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Examiners' Report/ Principal Examiner Feedback

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Introduction

It is pleasing to note that candidates and teachers have become more familiar with the demands of course over each exam series. Indeed, there were some excellent scripts where candidates achieved very high marks, demonstrating a good understanding of economic concepts combined with powerful skills of economic analysis and evaluation.

The examination also reveals some topics that need attention and this report attempts to address these in order to further improve candidate performance for the future.

Perhaps the most notable problem areas concerned questions 1(a) (v) and 1(b) (v). In Q1(a) (v) many responses revealed a lack of understanding in the relationship between price elasticity of demand and total revenue. In Q1(b) (v) some candidates missed the point of the question and wrote about a government influencing prices in general for an economy rather than influencing market prices. Consequently many answers typically focused on broad macro measures of fiscal and monetary policy rather than specific measures such as indirect taxes and subsidies in particular markets.

As mentioned in previous reports, candidates could improve their exam technique by:

- Attempting all the questions; marks can still be achieved even with answers where candidates are uncertain of the correct response.
- Carefully reading the instructions of the question, for example, ‘using the information in the table’ and ‘calculate’.
- Ensuring explanations are undertaken in a logical way.
- Offering two sided arguments in the higher scoring questions, with points identified and developed with some evaluation.

Report on Questions

Question 1

1(a) (i): A table of the weekly demand and supply for a hat business was shown. The vast majority of responses identified the correct equilibrium price of €20 per hat.

1(a) (ii): Just over fifty per cent of responses achieved the full 3 marks by outlining the meaning of excess supply (1 mark) and making explicit reference to the data (as instructed in the question) for example, at price €30 supply exceeds demand by 55 hats (1+1 marks). The most common reason for not achieving full marks was a failure to refer to the data in the table provided.

1(a) (iii): As expected, the vast majority of responses secured the 2 marks available for correctly defining price elasticity of demand or showing the formula for this concept.

1(a) (iv): Almost seventy-five per cent of responses correctly recognised that total revenue would fall if Alison increased the price of her hats. This revealed an understanding of how to calculate total revenue from the data provided in the table.

1(a) (v): Although the responses recognised the meaning of total revenue and price elasticity of demand the majority did not understand the relationship between them. Over fifty per cent scored zero marks on this question! Note the specification states that price elasticity of demand should be taught through total revenue and not just the calculations.

Just over ten per cent of candidates achieved full marks by explaining the relationship from the data. One successful response stated:

'If demand is price elastic, that means that a percentage change in the quantity demanded will be greater than any percentage change in price. This means raising the price will decrease total revenue and lowering the price will increase it. Here, if Alison prices hats at €15, her revenue is €1200. However, as the price increases to €20, total revenue falls to €1000. Using knowledge of this relationship at the price elasticity of demand for her hats, Alison can decide how to manipulate price to increase her revenue, as she know that an elastic price elasticity of demand brings her higher revenue as a result of lower prices, and vice versa.'

The marks were gained by explaining the relationship between price elasticity of demand and total revenue, (such as total revenue falls when price is increased and total revenue rises when price is decreased - if demand is price elastic) (2 marks); offering two relevant total revenue calculations from the data also scored marks (1+1 marks).

1 (a) (vi): This was a straight forward question and some sixty per cent of responses achieved the full 3 marks available by defining division of labour (2 marks) and offering a relevant example (1 mark). The most obvious reason for not achieving full marks was in those responses which did not offer an example of division of labour – this could have been given from different industries and not just in hat production. It is crucial that candidates follow the instructions in each question in order to maximise their potential.

1 (a) (vii): The question on the disadvantages and advantages of the division of labour for workers was generally well answered and differentiated effectively between the quality of responses. Some forty per cent gained 4 marks out of the 6 marks available for explaining relevant advantages and disadvantages to workers.

