



**Cambridge Assessment
International Education**

Example Candidate Responses – Paper 2

Cambridge IGCSE™ / IGCSE (9–1)

Economics 0455 / 0987

Cambridge O Level

Economics 2281

For examination from 2020



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Introduction

The main aim of this booklet is to exemplify standards for those teaching Cambridge IGCSE / IGCSE Economics (9–1) 0455 / 0987 and Cambridge O Level Economics 2281, and to show how different levels of candidates' performance (high, middle and low) relate to the subject's curriculum and assessment objectives.

In this booklet, candidate responses have been chosen from the November 2020 exam series to exemplify a range of answers.

For each question, the response is annotated with a clear explanation of where and why marks were awarded or omitted. This is followed by examiner comments on how the answer could have been improved. In this way, it is possible for you to understand what candidates have done to gain their marks and what they could do to improve their answers. There is also a list of common mistakes candidates made in their answers for each question.

This document provides illustrative examples of candidate work with examiner commentary. These help teachers to assess the standard required to achieve marks beyond the guidance of the mark scheme. Therefore, in some circumstances, such as where exact answers are required, there will not be much comment.

The questions and mark schemes used here are available to download from the School Support Hub. These files are:

0455 November 2020 Question Paper 22
0455 November 2020 Paper 22 Mark Scheme

Past exam resources and other teacher support materials are available on the School Support Hub:

www.cambridgeinternational.org/support

How to use this booklet

This booklet goes through the paper one question at a time, showing you the high-, middle- and low-level response for each question. The candidate answers are set in a table. In the left-hand column are the candidate answers, and in the right-hand column are the examiner comments.

Example Candidate Response – low	Examiner comments
<p>ii) It will help in the maintenance of irrigation systems and casual labour. 4</p>	<p>4 Two more costs are given here, one fixed and one variable. Only the first two costs given are considered. Mark for (b) = 1 out of 2</p>
<p>c) The true cost of giving up something to get. By because fires have destroyed many destroyed many species. 5</p>	<p>5 This is a vague statement.</p>
<p>d) The destruction of forests in Indonesia will cost them a lot of money 6 many a wildlife animals will not have homes</p>	<p>6 This is not a cost of conserving the forests.</p>

Answers are by real candidates in exam conditions. These show you the types of answers for each level. Discuss and analyse the answers with your learners in the classroom to improve their skills.

Examiner comments are alongside the answers. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams so you can help your learners to refine their exam technique.

How the candidate could have improved their answer

- The candidate needed to pay more attention to the stimulus material and answer the questions in more depth.
- (b)** The candidate gave four costs when the question asked for two variable costs. In such a case, only the first two costs identified are considered. In this case, the first two

This section explains how the candidate could have improved each answer. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.

Common mistakes candidates made in this question

- (a)** Making numerical errors.
- (b)** Listing all the costs mentioned in the source material without separating out two variable costs.
- (c)** Not explaining the meaning of opportunity cost and not basing the answer on an opportunity cost that can be found in the source material. A number of candidates also gave an opportunity cost of producing palm oil rather than of conserving forests.
- (d)** Not exploring the external costs identified. Some candidates confused external cost with private costs and explained for instance, rent.

Often candidates were not awarded marks because they misread or misinterpreted the questions.

Lists the common mistakes candidates made in answering each question. This will help your learners to avoid these mistakes and give them the best chance of achieving the available marks.

Question 1

Example Candidate Response – high

Examiner comments

Question	Part	
1	(a)	Palm oil produced by Indonesia → 36.0 Palm oil produced by world → 60 Therefore $\frac{36}{60} \times 100 = 60\%$
1	(b)	Fertilizer Palm oil seeds
1	(c)	An opportunity cost of conserving forests in Indonesia is the land foregone that could have been used in the production of Palm oil
1	(d)	An external cost is a cost to a 3rd party as a direct result of the production or consumption of a good or service. One external cost of the destruction of forests is the loss of habitat for wildlife. Another external cost is the release of harmful gases into the air

1 An accurate calculation.
Mark for (a) = 1 out of 1

2 Two relevant costs are identified.
Mark for (b) = 2 out of 2

3 The candidate should explain that this may be the best alternative.
Mark for (c) = 1 out of 2

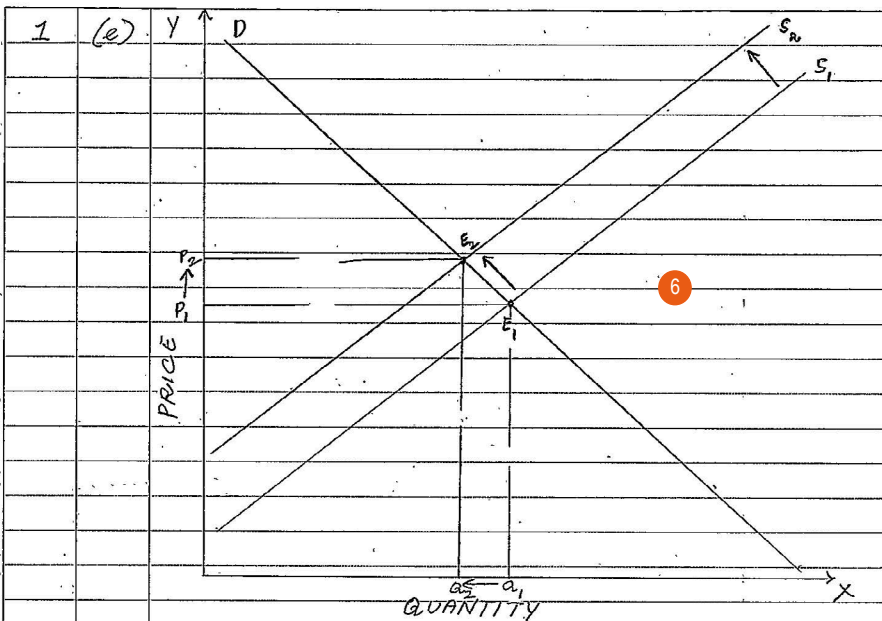
4 The candidate needs to explain why this loss of habitat will be a cost to the wildlife.

