

Examiners' Report Summer 2007

IGCSE

IGCSE Economics (4350)

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Summer 2007

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IGCSE Economics Examiners' Report June 2007 4350/1F

This is the second June examination of this new specification. It is apparent that centres are now considering more carefully the level of entry of their candidates. The paper is designed for those candidates for whom the higher levels of attainment prove difficult. Hence the paper is weighted towards testing knowledge, understanding and application. The higher level skills of analysis and evaluation are present to provide the opportunity for better candidates to gain the C grade.

Centres must ensure that candidates are familiar with the rubric on the front cover of the examination paper. In particular attention must be paid to the instruction: Answer ALL questions. Too often questions were left blank. Careful and thorough reading of each question will also ensure that candidates do not ignore the question's instructions e.g. 'Give an example from the data' and lose important marks. Teachers should ensure that candidates learn economic definitions and examples from their own country. Too many marks are lost due to inaccurate definitions and a lack of relevant examples.

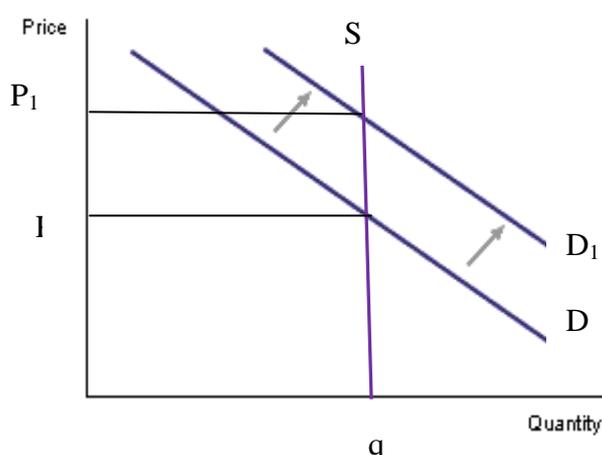
If a candidate continues a question at the bottom of a page or on another page or separate sheet it is advisable that the candidate indicates where the continuation of the question can be found.

As teachers gain experience of the format of this examination, the improvement in the standard achieved by candidates in this examination series will be maintained and perhaps improved upon in the future.

Question 1

From the information given in the question the candidates should have been able to see that although the demand for diamonds rose by 50%, the price rose by 30% yet the supply of diamonds stayed the same. The diagram, Figure 2, showed the perfectly inelastic supply curve, the demand curve and the equilibrium price and quantity.

(a)(i) The majority of candidates correctly labelled the demand curve, D , and supply curve S and in (a)(ii) shifted the demand curve D_1 to the right. This resulted in the new price, P_1 as shown in the diagram below.



(b)(i) The question asked for two reasons why the demand for diamonds might increase by 50%. This required candidates to know the difference between a movement along the demand curve and a shift of the demand curve. As shown on the diagram above the demand curve has shifted. Reasons for the shift include rise in incomes, rise in the price of a substitute, advertising but NOT a fall in price which would be a movement along the curve.

(ii) Supply of diamonds is fixed - it doesn't change. Reasons for this include "lack of stocks", "can't be manufactured," "scarce resource," "the supply will only change if new mines are found".

(c) Total revenue = price x quantity. An example of a good response: "because of the rise in demand of 50% the price of diamonds will rise by 30% but quantity doesn't change, therefore total revenue will rise".

(d) (i) Too many candidates referred to price elasticity of demand instead of income elasticity of demand. Incomplete definitions "shows the relationship between a rise in income and a rise in demand" were common. At this level candidates should be able to give succinct definitions, "income elasticity of demand is the responsiveness of quantity demanded to a change in income".

(ii) Candidates should realise that (d)(ii) is related to (d)(i). A good is determined to be 'normal' if its income elasticity is positive i.e. as income rises the demand for the good rises and vice versa. Too many thought that 'normal' must refer to a necessity or a manufactured good or even an agricultural good or one we can't do without.

(iii) Diamonds are normal goods because as incomes rise consumers demand more of them. They are a luxury. However, as many candidates failed in their knowledge of income elasticity of demand in (d)(i) and(d)(ii) so too did they fail to give valid reasons for this part of the question.

(e) Most candidates referred to public and private sectors of a mixed economy but did not expand their answers. This is an example of candidates not looking at the marks awarded (4 marks) and realising that that is equivalent to 2 marks per characteristic.