However, one limitation of many answers involved a general discussion of the disadvantages and advantages to the firm rather than to workers. Again, this shows the importance for candidates to carefully read the instructions of each question. Another limitation was the failure to offer suitable evaluation. Nevertheless, there were some excellent answers and some fourteen per cent of candidates offered a relevant evaluative comment scoring 5 or the maximum 6 marks available. The following is an example of a candidate answer that achieved full marks:

'Division of labour can allow workers to build up experience in an area. As they do so, they may progress through the company and their careers, and will always be in a good position when job hunting. This in itself provides job satisfaction, and also their greater skill and efficiency should provide greater productivity for the firm, leading to greater profit and increased wages.

However, workers may also become bored and alienated from performing the same tasks repeatedly, often away from other workers. This leads to lower motivation and productivity, and ultimately a firm's profit will suffer – leading to the need to reduce costs and possibly cut wages and even make workers redundant.

Therefore, division of labour will benefit workers best if a firm provides enough variety, perhaps retraining for different roles every so often as well as the chance to progress and share in the company's success. This could include bonuses and even share options for staff. But if a firm simply leaves workers to become demotivated by mundane tasks and shares none of the benefit of division of labour then workers suffer more than they gain, and it is likely to lead to high staff turnover and failure in the company.'

The first paragraph explains advantages and the second paragraph considers disadvantages to workers and together they easily achieve the maximum 4 marks available for knowledge, application and analysis. The third paragraph secures 2 evaluation marks available by suggesting methods the firm could undertake to keep workers satisfied with the division of labour.

1 (b) (i)-(iv). These four multiple choice questions involved candidates identifying factors which might shift the demand and supply curves for mobile phones in the mobile phone market. Four options were made available.

Somewhat surprisingly, more candidates selected incorrect options for (b) (i) and (b) (ii) than the correct options: (b) (i) involved an increase in wages for workers in the mobile phone industry and so the correct effect was to shift the supply curve for mobile phones inwards to S2 (due to higher production costs); (b) (ii) involved an indirect tax being placed on mobile phones and so the correct effect was to also shift the supply curve for mobile phones inwards to S2 (due to the tax being placed on to the supply price of the good).

Candidates had more success with (b) (iii) and (b) (iv), with the majority selecting the correct options: (b) (iii) involved a health warning concerning the use of mobile phones and so the correct effect was to shift the demand curve for mobile phones inwards to D2; (b) (iv) involved a fall in the cost of silicon chips used in mobile phones and so the correct response was to shift the supply curve for mobile phones outwards to S1 (due to lower production costs).

1 (b) (v): This proved to be the most challenging question on the whole exam paper. Candidates were required to examine the extent to which government can influence market prices in a mixed economy. Unfortunately, many responses missed the point of the question and wrote just about government influencing prices in general in an economy. These answers typically focused on broad macro measures of fiscal and monetary policy. Discussion of changes in income tax rates or changes in interest rates was just too far removed from government influencing prices in specific markets.

Instead the stronger responses considered specific measures such as indirect taxes and subsidies on specific markets as well as their possible motives. The following response scored the full 6 marks:

'A mixed economy is where resources are allocated partly by the private sector and partly by the government. In Bangladesh the government controls expenditure on defence and law and order; the private sector controls the operation of agriculture and textiles.

The government influences the price of goods in markets through indirect taxes and subsidies. For example, an indirect tax on gas increases the cost of supplying this fuel and so firms try and pass on these extra costs to consumers via higher prices. The government can also subsidise basic foods such as rice which acts to lower prices and make them more affordable for the poor. Another way in which the government influences market prices is by operating a minimum wage. In the garment industry the government increased the monthly minimum wage by almost 80 per cent to $68 in 2014.The effect has been to increase the market price of garments but also reduce profit margins.