5 The candidate needs to explain how the harmful gases can have a cost on 3rd parties.
Mark for (d) = 2 out of 4

Example Candidate Response – high, continued

Examiner comments

Question Part



Lower quantity traded at higher price.

1	(f)	<p>The expected relationship between GDP per head ranking and HDI ranking is a direct or positive one. As one ranking improves, so does the other's and vice versa. Reasons for this could be that with a higher GDP per head, people can generally afford more goods, services and luxuries, coupled with better healthcare and education which improves the standard of living and HDI ranking. Evidence for the expected relationship is Luxembourg which has a high ranking in both aspects, as well as</p>
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6 This is a good diagram. It is well-labelled, clear and accurate. The candidate writes one sentence but does not waste much time on a written explanation that is not required. Mark for (e) = 4 out of 4

7 The expected explanation is clearly set out.

8 Understanding of the components of HDI is shown here.

9 Evidence is provided in support of the data.

Example Candidate Response – high, continued

Examiner comments

Question Part

1	(f)	<p>Ethiopia and Ghana, which have poor ranks in both but as per the relationship, Ghana places better than Ethiopia. Evidence against the expected relationship is Cuba, which has a low GDP per head ranking, but a high HDI ranking that is almost on par with that of Mauritius, possibly due to having better healthcare and education than most countries.</p>
1	(g)	<p>The immigration of workers would be likely to benefit the Indonesian economy because it is possible that the workers could be skilled, bringing with them better output productivity and experience to boost output and consequently economic growth. This is due to improvements in efficiency. Moreover, the immigration of workers would mean a higher tax revenue for the Indonesian government that could be spent on macro-economic aims like employment and welfare.</p> <p>However, this could be a drawback for the economy because workers may not be skilled. Moreover, there is greater competition for resources and jobs which can strain the economy's resources and create overcrowding. The increased demand could also lead to demand pull inflation and a deficit on the Balance of Payments due to increased importing.</p>

10 There is further supporting evidence here.

11 A relevant exception is identified here and, at this point, full marks are awarded.
Mark for (f) = 5 out of 5

12 There is strong consideration of how immigration of workers could benefit Indonesia. Points are well linked and maximum marks are awarded on this side.

13 The candidate recognises that immigration may result in overcrowding and could have a negative effect on the balance of payments.
Mark for (g) = 6 out of 6

Example Candidate Response – high, continued

Examiner comments

Question Part

1	(h)	<p>The Indonesian tourism industry may rise in the future because tourists from other countries may see a rise in disposable income, this would create more demand for tourism in Indonesia, creating more revenue and allowing the industry to grow. Indonesian advertisement campaigns could make Indonesia a more attractive tourist destination, allowing the industry to grow. The competitive Indonesian prices could also attract more tourists. Other prices may also be less competitive, attracting tourists.</p> <p>14</p> <p>However, the industry may not increase because tourists may see a fall in income meaning that they will not spend it on travelling to Indonesia. Moreover, with a greater income, tourists may spend their money visiting more luxury tourist destinations rather than Indonesia. Also, due to the loss of natural beauty as a result of palm oil production, ecotourism may decrease.</p> <p>15</p> <p>16</p>
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14 Again, full marks are awarded on the first side. There is good coverage of changes in global income, advertising affecting the attractiveness of Indonesia as a tourist attraction and the competitiveness of the Indonesian tourist industry.

15 In the first two sentences, the candidate just writes the reverse of what appeared in the first paragraph.

16 The last sentence does enable the candidate to be awarded full marks for this answer as it explains how palm oil production could reduce ecotourism. Mark for (h) = 6 out of 6

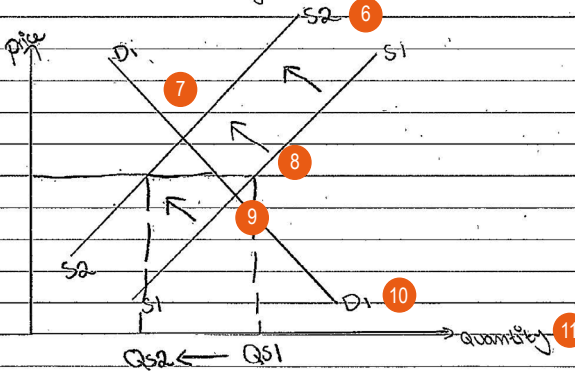
Total mark awarded = 27 out of 30

How the candidate could have improved their answer

- (c) The candidate did recognise that a possible opportunity cost of conserving forests is the production of palm oil but did not explain that this may be the (next) best alternative foregone (given up).
- (d) The candidate needed to explain how the loss of wildlife and release of harmful gases impose costs on third parties.

