

Examiners' Report/  
Principal Examiner Feedback

Summer 2015

Pearson Edexcel International GCSE  
in Economics (4ECO) Paper 01

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## General comments

This paper proved to be accessible for the vast majority of students and produced a wide range of responses. The standard was generally higher than it was in June 2014, with a notable improvement in the structure of answers to the six mark questions. There were some excellent scripts which were a credit to both the students themselves and their teachers.

Particular areas of the specification which appeared to cause difficulties for students this session are listed below:

- Interpretation of price elasticity of demand
- Understanding the difference between price elasticity of demand and price elasticity of supply
- Diagrammatical representation of elasticity of supply
- Explaining sources of economies of scale eg marketing economies of scale and technical economies of scale
- Understanding the difference between the current account deficit and the fiscal budget deficit
- Understanding exchange rates and factors that influence exchange rates

## Comments on individual questions

### Question 1

**Q01ai** - The majority of students were able to identify the correct response.

**Q01aia** - This question proved challenging for the majority of students with over half of students scoring less than 2 marks. The question required students to calculate total amount spent on cards following the price change and then explain the result. However, many students spent time trying to calculate price elasticity of demand. Centres are reminded that students are not expected to be able to calculate elasticity of demand at this level.

A good response is given below:

*When the price is €5, the total amount spent on cards is €1000 (€5 x 200).  
When the price is €6, the total amount spent on cards is €900 (€6 x 150).  
This shows that a price rise leads to a reduction in the total amount spent on cards of €100. This means that demand is price elastic.*

**Q01aib** - The majority of students were able to correctly identify two factors that will lead to a change in demand for cards. Students lost marks by not developing their points to describe why these factors lead to a change in demand. Many students did not develop their points within the context of 'Cards for You' an *online* provider of cards. The mark scheme allowed for the identification of any relevant factors that influence demand, but better answers developed points within the context of an *online retailer*.

A typical response is given below:

*One factor could be a rise in the birth rate which would mean that more birthday cards would be bought. A second reason could be that "Cards for You" has run an advertising campaign which has increased awareness of their product, which means that more customers now want to buy personalised cards from them.*

**Q01aiv** - The majority of students were able to accurately define price elasticity of supply. The most common error was to give the definition of price elasticity of demand.

**Q01av** - Two-thirds of students selected the correct response of 'diagram C'. The most common error was to select 'diagram A'.

**Q01avi** - A fifth of students scored zero. The most common error was to discuss factors influencing price elasticity of *demand* rather than price elasticity of *supply*. Those students who correctly focused on price elasticity of supply typically scored at least four marks. A comprehensive response is given below:

*Flowers are an agricultural good which means that the supply would be inelastic in the short run. This is because flowers take time to grow. This means that if there is a sudden increase in the price of flowers the flower supplier would not be able to respond quickly and increase supply by a lot. How quickly the flower grower could respond to a change in price would also depend on the season. The supply of flowers may be more responsive (ie more elastic) in the spring and summer. However, in the long-run if the flower grower thinks that the price rise is likely to stay they may decide to grow more flowers or use special greenhouses to increase flower crops.*

*Cards are a manufactured product. This means that the card manufacturers can respond relatively quickly to a change in price. A 10% increase in price would lead to a more than 10% increase in supply. This is because the length of the production process for making cards is much shorter than growing flowers, it requires few raw materials, which are easily available eg printing machine, paper, inks etc. The price elasticity of supply of cards is also more elastic than flowers because it is easy to store finished cards whereas to store flowers after they have been cut is difficult because they are perishable. However, the supply of cards may become less responsive to a change in price (ie more inelastic) if the card factory machines are working at full capacity or if the warehouse storage area is full, or if the factory runs short of printing ink.*

**Q01bi** - Almost 40% of students scored full marks on this question. The most common error was to shift either the supply or demand curve rather than showing the introduction of a new national minimum wage above the current market equilibrium wage rate.

**Q01bii** - The majority of students were able to discuss whether the advantages of a national minimum wage outweighed the disadvantages for *an economy*. Students are reminded that to achieve full marks they need to give a justified conclusion. A good response is given below:

*A national minimum wage results in an improvement in standards of living, especially for minority or disadvantaged groups (eg women). It particularly benefits poorer people who have fewer skills and fewer job opportunities. They would typically be paid a low wage and the introduction of a national minimum wage is likely to increase their level of income and mean that they can buy more goods and services and reduce the level of poverty in society.*

*However, the introduction of a national minimum wage will increase business costs. This may mean that firms decided to reduce staff numbers (ie lay off staff) to maintain profit margins. This would mean that the level of unemployment would increase, which would mean low income people would be worse off than they were before the minimum wage was introduced.*