Question 2

(a)(i)(ii)(iii) Simple calculations were required for (i) total costs and (ii) average costs. (iii) Profits are found by taking (i) total costs from revenue, \$1000, given in question. This proved too difficult for many candidates who once again failed to realise that the questions were related. If candidates gave the correct formulas but failed to calculate the answers correctly they were awarded half marks.

(a)(iv)(v) Vague and incorrect responses were common e.g. "variable costs change" or "variable costs change with time". The correct response should have related costs to output/customers e.g. "variable costs change as the amount of output/customers change" and "fixed costs do not change as the amount of output/customers change". Examples needed to be taken from Figure 3 i.e. fixed costs = loan repayments, insurance, licence fee, advertising and variable costs = petrol, telephone charges.

(b)(i) Confusion still exists between public sector and public limited companies. Public sector transport systems are owned by the state/government but too many candidates, in their confusion, incorrectly stated they were owned by shareholders.

(b)(ii) There were more correct responses in this part than in (i). *“Public sector firms aim to maximise welfare for their customers whereas private firms aim to make a profit.”*

(c)(i) Features of monopoly include one seller, no competition, price maker but not *“one customer”* or *“one owner”!*

(c)(ii) The question ‘is such a monopoly good or bad for customers?’ was intended to stimulate the candidates to consider both the good and bad elements of monopoly for customers. An example of a good response:

“Monopoly can charge high prices as there is no competition so customers have no choice and must pay the higher price. However, if monopolies grow large they can take advantage of economies of scale. If they pass on the fall in costs to their customers prices can fall. Overall monopolies have the potential to exploit consumers but they may use their position to invest their profits and provide goods and services of good quality and low prices.”

Question 3

(a)(i)(ii) A large proportion of candidates did not recognise Tax B to be progressive (the percentage taken in tax increases as income increases) and Tax A to be proportional (the percentage of income taken in tax stays the same as income rises).

(b)(i) Indirect taxation is a tax on expenditure. Acceptable examples included named taxes e.g. VAT and taxes on individual items e.g. 10% tax on imports.

(b)(ii) The question states ‘two ways, other than taxation, in which a government can raise revenue’ but this was ignored by many candidates so they gave incorrect answers of *“income tax”* and *“customs duties”* instead of correct responses which could have included *“privatising firms/industries,” “profits from public sector industries,”* and *“fines”*. Borrowing is not a way of raising revenue!

(b)(iii) Taxation is part of Fiscal policy. In this type of multiple choice question candidates must give one response only. If a mistake is made they must follow the instructions on the front cover of the examination paper.

(c)(i) The specification identifies four main objectives: economic growth, inflation (control of) unemployment (control of) healthy Balance of Payments on current account. The environment and redistribution of wealth were also awarded the mark available.

(c)(ii) This question was linked to the policy objective identified in (i). However, few candidates were able to establish the connection between their answer in (i) and an increase in income tax. Some of the possible correct answers include,
Objective: economic growth. *“Increase in income tax will lead to a fall in economic growth as it will lead to a fall in aggregate demand and lead to unemployed resources.”*
Objective: inflation. *“Increase in income tax will lead to a fall in inflation as workers will have less income to spend and so consumer demand will fall and so will prices.”*

(d)(i)(ii) Candidates' knowledge of supply side policies was weak and this was reflected in their answers. Those who could not identify two supply side policies in (i) were not able to produce relevant answers to (ii).

A good answer to (ii) *"If unemployment is caused by supply being greater than demand then a fall in wage rates will solve this problem. However, trade unions try to prevent wage rates falling. The supply side policy of reducing trade union power will mean wage rates can fall and more workers will be employed. Education and training enable workers who are unemployed, due to a fall in the demand for a particular product, to find work. They need new skills to find new jobs. However, both policies will fail if there are no new jobs available."*

(d)(iii) Most managed a simple if sometimes vague definition of the rate of interest. Few related an increase in the rate of interest to their policy objective identified in (c)(i). E.g. policy objective = economic growth. *"As interest rates rise so too does the cost of borrowing. This will lead to a fall in investment and a fall in economic growth."*

Question 4

(a)(i)(ii)(iii) Most candidates correctly stated a relevant effect on the three countries mentioned.

(b) This question required the candidates to study the information given in the question and decide to which trade restriction it referred. Too many "guessed" the answer incorrectly.

