

# Principal Examiner Feedback

November 2009

IGCSE

IGCSE Economic (4350) Paper 1F

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## Examiners' Report Economics IGCSE 4350 Paper 1F

It is obvious that teachers are considering the ability of their candidates when entering them for the Foundation level. This level gives candidates the opportunity to show their knowledge and understanding of the subject and where possible to provide evidence of their ability to analyse and evaluate.

There are some common mistakes which can be easily overcome. Teachers must emphasise the difference between the command words/phrases "*identify*" and "*briefly explain*". Too many candidates did not distinguish between these two commands, losing marks because they simply identified reasons instead of expanding their responses to briefly explain them.

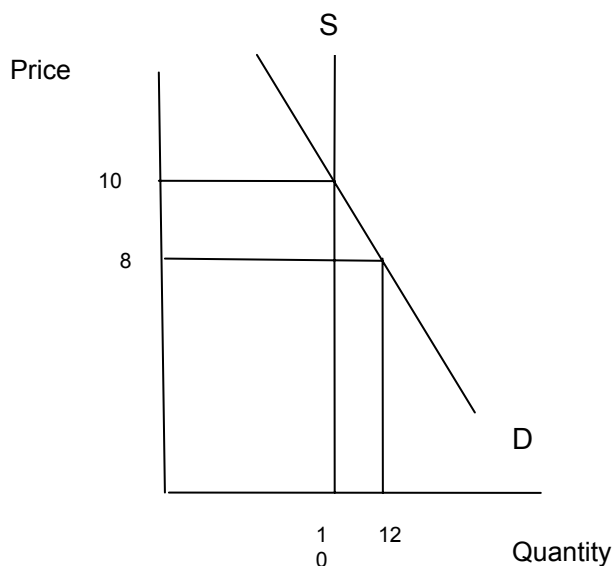
The two subject areas which give most cause for concern relate to elasticity and exchange rates. Candidates confuse factors affecting price elasticity of demand e.g. ease of substitution, with factors affecting total demand e.g. taste and fashion. Exchange rates can appreciate and depreciate and candidates should be familiar with these changes and the effect of these changes on a country's balance of payments.

Most centres should now have access to several past papers, mark schemes and subject reports. These should be used to familiarise candidates with the format of the paper, identifying common mistakes and how to avoid them. In this way centres can prepare their candidates to perform to the best of their ability.

### Question 1

The first part of this question required the candidates to understand the concept of elasticity. Part (a)(i) required the candidates to add to Figure 1a a supply curve with an elasticity of supply = 0. This is sometimes termed "a perfectly inelastic supply curve". Too many candidates added an upward sloping supply curve rather than the vertical supply curve shown in Figure 1a below.

Figure 1a



Primary products e.g. rice, gold and oranges have short run supply curves with an elasticity of 0. Unfortunately some candidates confused demand and supply so were not able to explain why this is the case in (a)(iii).

Correct, concise definitions of elasticity of demand were few but most candidates managed to gain some credit for their attempts. Product B (a)(v) was shown to have an elastic demand curve and this could be explained by the following,

(a)(vi) *“In Figure 1b as price falls from 10 to 8 (20% fall) demand rises more than proportionately from 10 to 20 (100%). This results in a rise in total revenue (100 to 160) as price falls which indicates an elastic demand curve.”*

Few responses to (a)(vii) gained more than half marks as few candidates developed their arguments. A good response is given below.

*“Rice is a necessity. For many people rice is needed for survival, however, chocolate is not essential for us. So rice will be less elastic than chocolate. On the other hand rice has a lot of substitutes such as bread and potatoes so if the price of rice increases people will switch to the substitutes making rice elastic in demand. Chocolate may take up only a small part of our income so if price increases we may not reduce demand by very much (inelastic). It is difficult to completely agree with the statement as it depends which factors influencing elasticity of demand are the most important.”*

In (b) characteristics of the public and private sectors of the economy were identified but too often not developed.

## Question 2

From the table below candidates were asked to calculate total costs and average costs.