Example Candidate Response – middle

Examiner comments

Question	Part	
Q1	a	$\frac{60.0}{36.0+60} \times 100 = 62.5$ ①
	b	fertiliser maintenance of irrigation ②
	c	is the next best alternative chosen along with its harms if Indonesia conserves the forest the opportunity cost is the land manufacture of palm oil. ③ ④
	d	destruction of homes of many species. ⑤ release of harmful gases.
	e.	 When supply of there is a ban on burning of straw the supply ^{of rice} decreases & p but Price and demand does not change So supply shifts to the left. ⑫

① The candidate makes a mistake here. It should have been 36 divided by 60 and then multiplied by 100. Mark for (a) = 0 out of 1

② The first cost identified is a variable cost but the second cost is a fixed cost. Mark for (b) = 1 out of 2

③ It should be foregone (given up) rather than chosen.

④ The candidate does identify a relevant opportunity cost here. Mark for (c) = 1 out of 2

⑤ The candidate identifies but does not explain the two relevant external costs. Mark for (d) = 2 out of 4

⑥ This is the correct shift in the supply curve.

⑦ The second equilibrium point should be shown here by lines to the axes or by E2.

⑧ This is not an equilibrium point.

⑨ The equilibrium should be here.

⑩ The demand and supply curves are accurately labelled.

⑪ The axes are correctly labelled.

⑫ A written explanation is not needed. Mark for (e) = 3 out of 4

Example Candidate Response – middle, continued

Examiner comments

Question Part

Question	Part
f	<p>luxembourg had the lowest GDP per head and HDI ranking compared to ethiopia which had the highest GDP per head and HDI ranking. Mauritius had a GDP of 64 per head of 64 and a HDI ranking of 64 which are equal to each other like Ghana. 134 was both GDP per head and HDI. Cuba's GDP per head was higher than its HDI which compared to the other countries like India their HDI was higher than the GDP.</p>
g	<p>immigration could benefit the Indonesian economy as there will be more labour force could be skilled workers, so more quantity produced and quality, more profit for firms, firms could expand and make more investments, so higher GDP, causing economic growth.</p> <p>immigration could not benefit the Indonesian economy as, new labour force could take jobs of other people, causing unemployment, so government will have to pay unemployment benefits which could have been used to build hospitals, thus lowering GDP and not causing economic growth.</p>

13 The candidate is not clear about what the data is showing.

14 There is no interpretation here.

15 Again, the candidate is not clear about what the data indicates. Mark for (f) = 0 out of 5

16 The candidate explores how immigration could increase the size of the labour force. The workers could be skilled and, as a result, economic growth could occur.

17 The candidate recognises that workers from other countries could replace some Indonesian workers. The size of the labour force, however, will increase, so the overall unemployment rate may not rise. An increase in government paying unemployment benefits will not in itself cause a fall in GDP.

Example Candidate Response – middle, continued

Examiner comments

Question Part

	g	<p>immigration could not benefit the Indonesian economy as more people entering the country could increase the population, and the from the resources in the country may not be enough causing resource drainage, ¹⁸ so decreases exports resources will be more expensive due to the demand, causing demand-pull inflation, causing the ¹⁹ foreign direct investments to decrease due to the uncertainty of the prices, thus decreasing investments from local firms which it will cause GDP to decrease and the economic growth will decrease.</p>
→	H.	<p>Indonesian tourism industry may increase in the future due to high paying jobs, which could attract more labour force to work harder to keep the job, so ²⁰ more quality and quantity, so better standard of living. ²¹</p>
		<p>Indonesian tourism industry may increase as natural tourist attraction are price competitive, so more quality produced by firm ²² and lower prices to compete with other firms, so more people are able to afford products, so better standard of living.</p>
	H.	<p>Indonesian tourism industry may not increase in the future. Foreign exchange rate falling ²³ less firms will invest and investors investing in the economy. less quantity of products produced so less exports. Supply of products while there is still demand causing supply shortage, causing prices to increase so more demand pull inflation, less ²⁴ spending in the economy, less foreign direct investment, tourists won't enter country since they are unsure of prices.</p>

¹⁸ The candidate recognises a relevant possible disadvantage.

¹⁹ The candidate does not establish why inflation may occur since both total demand and total supply are likely to increase.
Mark for (g) = 5 out of 6

²⁰ The candidate should recognise here that the workers are highly skilled workers.

²¹ This is a relevant possible reason why Indonesian tourism may increase in the future.

²² The candidate shows an awareness that Indonesia has natural tourist attractions and that they are price competitive.

²³ The fall in the exchange rate is more likely to result in a rise in tourism as it would make it likely to reduce the price that foreign tourists have to pay.

²⁴ Again, the candidate does not establish that inflation will occur.
Mark for (h) = 3 out of 6

Total mark awarded = 15 out of 30

How the candidate could have improved their answer

- **(a)** The candidate used the incorrect method to calculate a percentage change.
- **(b)** The candidate needed to identify two variable costs but actually identified one variable cost and one fixed cost.
- **(c)** The candidate did recognise an appropriate opportunity cost but needed to make it clear that opportunity cost is not the next best alternative chosen but the next best alternative foregone.
- **(d)** The candidate identified two relevant external costs but did not explain them. For instance, the candidate could have explained that the release of harmful gases could cause people living nearby to become ill.
- **(e)** The diagram drawn was generally good, but it did not show the original and the new equilibrium positions. When drawing a diagram to show the effects of changes in market conditions, equilibriums should be shown. The candidate could have saved time in answering this question as a written explanation was not required. When candidates are asked to 'Draw a diagram to show ...', a diagram only is needed.
- **(f)** The candidate needed to think very carefully about what the data was showing before starting to write their answer. The candidate was not clear about the nature of GDP per head and HDI rankings.
- **(g)** The candidate's answer required more depth. For instance, the candidate might have mentioned that more people coming to live and work in the country may result in overpopulation or may have recognised that the country's population was already increasing. The comments on inflation should also have recognised that both total demand and total supply could increase with more workers.
- **(h)** The candidate was not clear about how a fall in the country's exchange rate would be likely to affect the demand for tourism.
- **(i)** The candidate did not provide a convincing case for why inflation might occur.

