price falls and total revenue falls, elasticity of demand is inelastic. Few candidates answered this correctly.

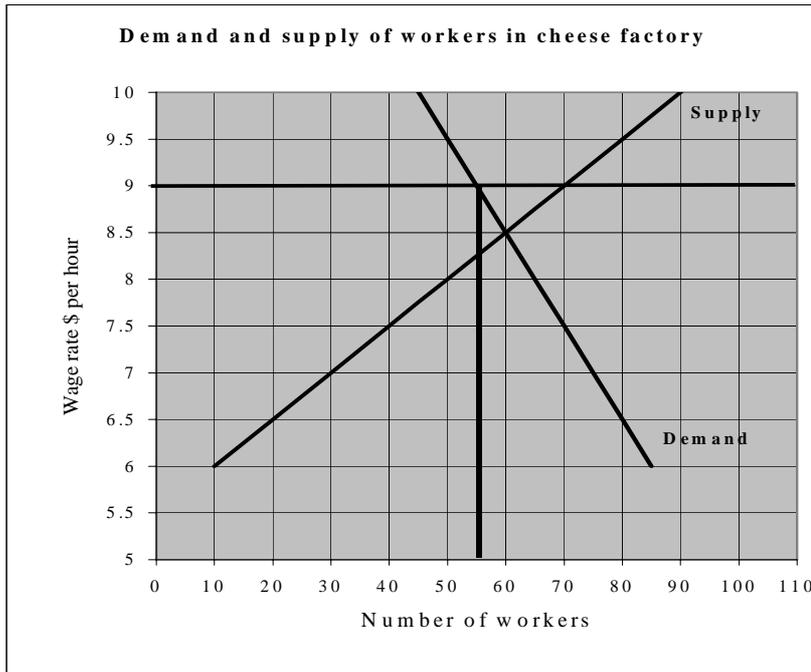
Some candidates did calculate elasticity by using percentage change i.e.

% change in quantity demanded / % change in price. Knowledge of how to calculate elasticity is not a requirement of this specification but candidates lose no marks for using this formula to determine elasticity.

(vi) If candidates do not understand the concept elasticity than they cannot answer this correctly. Candidates needed to state that as price falls, total revenue rises using the calculations in (v) above.

(b) Candidates were required in parts (i) and (ii) to show the new minimum adult wage rate and the number of workers employed at the minimum wage on Figure

1c. The correct responses are shown below.



(ii) 55

(iii) Most candidates gained one mark for reasoning that older workers are more skilled but failed to gain the second mark by giving an explanation i.e. young workers have to be trained. Good responses were given e.g.

"The reason is that the adults are more experienced while the youths are still in the training stage."

(iv) The most well known effect of a minimum wage were given i.e. increased costs to firm and possible inflation due to increased costs/increased demand.

(v) Most candidates knew at least one advantage and one disadvantage of minimum wage rates. The following is an example of a good response,

"A minimum wage can protect the workers and more people will want to work and will be motivated to work harder. This will increase productivity and the GDP of the country. The minimum wage will increase the standard of living for the lower paid because they earn more and will spend more. However, it leads to increased costs and the firms may reduce the number of workers. The unemployment which results leads to increased expenditure by the government in the form of benefits and this is bad for the economy."

(c) Trade Unions appear as a topic on the specification in relation to the level of wage rates in an economy. However, few candidates were able to reason to what extent the unions could increase the wages of workers. The following gives a reasoned explanation and comes to a justified conclusion.

"Trade Unions act as a pressure group through collective bargaining to protect the interests of workers and to increase wages (1 mark). The Unions can call strikes and go-slows which will affect the production of a firm (1 mark). The stronger the trade Union (the higher the percentage of workers belonging to the union) the more likely the union can achieve higher wage rates (1 mark). However, the firm cannot keep increasing wage rates as it adds to the cost of production and decreases profits (1 mark). If the workers can be replaced by machines then in

time the strength of the unions may be diminished (1 mark). In times of growing unemployment the unions will probably reduce their wage demands in favour of keeping their member employed (1 mark). Thus the ability of unions to increase wages depends not only on their own strength but also factors outside of their control (1 mark)."

Question 2

(a)(i)(ii)(iii) No problems as candidates correctly made use of the data.

(b) Because many candidates were confused between productivity and production they lost marks for not only their definitions in (i) but also for their methods of increasing productivity in (ii).

(i) *"Productivity of labour = amount produced per worker (Total production/number of workers)*

Total production = total amount produced by all factors of production."

(ii) *"The government can increase productivity by creating training programmes that will increase the skill of the workers and make them more productive. This relies on workers being employed in jobs which will make the most of these new skills.*

The government can also try to influence productivity through the firms. If the government reduces interest rates then firms may invest more in new machinery which will increase the productivity of the workers. However, investment decisions rely on other factors like the state of the economy not just the rate of interest."

(c)(i)(ii)(iii) Those candidates who could correctly define external costs and give an example usually went on to explain two ways in which a government can reduce them.

(ii) *"Governments can make laws to control the pollution made by firms and give them a limit on how much waste can be released into the environment. This will discourage firms but it may also slow down economic growth.*

The government can encourage firms perhaps by grants to develop new technologies which reduce pollution. However, this might still be costly to the business and they may reduce production which may lead to unemployment."

Question 3

(a)(i)(ii)(iii) Few problems here.

(iv) Candidates should have known that *"frictional unemployment is temporary whereas structural means that workers skills are no longer needed so that unemployment is long term."*

(b)(i) The definition of economic growth was at least partly known by the majority of candidates although some did omit the time element.

(ii) This is a topic which is well taught by the majority of teachers and responses usually gave a balanced argument.