*However, whether the potential rise in unemployment would happen is debatable; it depends on whether or not the firm decides to absorb the increase in wage cost, by reducing profit margins. If they do this then unemployment would not rise. It also depends on whether or not labour productivity increases following the introduction of a minimum wage, if it does then the firm won't mind paying a higher wage to workers.*

**Q01ci – ciii** - This question proved very accessible for students. Over 85% of students achieved full marks.

## **Question 2**

**Q02ai** - A pleasing majority of students achieved full marks on this question.

**Q02aii** - Over 90% of students were able to successfully identify an occupation in the primary sector of an economy.

**Q02bi** (1-4) - The majority of students were able to successfully distinguish between fixed and variable costs.

**Q02bii** - A third of students achieved full marks for this question, correctly identifying that the wage of the full time member of staff is classified as a fixed cost because the full time member of staff is paid the same amount each week regardless of the number of guests in the hotel (ie fixed costs do not vary with output). The most common error was to state that the wage of the full-time member of staff was classified as fixed cost because they work full time.

**Q02biii** - Almost 90% of students identified the correct formula for average costs.

**Q02biv** - A third of students were unable to successfully identify a marketing economy of scale. The best answers focused on the context of the question. A good response is given below.

*They can advertise all of their hotels with one advert, rather than advertising each hotel separately. This means they would spread the cost of one advert over many hotels. This would reduce the average cost of advertising per hotel.*

**Q02bv** - This question was more accessible to students than 2biv. Approximately 75% of students were able to successfully identify and explain a technical economy of scale.

**Q02bvi** - This question was well answered by students. Students found the structuring of the questions accessible with many moving on to make a justified conclusion to access the final two marks.

**Q02ci** - Almost half of students were able to correctly identify and explain one non-financial scheme a government could use to encourage and support small firms in the economy. The most common error was to identify and explain a *financial* method of support.

**Q02cii** - This question proved challenging for students, with many failing to achieve a balanced argument. Good responses tended to firstly address why providing support to small businesses would be beneficial before moving on to explain and discuss other factors that might help promote competition. A common error was for students to focus much of their discussion on *how* the government could support small business; such answers typically scored low marks. A comprehensive response is given below:

*One of the roles of government in the economy is to promote competition and prevent anti-competitive practices. Supporting small business is a good way of promoting competition because – with support - small businesses will be able to survive and grow into larger businesses and will be able to compete with the larger firms that are in the market already. This will give consumers more choice and will help stop big firms exploiting customers. In addition, supporting small business is good because it will increase employment and will also encourage innovation in the economy. This will also force big firms to become more innovative too because they don't want to lose customers. This would lead to an increase in productivity and a more efficient allocation of resources – which is good for the whole economy.*

*However, there are other things that the government could do which might be better at promoting competition. For example the government could focus on introducing more anti-competitive legislation. This might be more effective than focusing on supporting small firms, because most anti-competitive behaviours tend to be carried out by large firms (eg the energy market in the UK). The government could also look at lowering barriers to entry and encourage multinationals to enter the country to compete with the existing large firms. It is also not guaranteed that small businesses will survive or if they do survive they may be taken over by a larger firm in the market. Hence, supporting small firms is not guaranteed to lead to a long run increase in competition in the market place. It could be that some markets are more efficient when they have a few large firms (eg the energy market) because of economies of scale. In these markets supporting small firms would not be the best way to promote competition – it would be better to regulate the behaviour of large firms in the market instead.*

### **Question 3**

**Q03ai** (1-3) - The majority of students correctly classified the three items. The most common error was to list hotel rooms as a visible rather than invisible.

**Q03aii** - The succinct definition of the total *value* of imports exceeding the total *value* of exports was rarely given. Over half of students opted for simply stating that imports were greater than exports – which scored one mark.

**Q03aiii** - A quarter of students confused the fiscal budget deficit and the current account deficit; such answers were awarded zero marks. Those who did not make this error tended to build a balanced argument.

**Q03aiv** - This question was well answered by the majority of students.

**Q03bi** - The majority of students selected the correct response for this question.

**Q03bii** - The majority of students were able to select at least one relevant item of government expenditure.

**Q03biii** - Over 50% of students achieved full marks on this question, giving clear and precise definitions and examples. The most common error was to omit an example of the type of tax.

**Q03ci** - This question required students to build a clear chain of argument. Many simply stated that cars and lorries led to pollution because they use petrol. Other students chose to argue against the view that cars and lorries are a major source of pollution by referring to the development of more fuel efficient cars which emit fewer harmful emissions. These responses were credited.

**Q03cii** - This question was well answered by the majority of students. Many students were able to build a balanced argument and reach a considered conclusion. There were many examples of excellent exam technique.