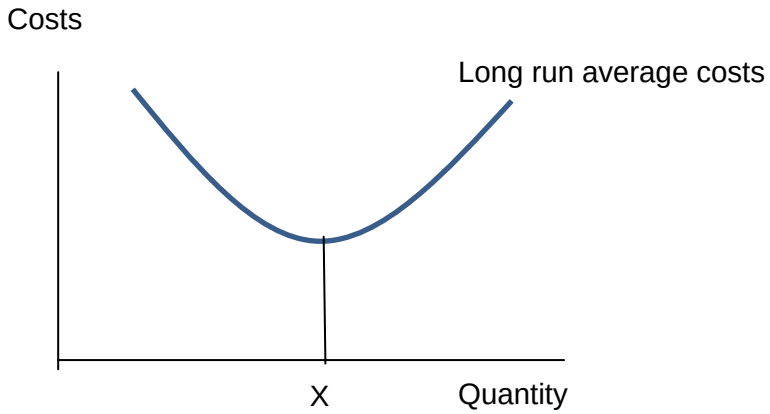
However, private enterprise also determines market prices of many goods. For example, an increase in demand for housing will lead to higher rents as landlords are able to raise their fees. It also encourages more people to enter the rental sector and so more resources are allocated to it.

In evaluation, the government is likely to subsidise merit goods which are helpful for society such as education and healthcare but tax demerit goods such as tobacco which are harmful to people – although there could be other motives for taxation such as raising revenue.'

Question 2

2 (a) (i): The majority of candidates correctly identified soft drink manufacturing firms as part of the secondary sector (1 mark).

2 (a) (ii): Almost half of candidates correctly labelled the diagram from the options available depicting a firm's long run average costs curve and so achieved the full 3 marks.



2 (a) (iii): Around half of candidates gained one or two marks by explaining the shape of the curve to the left of output X. Reference to economies of scale from the merger (1 mark) and a possible type (for example, purchasing of raw materials) (1 mark) was sufficient here.

2 (a) (iv): Similarly around half of candidates gained one or two marks by explaining the shape of the curve to the right of output X. Reference to diseconomies of scale from the merger (1 mark) and a possible type (for example, management co-ordination problems) (1 mark) was sufficient here.

Perhaps it was surprising that only around half of candidates managed to achieve some marks for questions (a) (ii), (a) (iii) and (a) (iv) as this is part of the core of the specification.

2 (a) (v): This question was highly accessible to most candidates and almost half gained 4 or more marks from a maximum of six marks. An explanation of the possible advantages and disadvantages of the merger between the two soft drinks firms was sufficient to secure these four marks.

However, many responses did not consider the possible impact of the merger on the economy and so just focused on the two firms involved and its consumers. The strongest answers considered the impact on the level of competition in the industry and the economy. Sometimes this extended to investigating government training programmes for workers who might find themselves made redundant from the merger.

2 (a) (vi): It was disappointing to find around sixty percent of responses achieving no marks for this question. Candidates were required to describe one method a government could use to prevent the disadvantages of mergers. The best answers referred to the importance of the competition authorities in taking action to reduce entry barriers and encourage the growth of small firms in an industry, through the use of subsidies. The main theme of a good answer here is to consider ways of promoting genuine competition or simulating conditions of competition in an industry by regulation if necessary.

2 (b) (i): A table was provided and candidates were required to calculate and describe what happened to labour productivity between 2013 and 2014 in a company making chairs and desks. Overall this was well answered with almost half of responses securing the full 3 marks available. Two marks were obtained by calculating output per head in 2013 (100 ÷ 10 = 10) and for 2014 (140 ÷ 10 = 14). Furthermore, by stating that labour productivity has increased the final mark was secured. It was also possible to achieve the marks by referring to an increase in labour productivity of 40% over the period.

The most common mistake was to just identify that total output increased by 40 desks and chairs, without calculating output per head. This revealed confusion between labour productivity and total output.

2 (b) (ii): The overwhelming majority of responses secured the 1 mark available by identifying ‘land’ as the missing factor of production from the list shown.

2 (b) (iii): Too many responses missed the opportunity of securing marks by confusing money with the economic concept of ‘capital’. Just over half of all responses scored zero marks! However, there were some excellent answers which referred to capital as ‘man made goods used to produce consumer goods’ (1 mark), ‘such as machinery or factories’ (1 mark).

