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Principal Examiner Feedback

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Pearson Edexcel International GCSE
in Economics (4EC0) Paper 01

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International GCSE In Economics (4ECO) Paper 01

General comments

Teachers should read through this report and make a note of the common mistakes made by students. Particular areas of the specification which appeared to cause the most serious problems for students included:
- Economies of scale
- Factors limiting the growth of firms
- Budget deficit - confusion with trade deficit
- Role of the World Trade Organisation
- Role of interest rates in determining exchange rates

Specific comments

Question 1
(a) (i) The majority of students were able to identify "substitutes" as the correct response.

(a) (ii) (A) – (a) (ii) (D). Over 90% of students were able to correctly label the diagram. The most common error was to mislabel the supply and demand curve.

(a) (iii) Almost 50% of students failed to score any marks on this question. Centres are advised to review teaching of the concept of substitutes and that diagrams are an essential tool for both the understanding and analysis of demand and supply. Several students also chose to redraw the whole diagram at the bottom of the page - marks were credited for this but Centres are asked to remind students to follow the instructions of the question which asked students to show the effect "on figure 1b".

(b) (i) The succinct definition of "an increase in the average age of the population" was rarely given.

(b) (ii) The majority of students were able to identify "Norway" as the correct response.

(b) (iii) A number of students failed to discuss other factors that affect demand (eg advertising, income, fashion, other products, i.e. complements and substitutes) choosing instead to develop arguments solely relating to changes in population. The best answers focused on the *extent to which* population changes are the *main* factor affecting demand for mobile phones.

A good response is given below:

Demand for a particular product such as a mobile phone depends on many factors; one of these factors is population. If the population increases then there would be an increase in demand for mobile phones. Furthermore if there was a change in the age distribution of the population then this might also change the demand for mobile phones. This is because at present mobile phones seem to be more popular with younger generations than the older generations. However, population changes are not the only thing that would influence the demand for mobile phones. There are lots of other factors that influence the level of demand for mobile phones eg changes in tastes, fashions and the availability of substitutes and income. Arguably, income levels are a more important factor determining the demand for phones than population changes. This is because even if the population was rising, if the average income of consumers was falling then there may not be an increase in the demand for mobile phones. For instance if there was an economic recession, there may be less demand for mobile phones. This means that income changes may be a more significant factor than changes in the population when determining the demand for mobile phones.

(c) (i) This question posed problems for a third of students. This question required students to deduce the correct answer from the question stem. Several students chose not to select any response. The correct response was "3.2 million private sector workers earned less than 900 ringgit per month".

(c) (ii) Almost half of all students achieved full marks on this question. The most common error was to confuse the private/public sector with a private/public limited company.

(c) (iii) This question posed problems for the majority of students. There was often confusion between *minimum* wage and the concept of a *living* wage. A significant number simply stated that living costs were higher in cities therefore the national minimum wage in cities was higher, without explaining why this meant that the minimum wage was higher. The correct approach would be to have included an explanation of why higher living costs leads to a higher minimum wage eg it is harder to attract labour to the cities because living costs are higher in cities. Students who explained the difference in terms of labour demand or labour supply side factors scored well.

(c) (iv) The majority of students were able to give both sides to the argument for a minimum wage. Students are reminded that to achieve full marks they need to give a justified conclusion. A minority of students included a diagram. Students are encouraged to use diagrams where appropriate to develop their arguments.

Question 2

(a)(i)- (a) (ii) A pleasing majority of students achieved full marks on this question. Some students chose to only write the answer to the question. The question specifically asked students to show workings and hence a mark was reserved for workings or a formula.

(a) (iii) – (a) (iv) The majority of students were able to identify "variable costs" as the correct response and went on to give a good explanation.

(a)(v)-(a)(vi) Almost half of students scored full marks. The expected response to (av) was to identify rent and insurance as a fixed cost (€550), however credit was given for the inclusion of *heating and lighting* in the calculation (€650), if the candidate was able to explain in part (avi) why heating and lighting was a fixed cost as opposed to a variable cost.

(a)(vii) This question proved challenging for students, within many failing to achieve a balanced argument. Good responses tended to stay focused on the question and firstly addressed why lack of finance is an important limitation on growth before moving on to explain and discuss other factors that might limit growth. The use of example to illustrate points helped develop the depth of arguments. Good evaluation focused on whether or not lack of finance was the *most* important limitation on growth with a reasoned judgement to support the view.

(b)(i) A third of students failed to identify the correct definition of economies of scale. The most common error was to select either "as output increases fixed costs fall" or "as output increases long run total costs fall".