Number of pizzas	Total Fixed Costs €	Total Variable Costs €
40	60	100

(a) Total costs = total fixed costs + Total variable costs  
Total costs = €60 + €100 = €160

(b)(i) Average costs = Total costs / Quantity  
Average costs = 160/40 = €4

In order to answer (b)(ii)(iii)(iv) candidates needed to know the difference between fixed and variable costs, as shown below.

(b)(iii) *“Even when the restaurant is closed it will have to pay fixed costs of €60 whereas variable costs have to be paid only when the restaurant is open and making pizzas.”*

Economies of scale is usually a topic which is popular with candidates and in which they usually achieve high marks. Unfortunately many were unable to correctly define economies of scale (c)(i), *“increasing output reduces average costs”*. In (c)(ii) many missed the opportunity to show their knowledge of economies (benefits) and diseconomies of scale (costs) to the firm.

(c)(ii) *“As firms expand they can take advantage of economies of scale. Bulk buying, cheap loans, expert managers, division of labour all lead to increased efficiency and reduced average costs which makes the firms more competitive and profitable.”*

*Unfortunately if they grow too big they may suffer from bureaucracy and poor communication between managers and workers which can lead to industrial unrest. However, most firms expand because it usually brings the promise of higher profits which is why most firms exist."*

Most candidates could identify either an advantage or a disadvantage of competition to firms and consumers but few obtained full marks.

### Question 3

In (a)(i) candidates correctly stated that the tax on petrol increased from 2005 to 2007 but failed to refer to the data correctly. Too many wrote that the tax increased from 92 pence to 98 pence but this was the price of petrol not the tax. The tax had increased from 62 pence to 68 pence!

Candidates should be familiar with reasons why particular commodities, like petrol, are taxed and the benefits and disadvantages to an economy of this tax.

*(a)(v) "A tax on petrol will increase its price and therefore reduce demand. This will benefit the economy as petrol adds to pollution. People will be healthier. At the same time the government will earn more revenue and have more to spend on the economy. However, the increase in price, due to the tax, might lead to inflation as transport costs rise. This will not benefit the economy. If alternative methods of transport are used e.g. rail and public transport rather than private cars then the benefits might outweigh the disadvantages and inflation avoided."*

Whilst most candidates appeared to be able to define structural unemployment few explained the effect of education and training on the level of this type of unemployment.

*(b)(ii) Education and training will increase workers' skills and make them more occupationally mobile. If they lose their jobs through structural unemployment they can get different jobs in other industries.*

*(b)(iii) If jobs are not available in other industries then improved mobility, due to education and training, will not help the level of unemployment.*

### Question 4

The European Union was easily identified as a trading bloc in (a)(i). Unfortunately candidates identified but did not explain why trade between Poland and fellow members increased whilst trade with countries outside the trading bloc decreased. The table for 2006, in which candidates had to calculate the value of visible imports, did cause problems as many gave the incorrect answer \$76.5 billion (visible exports + Balance of Trade) instead of \$63.5 billion (visible exports - Balance of Trade).

Value of visible exports from Poland to EU countries	\$70 billion
Value of visible imports to Poland from EU countries	(iv).... <b>\$63.5billion</b> .....(1)
Balance of Trade with EU countries	\$6.5 billion

The majority of candidates did know the difference between visible and invisible trade and were able to give correct examples.

Too many candidates incorrectly associate the role of the World Trade Organization (WTO) with various forms of financial aid to developing countries. The WTO

increases international trade by promoting free trade e.g. reduction of tariffs. This is done by organising international conferences where agreements are made e.g. Doha Round. It also helps to solve trade disputes between countries so that trade is not disrupted.

Part (c) required candidates to understand exchange rates. In the table below the zloty has **depreciated** as more have to be exchanged (3.9 to 4.5) for 1 euro.

2004	2006
1 euro=3.9 zloty	1 euro = 4.5 zloty

A depreciation of a currency usually leads to an improvement in the balance of payments on current account as imports become more expensive and exports appear cheaper to foreigners. However, the effect of elasticity of demand can negate the positive effects of depreciation.

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