Example Candidate Response – low

Examiner comments

Section A

Question	Part	Answer
Q1	A	$GDP = \frac{36.0 \times 100}{74.2} = 5.4 = GDP = \frac{36.0 \times 5.4}{74.2} = 2.61$
	b)	
	A)	$GDP = \frac{600}{100} \times 260 = 2.6 \quad 36.0 \times 100 = 60\%$
	b) i)	The costs of producing palm oil will help paying the rent for their land and fertilisers. 1
		3
	ii)	It will help in the maintenance of irrigation systems and casual labour. 2
		4
	c)	The true cost of giving up something to get by because firms have destroyed many destroyed many species. 5
		6
	d)	The destruction of forests in Indonesia will cost them a lot of money. 7
		many a wild life animals will not have homes. 8
	e)	

- 1 This is an accurate calculation. Mark for (a) = 1 out of 1
- 2 This is a variable cost.
- 3 First cost identified is a fixed cost.
- 4 Two more costs are given here, one fixed and one variable. Only the first two costs given are considered. Mark for (b) = 1 out of 2
- 5 This is a vague statement.
- 6 This is not a cost of conserving the forests. Mark for (c) = 0 out of 2
- 7 It is not clear who 'they' are and what an external cost may be.
- 8 This is a relevant cost but the candidate needs to explain it further. Mark for (d) = 1 out of 4
- 9 The demand curve should not be moved in this case.
- 10 The candidate does not show what the axes are measuring and omits the original supply curve, the new supply curve and the two equilibrium positions. Mark for (e) = 0 out of 4

Example Candidate Response – low, continued

Examiner comments

Question	Part
	<p>f) The relationship between between GDP GDP per head from ranking and HDI ranking is that Mauritius and Ghana because their economic growth rate is high and can cause pollution. And it can affect both GDP and HDI.</p>
	<p>g) No, they will not be likely benefited to benefit the Indonesian economy because they are leaving their own country and ^{traveling to an} other countries like Indonesia, they are becoming citizen in the Indonesia which will increase the economic growth. And will increase increase the rate of pollution.</p>
	<p>h) The Yes No, it will not increase because Indonesia is currently competing with its neighbours like Singapore and Malaysia. and its increasing the costs Indonesia currently attracts fewer tourists than its neighbours because of its beauty natural beauty but in the future less tourist will go to Indonesia.</p>

11 The data does not actually show economic growth. The answer is vague and does not show a careful analysis of the data.
Mark for (f) = 0 out of 5

12 The candidate identifies a potential benefit here but should explain it further.

13 The candidate identifies a possible cost but it is not made clear why this may occur.
Mark for (g) = 2 out of 6

14 This is a possible reason why Indonesian tourism may not increase. The candidate does not explore this point further.

15 It is not clear which country's natural beauty is being referred to here. If it is Indonesia (as suggested by the source material), it might be a reason why more rather than less tourists may go to Indonesia.
Mark for (h) = 1 out of 6

Total mark awarded = 6 out of 30

How the candidate could have improved their answer

- The candidate needed to pay more attention to the stimulus material and to answer the questions in more depth.
- **(b)** The candidate gave four costs when the question asked for two variable costs. In such a case, only the first two costs identified are considered. In this case, the first two costs given included one fixed cost and one variable cost.
- **(c)** The candidate needed to be more precise on the meaning of opportunity cost and to identify an opportunity cost of conserving forests rather than destroying forests.
- **(d)** One external cost was identified but it was not explained.
- **(e)** The diagram produced should have been labelled, to include the original supply curve, a new supply curve to the left and the equilibriums.
- **(f)** The candidate should have realised that a measure of pollution is not included directly in GDP per head or HDI. In examining such data, candidates could consider what relationship they would expect to find and why the relationship is likely to exist. The candidate should then assess whether the data supports the expected relationship and provide evidence to support this. Finally, the candidate should have identified any exceptions and provide evidence for the exceptions.
- **(g)** Two effects of the immigration of workers to Indonesia were identified but not explained. If a candidate states that immigration will increase economic growth and cause pollution, they should explain why. Links need to be provided. For example, immigration may increase economic growth as it may increase the size of the labour force and so enable a country to produce a higher output.
- **(h)** The candidate again stated an effect, in this case competition, but did not explain it. In the second part of the answer, it was not clear whether the candidate was writing about the natural beauty of Indonesia or of Singapore and Malaysia.

Common mistakes candidates made in this question

- **(a)** Numerical errors.
- **(b)** Listing all the costs mentioned in the source material without separating out two variable costs.
- **(c)** Not explaining the meaning of opportunity cost and not basing the answer on an opportunity cost that can be found in the source material. A number of candidates also gave an opportunity cost of producing palm oil rather than of conserving forests.
- **(d)** Not exploring the external costs identified. Some candidates confused external cost with private costs and explained for instance, rent.
- **(e)** Not recognising from the source material that a ban on stubble would reduce the supply of rice and so shifting the wrong curve. A number of candidates did not show the equilibriums. A high proportion of candidates provided a written analysis of the diagram. This was not required as indicated by the command word 'show'. If candidates are required to both draw a diagram and to provide a written analysis, they are asked to 'Analyse, with the use of a diagram'.
- **(f)** Confusing what the data showed. A number of candidates thought a ranking of 2 is a low ranking. Understanding of, for example, the HDI should make this clear. Other candidates just described the data without explaining it. For example, writing that Luxembourg has a GDP per head ranking of 2 and an HDI ranking of 20 is not providing any analysis. Some candidates revealed a lack of understanding of the components of HDI and the meaning of GDP per head.
- **(g)** Not providing a two-sided answer. A number of candidates explored only the benefits of immigration of workers into Indonesia. Not all candidates considered the question in the context of Indonesia.
- **(h)** Writing comments that conflicted with the information in the source material. For example, some candidates wrote that Indonesia does not have competition in tourism while the source material mentions Singapore and Malaysia as competitors. Generally, answers tended to be stronger on why Indonesian tourism will increase in the future than on why it might not.