It is important to recognise that some concepts in economics have a different meaning to their use outside of the subject.

2 (b) (iv): The question on describing one measure the government could use to encourage the use of more capital in the production process was answered quite well. Almost half of responses secured the full 2 marks available, with popular a measure being government grants or subsidies to firms for purchasing capital equipment and so lowering their costs of production. Other popular measures included tax breaks and interest free loans for the purchase of capital equipment.

2 (b) (v): This proved to be an effective question for differentiating between the quality of answers, especially at the top end of grades. Candidates were asked to explain whether they agreed with the view that for a manufacturing firm, an increase in labour productivity can only be achieved by increasing the amount of capital used in the production process. Almost half of responses achieved 3 or 4 marks out of the 6 available.

As usual, candidates are expected to offer both sides of the argument before offering a reasoned judgement to gain full marks as in the following response:

'No. The productivity of labour can be increased by offering new financial incentives to workers, such as piece rates and overtime pay. Non-financial incentives can also be given to workers, such as team working and job rotation, to help increase morale and reduce the boredom of workers.

However, workers could be given new specialist tools which would help increase productivity, as it would make their work easier. The layout of the work area may be improved to shorter internal travel times and make the production process more efficient.

In some cases, workers could be replaced entirely by machines and other technology, which may be more efficient, so undermining the role of labour in production. However, this new equipment may break down and be hard to replace, halting the production process altogether.'

This candidate achieved 4 marks from the first two paragraphs, offering both views on the importance of capital and other factors for increasing labour productivity. The last paragraph is a good example of reasoned judgement to secure the 2 evaluation marks available. The answer suggests that in some cases, labour may be removed entirely from the production process, but then qualifies this by considering the fact that machinery can break down and so halt production altogether, implying that some labour will always be needed to maintain production.

Question 3

3 (a) (i): This question required candidates to identify two major types of pollution and the majority achieved the 2 marks available. The most popular types of pollution identified were air, noise and water pollution.

Some candidates misread the question and referred to types of commodities or products that might cause pollution rather than the pollution itself, for example, petrol, coal and chemicals. These reponses were not awarded marks.

3 (a) (ii): This question required candidates to explain two reasons why reducing pollution is an aim of governments. This proved to be quite straightforward and three quarters of responses secured 2 or more marks. The important thing to remember is to offer some development on the two reasons given to achieve the full 4 marks available. The following example does this:

'The first reason is to improve health: Pollution can often lead to health problems such as lung cancer from polluted air. As a result the government faces higher costs in providing healthcare. The second reason is to achieve sustainable economic growth: Pollution may prevent this, for example, water pollution may cause fish to become inedible and this would harm both the fishing industry and tourism.'

3 (a) (iii): This question required candidates to explain two measures the government could take to encourage individual consumers to reduce energy consumption. It proved to be quite tricky for some candidates who focused on measures to reduce energy consumption for firms rather than consumers. Unfortunately a quarter of responses scored zero marks.

However, some excellent answers were offered; some considered government grants to households to better insulate their homes and so reduce the use of gas and electricity for heating. Others considered an increase in indirect taxes on petrol which would make motoring more expensive and so encourage consumers to leave their cars at home and switch to other modes of transport such as trains and cycling.

Another popular theme was government public information campaigns through the television or radio to encourage consumers to save on energy, for example, switching to energy efficient light bulbs or making sure lights are turned off when not in the room.

3 (a) (iv): This question required candidates to identify two measures a government could use to reduce pollution by firms. It proved to be quite straightforward and the majority of responses secured one or both of the marks available. Some responses were just too vague to be awarded marks, for example, 'taxing firms' or 'asking them not to pollute a river'. Instead, relevant answers were 'imposing a landfill tax on the waste that firms take to landfill' and 'imposing fines on firms that pollute rivers'.