(c)(i)(ii)(iii) Knowledge of balance of payments and simple calculations confused many candidates. Some added exports to imports instead of subtracting imports from exports. The -ve sign was often omitted so the final balance was incorrect.

(d)(i) The term '*depreciating a currency*' should be understood by candidates at this level. Vague statements "*going down*" or "*decrease in currency*" were not acceptable whereas "*currency becomes weaker,*" "*value of currency falls*" and "*currency of a country falls in terms of other currencies*" gained full marks.

(d)(ii) Due to the lack of understanding of depreciation of a currency few candidates were able to gain many marks for this question. An example of a good response:

"As the value of a currency falls so exports will appear cheaper and so demand will rise. On the other hand imports will be more expensive and so demand should fall. This should lead to a more favourable balance of payments. However, if the demand for imports is inelastic a rise in price will mean more is spent on these necessities and the balance of payments deficit will worsen."

(e)(i)(ii)(iii) Weaker candidates confused trading blocs with blocks to trade e.g. tariffs and some even wrote about companies instead of countries. Failure in (e)(i) led to disaster in the other parts of the question. Good candidates gave simple, well explained answers, e.g.

(e)(i) *"A trading bloc is a group of countries which agree to trade freely between themselves, eliminating tariffs and other barriers to trade."*

(ii) *"The removal of tariffs and other barriers to trade means that goods and services can move freely and possibly become cheaper for the countries in the trading bloc. This will lead to more trade between member countries."*

(iii) *“Free trade between member countries means producers have larger markets and can expand. This might lead to economies of scale and lower prices. However, competition will increase which again may lead to lower prices but may also lead to high cost firms going out of business and this could lead to unemployment in some countries. If firms are efficient then the advantages to a country of joining a trading bloc will be greater than the disadvantages.”*

IGCSE Economics Examiners' Report June 2007 4350/2H

This is the second June examination of this new specification. It is apparent that centres are now considering more carefully the level of entry of their candidates. This paper is designed for those candidates who aspire to the highest levels and several centres should be congratulated upon the performance of their candidates.

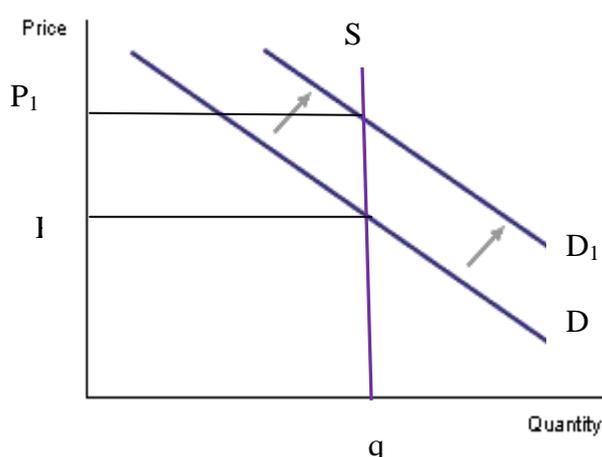
In order to continue to improve, candidates should realise that questions are based on the specification's four sections with some overlap. Sometimes parts of a question are linked by a single topic e.g. Question 1c consisted of three questions concerned with income elasticity of demand. If candidates recognise this then they may find that their responses become more focussed.

Centres must ensure that when candidates continue a question at the bottom of a page or on another page or separate sheet they should indicate where the continuation of the question can be found.

As teachers gain experience of the format of this examination, the improvement in the standard achieved by candidates in this examination series will be maintained and perhaps improved upon in the future.

Question 1

(a)(i)(ii) From the information given in the question the candidates should have been able to see that although the demand for diamonds rose by 50%, the price rose by 30% yet the supply of diamonds stayed the same. Most candidates correctly drew the demand curve for diamonds and its shift to the right, as shown in the diagram below, but the majority failed to draw a perfectly inelastic supply curve.



(b)(i) The question asked for two reasons why the demand for diamonds might increase by 50%. This required candidates to know the difference between a movement along the demand curve and a shift of the demand curve. As shown on the diagram the demand curve has shifted from D to D_1 . Reasons for the shift include rise in incomes, rise in the price of a substitute, advertising but NOT a fall in price which would be a movement along the curve.

(b)(ii) The elasticity of supply = 0 as it is perfectly inelastic. The correct explanation for this showed have been clear and concise, *"although the price of diamonds has risen by +30% there has been no change in the supply of diamonds. The supply has remained constant"*.