(b)(ii) Students found it hard to apply the concept of economies of scale to give reasons why supermarkets have a high market share in the sale of confectionary. Typical responses merely stated sources of economies of scale (eg marketing, technical, financial, managerial, risk-bearing) but failed to explain why this leads to an increase in market share.

(b)(iii) A pleasing number of students were able to correctly identify two types of non-price competition. The most common responses being "advertising" and "improve customer service".

(b)(iv) This question proved challenging for students. The best responses adopted the approach of first explaining why oligopolies *might* limit consumer choices and then why oligopolies *might not* limit choice. The use of good examples helped to add depth to both arguments. This then enabled the candidate to reach a justified conclusion.

Question 3

(a)(i) Almost all students were able to identify "Nigeria" as the correct response.

(a)(ii) This question required students to refer to the data in the diagram. A significant number of students stated that Greece experienced a negative growth of 6% growth. This was awarded zero marks as the graph clearly shows that negative growth rate was closer to 7%.

(a)(iii) and (a)(iv) It was pleasing to see that the majority of students were able to access at least 2 of the 3 marks available - for both the explanation for the rate of interest and for the government expenditure increasing economic growth

(a) (vii) This question was very 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.

(b) (i) More than 90% of students correctly identified the year when the budget deficit was the greatest. However only half of those students were then able to give an explanation with some reference to the data .

(b) (iv) It was disappointing that a number of students confused a budget deficit with the trade deficit. Students also struggled to explain reasons why reducing the budget deficit might not lead to an increase in unemployment. The best responses adopted the approach of first explaining why reducing the budget deficit might lead to an increase in unemployment followed by why reducing the deficit might not lead to an increase in unemployment. The use of good examples helped to add depth to both arguments. This then enabled the candidate to reach a justified conclusion.

Question 4

(a)(i) The majority of students were able to successfully use the data to describe changes in world trade. The final mark was awarded for recognising that even though world trade by volume for the developed world had declined it was still higher than the developing world in 2010 (or vice versa)

(a)(ii) The best answers to this question successful outlined the role of the WTO (eg promote free trade, resolve trade disputes, set the rules for world trade) and explained why this would benefit developing countries.

(a)(iv) This was a challenging question for students. A third of students were able to give a balanced response to this question. The best answers focused on the key words of the question. An excellent response is given below:
I do not agree for a number of reasons. On the one hand, tariff barriers reduce the incentive to import by raising prices. This is effective as it means people are now less willing to import goods because domestically produced goods are now either cheaper or more competitive. On the other hand, as the price of imported goods rises people may still chose to buy it - which would mean a tariff is not that effective at reducing imports as it would depend on what the good is. For example a net oil importer would still need to import oil even if a tariff were placed on it if there were no domestic alternative. On the other hand non-tariff barriers such as quotas or embargos make it impossible to import goods over a certain amount legally and thus are more effective than tariffs in reducing imports. Furthermore, the effectiveness of tariff barriers will depend on the price elasticity of demand for the good. Whilst non-tariff barriers will always be effective, an inelastic price elasticity of demand will result in little or no change in demand following the introduction of a tariff, whilst an elastic good would make the tariff more effective in that instance.

(b)(i) This question was well answered by almost all students, the majority of which got full marks.

(b)(ii) The majority of students were able to identify "Euro" as the correct response.

(b)(iii) This question was not well answered. A minority of students included a diagram to help explain why a change in interest rates could lead to a depreciation of a country's currency. A good response is given below:
A decrease in a country's rate of interest will lead to an increase in supply of the country's currency. This is because people will now want to save money in a country where interest rates are higher. This means that following an interest cut, people will sell the domestic currency and buy foreign currency so that they can save money in the other country. Hence the supply of domestic currency increases on the foreign exchange market which leads to a depreciation of the domestic currency.

An alternative good response is given below:
Following a reduction in interest rates in a country then overseas investors would not want to save money in the banks in that country. This means that there would be a reduction in demand for the country's currency on the foreign exchange markets. This reduction in demand would mean that the exchange rate depreciates.

(b)(iv) A third of students failed to identify the correct response. The most common error was to select "visible exports - visible imports".

(b)(v) This was a challenging question but a pleasing number of students were able to focus their arguments on reasons why a depreciation would improve the current account (eg exports cheaper, imports more expensive) and reasons why it might not (eg depends on price elasticity of demand, nature of the good imported (eg oil may still need to be imported). This enabled them to provide a justified conclusion as to whether or not depreciation *always* improves the current account.

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