3 (a) (v): Just over half of candidates selected the correct answer (building new schools) in this multiple choice question on the opportunity cost to the Chinese government of spending money to clean up pollution. This is a rather disappointing result since opportunity cost is at the heart of economics and distinguishes it from other subjects. The main incorrect distractor that many selected was 816 billion Yuan.

3 (a) (vi): The quality of these responses suggests that more attention should be paid to evaluating the effectiveness of measures to reduce pollution such as taxation and financial incentives. There were relatively few candidates who achieved 5 or 6 marks.

However, almost half of responses secured either 3 or 4 marks revealing an understanding of the methods in which taxation and financial incentives might operate to reduce pollution. Quite often one sided arguments were made, as in this example which achieved 3 marks:

'Taxation is likely to be a permanent process with fuel taxes and usage taxes being in place till another move by the government to reduce taxes. A financial incentive may only be a temporary measure as the government is unlikely to offer the financial incentive regularly as it needs to spend money elsewhere in the public sector. Therefore the tax is likely to be more effective as the firm or consumer would see it as a permanent fixture. It also raises finance for the government which could be spent on measures to reduce pollution further.'

The best responses considered both views, for example, that financial incentives might be better since *it gives encouragement to firms to reduce pollution. They might receive a grant which helps reduce production costs and give them credibility among the public. Moreover, some firms will avoid or evade paying taxes and so taxation might not be effective.'*

Evaluative answers were quite elusive but some appeared by considering the size of the financial incentives offered to firms which had to be greater than the loss in profits from carrying out pollution reduction measures, otherwise the firms might as well continue to pollute.

3 (b) (i): Candidates had few problems in identifying 2008 as the year inflation was highest for both Peru and Venezuela from the table shown, achieving the 1 mark available.

3 (b) (ii): This question proved to be problematic as many responses confused a fall in the inflation rate in Venezuela with a fall in the general level of prices and consequently scored zero marks. Less than twenty per cent achieved the full 3 marks by identifying that prices had continued to rise but at a slower rate between 2010 and 2011 (1+1 marks), explicitly stating the fall in inflation from around 30% to 26% (1 mark).

3 (b) (iii): The question on government action to reduce inflation in the short run proved to be the hardest of the multiple choice questions on the exam paper. Just over twenty per cent selected the correct option of the government increasing food subsidies (and so reduce prices of foods – which are included in the calculation of inflation). The most popular incorrect distractor was to select an increase in taxes on petrol.

3 (b) (iv): This was a good differentiator throughout the grade spectrum. Candidates were asked whether they agreed with the statement that no one benefits from inflation in an economy, giving reasons for their answer. Almost half of responses achieved 3 or 4 marks from a maximum of 6 on offer. Somewhat surprisingly, over a quarter of responses scored zero marks. These answers tended to recognise that inflation could be a problem but failed to offer concrete reasons.

The best answers offered balance by considering both views and then attempted to give a reasoned judgement or conclusion. One such candidate stated:

'*Lenders and consumers can suffer from inflation. This is because lenders find the money they are paid back is worth less in real terms, and consumers may feel unsure about unstable prices and how it is increasing the cost of living.*

However, by definition it means that borrowers can benefit from inflation, as the loans are easier and less to repay in real terms. Similarly, consumers may bring forward their spending in anticipation of further increases in prices. The government also gains through more tax revenue as expenditure increases as well as workers ending up in higher tax bands. Also other countries might have even higher inflation than ours, and so it could improve the balance of payments through more exports and less imports on the current account.

However, this depends largely on the cause and size of inflation. If a spike in aggregate demand is causing mild inflation, then nobody is likely to suffer too much. Yet if an economy is riddled with an excessive growth in the money supply and high inflation, leading to deep rooted structural unemployment, then it is far more serious. It leads to little long term benefit for anyone in the economy.'

The first two paragraphs easily achieved the 4 marks available for offering balance, and the last paragraph scored the 2 evaluation marks by considering the possible cause and magnitude of the inflation.

Question 4

4 (a) (i): The vast majority of candidates had no problems in selecting the correct answer to this multiple choice question – namely that 'dumping' is when a country exports its products to another country below the cost of production.