(c)(i)(ii)(iii) All parts of this question required the candidates to understand income elasticity of demand yet it appeared that many had little or no idea about this concept. It was therefore common for a candidate to define price elasticity of demand instead of giving the correct definition, *"the responsiveness of demand to a change in income"*. Similarly a normal good (ii) is defined as *"a good which has a positive income elasticity of demand i.e. as incomes rise so too does the demand for the good and vice versa"*. Diamonds are a normal good (iii) because *"diamonds are a luxury, as income rises people demand more of them, their income elasticity of demand is greater than one"*.

(d)(i)(ii) A mixed economy should be familiar to all candidates as it is difficult to find examples of economies which are of any other type in the world today. The characteristics are many but the main two are, *"it consists of both a public, state owned sector and a private sector owned by entrepreneurs and shareholders. Price is determined partly by the price mechanism of demand and supply but also by interference by the government e.g. minimum wages."*

(d)(iii) In this question candidates should have used their knowledge of their own economies to judge the extent to which it could be described as a mixed economy. Candidates who failed to mention a real economy lost valuable marks. The following has identified the economy, given real examples and even tried to judge the extent to which it is a mixed economy with the phrase *"a lesser important government sector"*.

"My economy of choice is Hong Kong, it is a mixed economy. It is a combination of both public sector and a more important private sector. It has a free market, where there are many private firms supplying goods and services with higher quality, sometimes higher prices (due to its profit-motivated nature) and wider choice for consumers e.g. KFC, H&M, Starbucks. However, there is still a lesser important government, public sector which provides the basic supply of essential and public/merit goods which may not be profitable, but are essential for a society e.g. defence, police, street lights. Its public sector also provides cheaper goods and services for everybody, including low income earners e.g. MTR, KCR-railways, public transport."

Question 2

(a)(i)(ii) The simple calculations required for (i) total costs and (ii) average costs were completed correctly by the majority of the candidates.

(a)(iii) Vague and incorrect responses were common but some candidates did gain full marks from succinct responses which also gave examples as requested from the data. *"Fixed costs do not vary with output in a short period (short run). Insurance, \$60, is a fixed cost as it is constant no matter how many customers a taxi driver has- 250 customers in June and 300 customers in July. Variable costs vary in the short run. Petrol changed from \$200 in June to \$350 in July due to a rise in customers from 250 to 300."*

(b)(i) Two main features of a monopoly might include one seller, no competition, price maker but not *"one customer"* or *"one owner"*!

(b)(ii) The question 'is such a monopoly good or bad for customers?' was intended to stimulate the candidates to consider both the good and bad elements of monopoly for consumers. An example of an excellent response:

"Theoretically a monopoly means there is no competition. This would be bad for the consumers as it is often not efficient, poor quality, not innovative because they have no incentive to improve as customers lack choice. They may even take this advantage to impose high prices to earn profit. Monopoly also means it has producer sovereignty, which may not fit the customers' needs and wants.

However, it can be good for customers as it might be a natural economy or single supplier, so there is no need for choice. And in many cases monopoly can still have a high standard in quality, low pricing due to economies of scale, efficient and innovative (such as the KCR (railway) in Hong Kong). A monopoly might need government intervention to impose regulations to ensure its quality, price and even supply for non-profitable regions (which may be subsidised by the government). In conclusion, a monopoly may be bad, but if there is an appropriate and sufficient government intervention, it can be good for consumers."

(c)(i) The government can promote competition in a number of ways but it seems that candidates are not aware of many of the options available.

(c)(ii) The following answer considered popular measures of deregulation, privatisation and lowering trade barriers to increase competition.

"Hong Kong is a mixed economy with a very free market. The government has already reduced regulations to enable businesses to set up and markets to be less regulated. So there are many small and large firms in Hong Kong, which creates a competitive market, with competitive qualities which benefit the customers. The government has also created competition by reducing trade barriers on imports. This has meant that domestic firms have to face competition from abroad. The government has also privatised some industries to create competition. However, it has also ensured that these industries will still provide some merit goods and services to the people which might not be provided in a completely competitive industry."

Question 3

(a)(i)(ii) At this level a large proportion of candidates correctly identified Tax B to be progressive (the percentage taken in tax increases as income increases) and Tax A to be proportional (the percentage of income taken in tax stays the same as income rises).

(b)(i) Indirect taxation is a tax on expenditure. Acceptable examples included named taxes e.g. VAT and taxes on individual items e.g. 10% tax on imports.