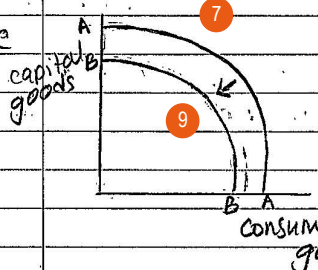
Question 2

Example Candidate Response – high

Examiner comments

2 a Trade in goods balance means that the goods imported and goods ~~exported~~ are equal

2 b Producers will have access to bigger markets so they will produce more ~~and~~ benefit from ^{them} ~~and~~ export economies of scale ~~to~~ which will make them more competitive. ^{so their profits will rise} They can also have access to cheaper, high quality raw materials that they can import that will lower their production costs

2 c  Be unemployment will lead to inefficient use of the country's resources so the productive potential of Mexico will fall from AA to BB as they won't be able to produce as much as products they used to before

2 d increasing the income tax ^{and making it progressive} will reduce people's disposable income so ^{their} purchasing power will ~~fall~~ ^{fall} ~~and~~ ^{which} will lower spending so firms will reduce supply which will reduce their profits; as a result, they will reinvest less money in their firms so total aggregate demand falls ^{at a higher rate} compared to aggregate supply then the rate of demand-pull inflation will fall. However, if inflation is cost-push then ~~low~~ ^{more} income taxes will make it worse because when ~~workers~~ ^{people} have lower disposable income they will demand from businesses higher wages ~~so~~ and if the business offers higher wage then their labour costs will rise increasing the costs of production resulting in even ~~more~~ higher prices. Instead the government can lower import tariffs or reduce the power of trade unions to lower the costs of production ^{cost-push} so they can lower their price and reduce costs

- 1 The candidate mentions exports and imports of goods.
 - 2 The candidate picks up on exports and imports of goods but does not recognise that the term refers to the relationship between exports and imports which could be a deficit, surplus or balance. Mark for (a) = 1 out of 2
 - 3 Identification of a benefit.
 - 4 Explanation of why bigger markets provide an advantage for producers.
 - 5 Identification of a second benefit.
 - 6 Explanation of the second benefit. Mark for (b) = 4 out of 4
 - 7 The original production possibility curve is drawn to the axes.
 - 8 The candidate recognises that unemployment results in inefficiency.
 - 9 The candidate is mistakenly shifting the production possibility curve.
 - 10 It is the actual output rather than potential output which will fall. Mark for (c) = 3 out of 6
 - 11 Strong exploration of why an increase in income tax may reduce demand-pull inflation.
 - 12 Strong exploration of the other side, in this case, why higher income tax increases cost-push inflation. Mark for (d) = 8 out of 8
- Total mark awarded = 16 out of 20**

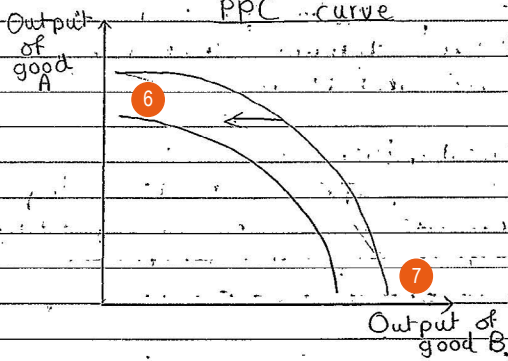
How the candidate could have improved their answer

- **(a)** The candidate needed to recognise that the trade in goods balance is the difference between export revenue and import expenditure. Candidates should ensure definitions are precise.
- **(c)** The candidate needed to draw a diagram showing a change in the production points rather than in the production possibility curve. They should have recognised that it is output rather than productive potential that will fall.

Example Candidate Response – middle

Examiner comments

Question Part

2	(a)	When a trade is balanced. Not in a deficit nor a surplus condition.
2	(b)	<p>1) Producers can earn essential raw materials used in the production process which makes it successfully. This can increase GDP their profit.</p> <p>2) Producers can earn machines that help in production process. This increases the output sold which increase their revenue.</p>
2	(c)	 <p>An increase in unemployment will mean less workers are working to produce output. This will decrease the amount of output produced causing the PPC curve to shift inwards.</p>

- 1 The candidate does not identify what the trade is in.
- 2 The candidate does not recognise that the balance will show the difference between export revenue and import expenditure. Mark for (a) = 0 out of 2
- 3 A clear link is needed here. Lower prices or higher quality of raw materials will increase profits.
- 4 Higher output is linked to higher revenue. Mark for (b) = 3 out of 4
- 5 The candidate labels the axes appropriately.
- 6 There should not be a gap between the curve and the axes.
- 7 Again, there should be no gap.
- 8 The candidate recognises output will fall but is confused on how this will be illustrated. Mark for (c) = 2 out of 6