#### **Question 4**

**Q04ai** - Almost 90% of students were able to accurately define the key term.

**Q04aii** - The majority of students found this an accessible question to gain two identification marks. The remaining two marks were available for development of the point.

**Q04aiii** - This proved to be a very accessible 6 mark question. Almost half of all students were able to build a balanced two sided argument. There were some impressive full mark answers.

**Q04bi** - Two thirds of students chose the correct answer. Centres are reminded of the need to ensure that students can correctly interpret exchange rate data.

**Q04bii** - Students continue to find it challenging to explain exchange rate changes using data. A good response is given below:

The pound depreciated against the euro because in 2013 one pound could be exchanged for fewer euros than in 2012. In 2012 £1 = €1.21 whereas in 2013 £1 = €1.19. Whereas, in 2013, one pound could be exchanged for more Australian Dollars than in 2012. eg 2012 £1 = AUD\$1.55 whereas in 2013 £1 = AUD\$1.59.

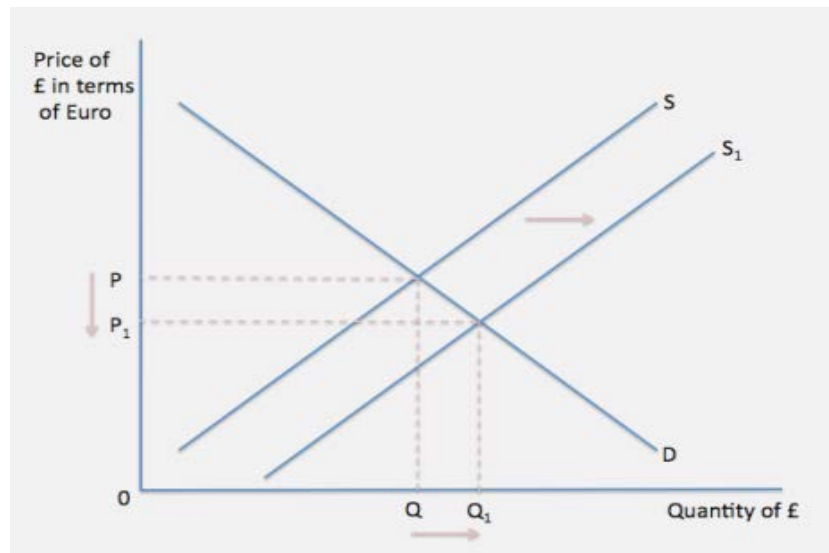
**Q04biii** - This question proved challenging to students with over a third of students being awarded zero marks. A good response is given below.

*If interest rates rise in the UK, this will encourage an inflow of hot money into the UK from other nations. This is because it is now more attractive to save in UK banks. This will increase the demand for the £ because foreign money will need to be exchanged into £s to be put in UK banks. This increase in the demand for the £ will lead to an appreciation of the exchange rate. This means the £ would get stronger (ie £1 would now buy more Euros).*



**Q04biv** - This question proved challenging to students with over a third failing to achieve a mark. A good response is given below.

*If the demand for imports rises then the home country will demand more foreign currency. To get the foreign currency it will need to exchange the home currency for the foreign currency to be able to pay for the foreign goods. This will increase the supply of the home currency on the foreign exchange markets which means that the exchange rate will fall (depreciate). This is shown as the supply curve of the home currency shifting outwards.*



**Q04bv** - This was a challenging question, but around a third of students were able to build a balanced argument, many reaching excellent justified conclusions. Several students seemed to confuse the concepts of depreciation and deflation. A comprehensive response is given below:

*The depreciation of a country's currency will mean that exports appear cheaper to foreign buyers and imports seem to be more expensive. This should mean that demand for exports will rise and the demand for imports will fall. This should mean that the current account balance improves (ie a current account deficit would fall). This could be good for the country as it could lead to export led growth and more jobs in the export industries, which would reduce unemployment.*

*However, fewer imports will also decrease consumer choice at home, which might reduce the standard of living of the country. A depreciation of the currency could also lead to cost push inflation, because the price of any imported raw material used by firms at home would increase. This would increase costs of production which could be passed on to consumers in the form of higher prices in the shops (ie inflation).*

*However the final impact on the current account of the balance of payments and on the economy would depend on the price elasticity of demand for the products. If the imports are necessities (ie price inelastic) eg oil (or if there is not domestic alternatives available) then the rise in the price of imports will mean that imports will not fall by much and the amount spent on imports will actually rise. Similarly if the demand for exports is price inelastic (or if the country does not actually make things that other countries want), then a fall in price of exports will actually lead to a fall in revenue received. This means that depreciation may actually lead to a deterioration of the current account of the balance of payments, a reduction in growth and an increase in inflation.*

## **Grade Boundaries**

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