(b)(ii) The question states 'two ways, other than taxation, in which a government can raise revenue' but this was ignored by many candidates so they gave incorrect answers of "income tax" and "customs duties" instead of correct responses which could have included "privatising firms/industries," "profits from public sector industries," and "fines". Borrowing is not a way of raising revenue!

(c)(i) Supply side policy is not well taught. Few candidates could correctly identify two measures. The following answer identified two of the most common measures of supply side policy which can have an effect on employment.

“Deregulation and education and training are supply side policies that can reduce unemployment. Deregulation: removal/reduction on laws/regulations to start up a business can encourage more businesses and more labour would be demanded. This would create employment. Education and training can improve human capital by giving them more skills to work in other areas, to combat structural, seasonal unemployment. However supply side policies are often slow, they do not have an immediate effect. In conclusion, different supply-side policies are used to combat different unemployment.”

(d)(i) A succinct definition earned two marks for the majority of candidates.

(d)(ii) Both sides of this argument were required for maximum marks be obtained.

“I agree with this statement; however I believe there are more losers. Firstly, inflation would lead to an increase in prices. This would be bad for fixed income earner such as pensioners, as their spending power decreases. Savers’ money would also fall in value. Firms may face rising costs and cut labour, creating unemployment. Goods and services would be more expensive and people would have less spending power, so the demand would also decrease slowing down economic growth. Exports would be more expensive in comparison to imports so a country would import more and export less worsening the Current Account Balance which may lead to a deficit. However, there are still some winners. Borrowers may be benefit as their debts fall in value, so they are actually paying back less. As people consume less then so the demand for imports might fall which might improve the current account balance. In conclusion, there are both winners and losers.”

(d)(iii) Still concerned with inflation this question demanded candidates to ‘assess the effects’ of raising interest rates on inflation. This required candidates to evaluate this tool of government policy. Candidates who showed that they could do this reached Level 3 for this question.

“By raising the interest rates people save more but borrow and invest less. This decreases the money supply decreases the demand for goods and services proving especially useful in demand pull inflation. However the fall in investments and fall in demand for goods and services may slow down economic growth as GDP falls as less output is produced. Unemployment rates may increase due to the fall in demand for goods and services as the demand for labour is a derived demand. Speculators might take advantage of the increased interest rates and demand more currency to earn money, leading to an appreciation in exchange rate. This may worsen the Current Account Balance because fewer exports would be demanded because they are more expensive. Therefore a change in the monetary policy has an impact on other Macroeconomic objectives.”

Question 4

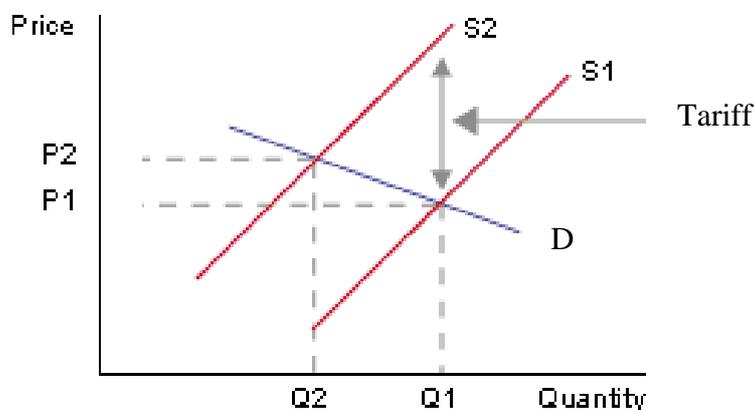
(a)(i)(ii)(iii) Most candidates correctly stated a relevant effect on the three countries mentioned.

(b)(i) No problems identifying that the Multi-Fibre Agreement was a quota.

(b)(ii) Some very long answers to this question when a short, brief explanation was all that was necessary to gain full marks.

“When a subsidy is given to the local firms it lowers their costs of production. This results in lower prices for their products. This increases the demand for local goods and reduces the demand for foreign products (imports).”

(b)(iii) The correct diagram to show how tariffs reduce imports is shown below:



Some candidates did shift both demand and supply but were not penalised if the shift of supply was to the left and the result was an increase in price. A correct explanation was also required for full marks.

“A tariff is a tax on imports which shifts the supply curve to the left, S_1 to S_2 . This results in an increase in price P_1 to P_2 .”