Example Candidate Response – middle, continued

Examiner comments

Question	Part	
2	(d)	<p>On one side, F increasing income tax reduces disposable income for consumers. This will reduce spending which reduces inflation. 9</p> <p>Additionally, increasing rate of income tax might make workers leave the country leading to high immigrants emigrants out of the country which reduces inflation as there is much less spending. 10</p> <p>However, increasing rate of income tax will make people borrow more money to spend ^{more} on products. This will increase total demand increasing cost 11 cost-demand-pull inflation.</p> <p>Finally, increasing rate of income tax will leave people with less disposable income. This leads to lower spending which decreases profits to businesses. Businesses will be forced to lower prices redv</p> <p>Finally, an increase in tax might make trade unions demand higher wages which increases cost of production increasing cost-push inflation. 12</p>

9 The candidate provides limited explanation of demand-pull inflation here.

10 Fewer people in the country will also reduce total demand.

11 It is not clear why people would want to spend more.

12 There is a reasonable exploration here of why cost-push inflation may result from the increase in income tax. Mark for (d) = 4 out of 8

Total mark awarded = 9 out of 20

How the candidate could have improved their answer

- **(a)** The answer provided was too vague. It was not made clear that the trade in goods balance is concerned with exports and imports.
- **(b)** The candidate explained the second benefit identified but did not make clear the link between raw materials and profits in the first benefit.
- **(c)** The candidate correctly labelled the axes to the diagram. The diagram would have been improved by drawing one production possibility curve, making sure it touched the axes and including two relevant production points. The explanation could have recognised that resources are being wasted.
- **(d)** The candidate provided a two-sided answer but missed some links. For example, it was not explained why reduced spending may reduce inflation. The candidate did not recognise that workers leaving the country would not only reduce total demand but also total supply. The candidate stated that people would borrow more to spend more but it was not explained why. The last paragraph was the strongest part with a link between higher wages and higher costs for firms and then cost-push inflation.

Example Candidate Response – low

Examiner comments

2	a	It's when countries exchange goods and services for something in return. 1
		2
2	b	They do not have to worry about the cost of production and they won't have an opportunity cost because they will would have not spent anything. 3
2	c	
2	d	<p>An increase in rate of income tax will reduce inflation because people won't ^{will} have less money, which will make them not spend as much, allowing the rate of inflation to decrease and producers won't have to supply as much produce because there ^{is a} decrease in demand. 7</p> <p>8</p>

- 1 Not services.
- 2 There is no reference to exports and imports of goods. Mark for (a) = 0 out of 2
- 3 This shows that the candidate does not understand the meaning of the term free trade. Mark for (b) = 0 out of 4
- 4 Incorrect labelling.
- 5 A production possibility curve is drawn accurately but the diagram does not show a movement inside the curve.
- 6 There is no written analysis. Mark for (c) = 1 out of 6
- 7 Less disposable income would be stronger.
- 8 There is limited explanation on one side. Mark for (d) = 3 out of 8

Total mark awarded = 4 out of 20

How the candidate could have improved their answer

- **(a)** The candidate did not recognise that the trade in goods balance only includes goods. They also did not indicate that the trade in goods balance is the difference between export revenue and import expenditure.
- **(b)** The candidate did not understand the meaning of free trade. They appeared to think 'free' meant that producers would not have to pay anything rather than they would not face trade restrictions.
- **(c)** The candidate drew two production possibility curves but did not label the axes of the diagram. Also, they did not recognise that the production would move inside the curve and did not provide any written analysis of the question.
- **(d)** The candidate provided some limited coverage of why an increase in income tax may reduce inflation by reducing demand. The other side of the answer, that is why inflation might not fall, was not considered.

Common mistakes candidates made in this question

- **(a)** Not paying sufficient attention to the words in the term. They did not always pick up on the word 'goods'. As a result, some wrote about both goods and services. A number of candidates did not recognise that the balance involves the difference between export revenue and import expenditure.
- **(b)** Not explaining the benefits identified. A small proportion of candidates wrote about the benefits to consumers rather than producers.
- **(c)** Shifting the production possibility curve inwards rather than moving a production point inwards. A number of candidates mislabelled the axes, for example, as price and quantity or unemployment and economic growth. In the written explanation, some candidates wrote about a fall in productive potential rather than a fall in output and not all of those who did recognise that unemployment would fall, explained why.
- **(d)** Not providing sufficient links. Some candidates wrote, for example, that an increase in income tax would reduce spending without explaining why. A number of candidates showed a confusion between total and average costs by writing that an increase in income tax would cause unemployment and so lower costs in terms of the total wage bill rather than the wage rates.