"Economic growth helps to eradicate poverty as the standard of living rises. It can help countries gain prestige in the world and make it more popular for investment from overseas. Through this a country can progress even more. However, economic growth can have its disadvantages. There could be external costs arising

from it e.g. pollution and congestion and this could lead to medical problems and a loss of welfare for the people. Governments can combat some of these problems and if they do so successfully then economic growth will be advantageous."

(c)(i) Candidates should have seen from Figure 3a and known from their economic knowledge that as economic growth falls unemployment generally rises but there is a time lag. Candidates who stated that the fall in unemployment leads to fall in economic growth were not penalised. However, few candidates referred to the data in the figure.

(ii) Here is an excellent answer to a question which caused problems with many candidates.

"Supply side measures are used to increase supply and efficiency. By increasing the number of small firms in an economy unemployment will be reduced because small firms are labour intensive. Also by putting in place training programmes the government will be able to increase occupational mobility of labour. Privatisation may also, in the long run, create employment.

However, these measures do have limitations. To introduce small firms and training programmes the government will have to increase expenditure leading to increased tax rates. Privatisation may lead to unemployment as inefficient firms may close as they no longer have government support."

Question 4

(a)(i) Simple, precise definitions required.

(ii) The WTO is involved in promoting free trade, resolving trade disputes through trade negotiations.

(iii) Candidates need to refer to the mark allocation so that they realise that they need to explain the points they make in their answers. This question wanted candidates to assess how subsidies might affect farmers in poorer countries not simply to list the advantages.

"A cut in subsidies to farmers in rich nations will discourage farmers in rich nations to produce goods so people living in rich nations will have to import more products from other countries. In poorer countries this means demand will rise for farm products and the farmers will sell more as there is less competition. Exports increase and more people will be employed and economic growth will increase in these poor countries. However, as the poor countries export more and more they become more dependent on their exports and if the rich countries decrease their demand the poor countries will suffer."

(b)(i) Two clear definitions were acceptable for full marks.

(ii) Most candidates could identify both an advantage and a disadvantage of government borrowing.

(iii) The "increase" referred to in the question was the increase in foreign direct investment. However, some candidates thought it to be the discovery of oil. Fortunately some of the effects were the same e.g. increased employment, standard of living but on the other hand it could lead to dependence on other countries/firms.

“The investment could help to develop the oil industry (1 mark) and lead to economic growth (1 mark). This in turn could lead to increased employment (1 mark) and an increase in the standard of living (1 mark) of the people of Sao Tome. However, the country may become dependent upon the foreign investment (1 mark) and may have to put up with pollution as the industry develops (1 mark).”

General Comments

The paper provided opportunities for all candidates to demonstrate their economic knowledge and understanding together with their ability to use this in relationship to the sources and the questions asked.

Better candidates had used the pre-released material as a basis for further study and had a good understanding of the issues surrounding the environment. They were able, also, to use information from their own country to enhance their answers. In addition, these candidates took careful note of the 'key word', and used the sources, in order to answer the precise question that had been asked.

Weaker candidates appeared, in many cases, to be unprepared for the questions and ignored the sources thus limiting the credit that was available. Many appeared to be unfamiliar with the sources and their content.

While most candidates could draw a relevant supply and demand diagram, question 3a, this was not always the case. Centres should note that candidates are expected to be able to demonstrate this skill.

Centres, and candidates, are reminded of the need to use the material as a basis of further study and preparation for the exam. They should note, also, the requirement to refer to 'your country' and that this refers to 'a country of your choice'. Too many candidates answered the questions without any reference to a country.

Questions

1. Better candidates were able to use the two sources to offer correct statements. Too many, however, ignored the sources and tried to come up with their own ideas. These were often wildly inaccurate.
2. Most candidates were able to come up with some sensible ideas. The discriminating factor was their ability to answer the question set. This clearly said in bold '**one benefit and one cost of one of these methods**'. Better candidates did exactly that and, therefore, were able to properly explain their choices. Many candidates, however, either offered several benefits and/or costs or tried to do all three methods.
3. (a) In general, candidates were able to draw a correct supply and demand diagram and to shift the supply curve to the right. The main failings were shifting the supply line in the wrong direction or not showing a shift at all.

(b) The main here, as shown in Source D, was that a small rise in the tax up to €20 per kilo would lead to a large reduction in externalities/pollution, while a higher tax lead to diminishing returns. Only a few candidates used this as a basis of discussion with most just explaining what Source D showed. There was very little evidence of prior thought based on the pre-released material.

4. Once more, good candidates used the sources, and their own economic knowledge, to examine the problems associated with their country adopting 'environmentally friendly policies'. Unfortunately, these responses were rare. Too often the sources were largely ignored and an answer based on the fact that their country was too poor to worry about the environment was produced. These gained little credit. Some candidates did try to use the sources and offered economic analysis of one or more points. These answers were able to gain up to half marks.
5. A number of candidates repeated their answer to question 4. This was sometimes more relevant and sometimes less so in this situation. Good answers considered both the 'geographical' issues such as available wind and sun and, also, the more economic ones concerning the total demand for electricity as against the likely supply from these sources. Those who had used the pre-leased material as the basis of their study made sound reference to their own country. Too many answers, however, showed little or no knowledge of the issue and made statements such as 'my country couldn't rely on these sources because they are not reliable', but with no supporting evidence.

November 2006

For more information on Edexcel qualifications, please visit www.edexcel.org.uk/qualifications
Alternatively, you can contact Customer Services at www.edexcel.org.uk/ask or on 0870 240 9800

Edexcel Limited. Registered in England and Wales no.4496750
Registered Office: One90 High Holborn, London, WC1V 7BH



A PEARSON COMPANY