(c)(i)(ii) Good candidates gave simple, well explained answers, e.g.

(i) *“A trading bloc is a group of countries which agree to trade freely between themselves, eliminating tariffs and other barriers to trade.”*

(ii) *“The removal of tariffs and other barriers to trade means that goods and services can move freely and possibly become cheaper for the countries in the trading bloc. This will lead to more trade between member countries.”*

(iii) Candidates were required to look at both advantages and disadvantages of membership of a trading bloc. An example of a good response is below,

“No, the disadvantages of joining a trading bloc are less than the advantages. The market for a member of a trading bloc shall increase. This could mean large scale production thus it benefits from economies of scale. Unit costs shall be low; hence the good can compete in world markets and can earn export revenue. There shall be high level of economic growth and the standard of living increases. Also situations of war with neighbours could be avoided. However, the country may lose its freedom to plan independently.”

The advantages of joining a trading bloc increase trade intra-bloc. However there are some disadvantages. Trade with non-member countries may decrease and this may lead to a shortage and less choice of foreign goods. This may even slow down globalisation (which is the increase of interaction and independence of national economies and would lead to an increase in GDP and living standards). However, for a country to join a trading bloc would have greater benefits to itself as it is easier (no quotas), cheaper (no tariffs subsidies), faster (closer transportation due to geographical location) and would encourage trade intra-bloc."

(c)(iv) The gain from Chinese membership should have resulted in simple statements concerning the possible increase in exports due to the large Chinese market and the increase and variety of goods now available from China and the overall increase in world trade and specialisation.

IGCSE Economics Examiners' Report June 2007

4350/03

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 international trade. Most of these were able 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.

While most candidates could draw a relevant supply and demand diagram, question 2a, 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, especially question 5, without any reference to a country.

Question 1

Better candidates were able to answer this question very simply by referring to the trend, 'increasing', and then pointing out that there were fluctuations. Too many, however, ignored the instruction 'main trends' and transposed the graph into words. This was worth one mark.

Question 2

(a) Candidates had to draw a supply line that was inelastic followed by a shift in the demand curve either to the left or the right. Some candidates did both. Better candidates often drew a perfectly inelastic supply line. The main failings were drawing a supply line that was clearly not inelastic or getting supply and demand confused. Centres are advised to practice this skill with their candidates.

(b) Good candidates made sensible use of the sources, especially B, C and D, to explain the increase in the price of oil. The best answers concentrated, sensibly, on two or three factors rather than trying to refer to all of them. Weaker answers listed points and often spent a considerable amount of time on supply and demand despite the instruction 'in addition to'.

Question 3

(a) Both factors would increase supply and, hopefully, lead to a situation where supply equalled demand. An answer in these terms gained full marks. Too many assumed that increasing supply would lead to a fall in price thus ignoring 'keep prices stable'. Some candidates drew a supply and demand diagram. Where this was referred to in the text credit was available.

(b) Most candidates assumed that social costs were the same as external costs even when they had stated the correct equation. This limited the mark available although there were some very good comments about current issues. Some candidates, however, had no idea of the concept.

Question 4

Good candidates used the sources, and their own economic knowledge, to argue whether or not the price was 'too low' giving points for both sides, making reference to their own country and coming to a supported conclusion. Others explained why it was/was not too low but failed reach a decision. Weaker answers repeated the source material, often just source E, without any comment. A few produced an answer that was more relevant for question 5.

Question 5

There were some excellent answers, based on their country that looked at both sides of the argument using the sources and their own knowledge to reach a supported judgement. While many argued that consumption of oil should be reduced others said that this was not appropriate for the stage of development of their country. Many candidates, however, did not get beyond a one-sided answer. A few candidates basically repeated their answer to question 4 and did not score many marks.

4350 - Statistics

Option 1 - Foundation tier paper (1F) and paper 03

Grade	Max Mark	C	D	E	F	G
Grade boundaries	100	55	48	42	36	30

Option 2 - Foundation tier paper (1F) and coursework (04)

Grade	Max Mark	C	D	E	F	G
Grade boundaries	100	58	51	44	38	32

Option 3 - Higher tier paper (2H) and paper 03

Grade	Max Mark	A*	A	B	C	D	E
Grade boundaries	100	78	67	56	46	40	37

Option 4 - Higher tier paper (2H) and coursework 04

Grade	Max Mark	A*	A	B	C	D	E
Grade boundaries	100	84	72	60	49	43	40

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