Question 3

Example Candidate Response – high

Examiner comments

Question Part

Question	Part	Answer
3	(a)	A good that is harmful to whoever consumes it and consumers would underestimate how harmful these products could be (so a government tries to discourage its consumption by imposing a high tax rate on whoever buys it.)
	(b)	An extension in demand is an increase in demand due to lower price levels; ^{as a result of market forces trying to reach equilibrium} this lower price level could be a result of excess supply. An increase in demand is a shift in a demand curve to the right regardless of price as a result of better advertising campaigns, higher incomes or changes in taste.
	(c)	An increase in indirect taxes like corporate taxes will increase costs of production of a firm hence reduce wages received by workers in those firms and increase tax revenue ^{for} the government which could result in increased investment in public sectors such as education and health. An increase VAT taxes which are imposed on goods and services bought by consumers, will reduce their spending capabilities as their current incomes will decrease in value. ^{and tax revenue won't change much} However, if a product is price inelastic so consumers buy it regardless of its price, this will actually increase tax revenue received by the government and reduce the percentage of income used in products which are price elastic. An increase in tariffs and import quotas will increase the government's tax revenue if the product imported is price elastic. It will also increase consumer demand for products produced domestically hence increasing aggregate demand which will increase income per head in the long run.
	(d)	The government should impose a maximum price on food. This is because the poor and unemployed won't be able to afford food above a certain price level so they have to be kept affordable to help those in need. This is also to prevent monopolies from increasing price levels just because consumers don't have other substitutes to this certain food product. One more reason is to prevent a recession due to reduced aggregate demand as a result of high food prices and this also will reduce inflation.
		However, setting a maximum price could also be harmful. This is because if a firm cannot increase its output ^{with to match} as a result of high demand for food, which is a basic necessity, they will suffer from a shortage and hence consumers will buy food from other firms, driving the original firm out of business. Another reason could be that setting a maximum price won't help firms expand or grow as a result of low revenue and low profits, as their prices can't exceed a certain limit.

1 A strong definition.
Mark for (a) = 2 out of 2

2 The candidate recognises that an extension in demand is the result of a fall in price.

3 The candidate gives the contrast here of an increase in demand being shown by a shift to the right of the demand curve and gives a reason.
Mark for (b) = 3 out of 4

4 The candidate recognises that tax revenue will increase.

5 Such spending may benefit those on low income.

6 The influence of price elasticity of demand is recognised here.

7 The candidate should explain why elastic demand will result in lower tax revenue.

8 The overall impact on the gap between the rich and those on low income needs to be considered.
Mark for (c) = 3 out of 6

9 Two relevant reasons for imposing a maximum price on food are explored.

10 It is not clear here which other firms are being referred to.

11 This is relevant but more explanation would be useful.
Mark for (d) = 6 out of 8

Total mark awarded = 14 out of 20

How the candidate could have improved their answer

- **(a)** The candidate produced a good answer which not only recognised that a demerit good is harmful but also more harmful than consumers realise.
- **(b)** The answer was quite good but needed to recognise that an extension in demand is, for example, shown by a movement along the demand curve to the right.
- **(c)** The candidate focused on the effects on tax revenue. It was necessary to also consider how an increase in indirect tax may affect the poor relatively more than the rich.
- **(d)** The candidate produced quite a good answer but needed to think through the points more carefully, particularly on why a maximum price should not be set. The last sentence was clear but too brief on the points. Earlier in the paragraph, it was not clear why consumers would be able to buy from other firms as those other firms would also be subject to maximum price.

Example Candidate Response – middle

Examiner comments

Q3	(a)	harmful goods consumed by consumers 1
	b	extension in demand is caused by a change in price. 2 while an increase in demand is caused by other factors 3 like habits and age. 4
	c	An increase in indirect taxes, causes a decrease in income distribution, causing less spending people to decrease spending and more saving, causing firms to have a decrease in revenue, so less tax revenue taken from firm. 5 6
	c	an increase in indirect taxes, could let make a firm's cost of production to increase, so to cover the cost of production the firm may increase prices, so more profit, thus more revenue so more tax revenue could be taken by government. 7 8
	d	government should impose a maximum price on food, because if the producer of the product is the only producer (monopoly), he would not be able to increase the price more, so more consumers will be able to buy food, so better standard of living. 9 government should impose a maximum price on food because people will be certain of the prices of food, so new firms could open and invest in the food market, so increase foreign direct investments, so more higher balance of payments increases employment in the country. 10
	d	government should not impose maximum price on food, because the cost of production could be higher than the profit gained so less firms willing to supply food and less investments in the country, less supply of food to satisfy demand but not enough to export, so less exports in the country. 11

- 1 The candidate gives a limited definition.
Mark for (a) = 1 out of 2
 - 2 The candidate recognises that an extension in demand is caused by a change in price.
 - 3 The candidate makes a relevant contrast.
 - 4 Examples of the other factors are given.
Mark for (b) = 3 out of 4
 - 5 It is not made clear what 'a decrease in income distribution' means.
 - 6 The influence of price elasticity of demand might be considered here.
 - 7 The link to more profits is confused and is moving away from the focus of the question.
 - 8 The candidate notes the idea that tax revenue may rise but the point is not developed.
Mark for (c) = 1 out of 6
 - 9 The candidate carries out some limited exploration of the case for imposing a maximum price on food here.
 - 10 Understanding of what motivates firms is not strong.
 - 11 This is a reasonable exploration of why a government should not impose a maximum price.
Mark for (d) = 4 out of 8
- Total mark awarded = 9 out of 20**

How the candidate could have improved their answer

- **(a)** The definition given in the answer was limited. The candidate needed to go further by recognising that a demerit good is not only harmful but also more harmful than consumers realise or that it causes external costs.
- **(b)** The candidate should have developed the point on an extension in demand by, for example, mentioning that it is shown by a movement along the demand curve to the right.
- **(c)** The answer needed to be clearer on what is meant by a decrease in income distribution. It also showed confusion in thinking that higher prices resulting from higher costs would increase prices.
- **(d)** The candidate produced a two-sided answer with a reasonable first and third paragraph. The candidate should have made clear that to have the effects described, the maximum price would have to be set below the equilibrium price and that demand would then exceed supply.