4 (a) (ii): This question required an explanation of two possible reasons why a firm might export its products below the cost of production. Almost three quarters of answers were able to offer at least one valid reason - the most popular being to get rid of excess stock which would otherwise go to waste. Another popular reason was to increase market share, reduce competition and eventually gain monopoly power, so that a firm could raise prices and profits in the long run.

4 (a) (iii): This question required balance concerning the impact of cheap imports on an economy. It was accessible to most candidates with half achieving 3 or 4 marks from a possible 6 marks available. Many took a one sided approach (and so secured 3 marks) and just assumed that cheap imports were always bad for an economy, for example, as one candidate explained:

'Cheap imports saturate the home market and increase competition while decreasing demand for domestic products. This will in turn reduce investment at home and reduce production of goods which mean fewer staff numbers and so unemployment will increase nationally. It could also worsen the balance of payments on current account.'

The better responses also offered potential benefits such as higher living standards for domestic consumers through cheaper prices as well as more employment in the import sector of the economy.

Evaluation proved elusive but a minority of scripts rose to the challenge, for example, discussion over the extent of import penetration. Some suggested that cheap imports of raw materials and components could actually help reduce production costs for domestic firms and so improve their international competitiveness and lead to economic growth.

4 (a) (iv) and (a) (v): The vast majority of responses successfully identified two measures a government could use to reduce imports, the most popular being the imposition of tariffs and quotas (1+1 marks). An alternative valid measure included the use of domestic subsidies.

Discussion on which of the two measures chosen would be more successful in reducing imports tended to be descriptive rather than analytical. Some answers also strayed off course, investigating the reasons why a government might want to limit imports.

However, many answers remained focused on the question at hand and the most common combined mark awarded was 6 from a possible 8 marks. The use of tariffs was seen as raising the price of imports and so reducing their demand as well as securing tax revenue for the government; the use of quotas was seen as setting a clear limit on the import of a good irrespective of the demand for it. Evaluation tended to appear in a discussion of price elasticity of demand for imports and whether suitable domestic alternative products are available.

4 (a) (vi): In general, the answers were quite limited as to reasons why the World Trade Organisation (WTO) encourages free trade between countries. Over half of responses were awarded just 1 or zero marks out of a possible 4 marks. Some responses were tautological in stating that the reason was to increase free trade and other answers focused more on improving diplomatic and social relations between countries.

However, the best responses considered the benefits that greater trade between countries could generate for consumers (namely, more choice, lower prices and higher living standards) (2 marks) and producers (namely, increased markets to sell products, improved product quality through competition and increased global economic growth) (2 marks).

Some responses also suggested that the WTO helps to reduce the dangers of trade wars by settling trade disputes and establishing a set of rules for the orderly conduct of free trade – both accepted as valid points.

4 (b) (i): Candidates are usually well prepared for questions on multinational companies and this proved to be no exception. Two-thirds of responses achieved the maximum two marks by defining a multinational company (a firm with production facilities in more than one country) (1 mark) and offering an example such as Apple or Coca Cola (1 mark).

4 (b) (ii): Over ninety per cent selected the correct option for this multiple choice question – namely that a multinational company which builds new shops in India is an example of foreign direct investment.

4 (b) (iii): This was another well answered question where more than a third of candidates secured the full four marks available and more than three quarters achieved at least two marks.

Candidates were required to explain one advantage and one disadvantage to India when a multinational retail company builds new shops in the country. A typical full mark answer recorded by one candidate was:

'One advantage of foreign direct investment is that it provides Indian workers with jobs which raises employment and living standards in the country, in both building and operating the retail shops, especially as little training is required to take on shop work.

One disadvantage is that other Indian retail firms might be unable to compete with the new multinational shops over prices and quality of products and so they may make losses and be forced to close down, leading to unemployment and poverty.

A minority of responses recorded low scores by misreading the question and focusing on the advantages and disadvantages to the multinational in building new shops in India.

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