Example Candidate Response – low

Examiner comments

3	a)	Demerit goods are goods that the public public sector does not produce / ¹ interfere with and is made by the private sector. e.g. cigarettes. ²
	b)	Extension in demand is when demand of something gradually and slowly builds up as it is something new supplied or given, so people don't immediately demand it but slowly do later on. Increase in demand is when consumers quickly demand something for example if a price of an item is decreased people will demand more of it instantly. ³
	c)	Increase in indirect taxes will mostly affect those in a low income household or people who may have not done anything ⁴ and will affect their distribution of income (decrease). As for the tax revenue it will increase as a result of increase in indirect taxes. ⁵
	d)	The government should impose a maximum price on food so that monopolies or producers ⁶ won't set overly high prices on simple items such as food. So there should be a limit set to avoid the too low high pricing ⁷ which can result in inflation.

- ¹ This is a partial definition of a public good.
- ² This is an example of a demerit good but the question does not ask for one.
Mark for (a) = 0 out of 2
- ³ The candidate shows no understanding of either an extension in demand or an increase in demand.
Mark for (b) = 0 out of 4
- ⁴ The references to those on low incomes being 'mostly affect' and the vague reference to 'their distribution of income (decrease)' suggests that those on low incomes will lose more of their income than the rich.
- ⁵ The candidate recognises tax revenue may increase.
Mark for (c) = 2 out of 6
- ⁶ The candidate identifies a reason but does not develop the point.
- ⁷ The candidate shows recognition of the aim of a maximum price to avoid price being too high.
Mark for (d) = 2 out of 8

Total mark awarded = 4 out of 20

How the candidate could have improved their answer

- **(a)** The candidate confused a demerit good with a public good. An example of a demerit good was given but the question did not ask for this.
- **(b)** The candidate needed to show accurate awareness of the terms 'an extension in demand' and 'an increase in demand'. The candidate provided a confused description of an extension in demand and then confused an increase in demand with an extension in demand.
- **(c)** The candidate recognised that those with a low income may be affected more than those with a high income and that tax revenue would rise. However, these points were not explained and were not developed. For example, it was not explained why the poor would be affected more or how the government could use the tax revenue gained to help the poor.
- **(d)** The candidate again stated the points but did not explain them.

Common mistakes candidates made in this question

- **(a)** Confusing a demerit good with a merit good or a public good. Other candidates provided a limited definition, only recognising that a demerit good is harmful.
- **(b)** Confusing an extension in demand with an increase in demand. Some candidates did not seem to be aware of the terms and wrote, for example, about the differences in the length of time a product is being demanded.
- **(c)** Concentrating on the total tax paid by the rich and those with low income rather than the proportion of tax paid and not considering how the tax revenue raised may be used to affect income distribution. While those on low income pay less in total in terms of indirect taxes than the rich, they pay a higher proportion of their income. Higher indirect taxes can also enable a government to raise more tax revenue which can be spent to make income more evenly distributed.
- **(d)** Not answering the actual question set. Some candidates wrote about imposing a minimum price or a tax rather than a maximum price. Defining the term at the start of the answer may have helped candidates. Some candidates only stated points and did not support the comments they made with good economics.

Question 4

Example Candidate Response – high

Examiner comments

Question	Part	
4	a	accepting deposits and giving loans. 1
4	b	Emigration ^{from} a country may increase because wages may be higher in another countries which increase the motive of working and so people emigrate. Also, people may emigrate because the country is overpopulated and few ^{natural} resources are available for many human resources, so people emigrate to another country which has better utilization of resources and better is standard of livings since overpopulated country may have pollution and traffic congestions. 3
4	c	Their wages could rise because of their increased productivity which increases output and sales and so increases their profits. Also, their wages may increase because of long working hours and low fringe benefits which are offset by increased wages. They might also belong to a strong trade union which bargains for a higher wages. Moreover, bank workers may be in short supply so their wages increase to guarantee they donot leave their jobs. 4
4	d	Demand for cars might become more price elastic in the future if the price of substitutes such as bus ^{and switch to buses} decrease, demand for cars will decrease, since any change in price with result price percentage will result in a greater responsiveness in demand, Also, it may become more 6 elastic if cars are luxury, so as it's not necessity, any increase in percentage of price will cause a greater change in demand, so if if prices increases by 10%, demand may decrease by 30%. However, if demand have a brand loyalty or addiction to cars, any change in price percentage will not change the demand proportion by much, since demand is relatively metastic, so they are willing to pay for it no matter how prices increase. If prices increase Also, cars may be taking a smaller proportion of people's income, so even if prices of cars increases, this will not affect them much as their income is not affected, so they are relatively inelastic demand, and so price elasticity of demand will not increase. 7

1 The candidate identifies two relevant functions.

Mark for (a) = 2 out of 2

2 The reason why higher wages may be a benefit or why they may be higher in another country needs explaining.

3 Good explanation of why overpopulation may encourage people to emigrate.

Mark for (b) = 3 out of 4

4 A clear analysis of several relevant reasons including increased productivity, long working hours, belonging to a strong trade union and being in short supply.

Mark for (c) = 6 out of 6

5 The candidate makes it clear here that they understand price elasticity of demand (PED) and the influence of the price of substitutes on PED.

6 More exploration of whether cars are or will be luxuries or necessities by the candidate would be useful.

7 Overall, the candidate shows a good understanding of PED. More application to the market for cars by the candidate would be useful.

Mark for (d) = 7 out of 8

Total mark awarded = 18 out of 20

How the candidate could have improved their answer

- **(b)** Better living standards were explained by the candidate in terms of the home country experiencing pollution and traffic congestion due to overpopulation. The first reason given, however, was not explained. The candidate should have mentioned either why wages might be higher in another country or the benefits higher wages could give.
- **(c)** The candidate produced a strong answer with a number of relevant causes analysed.
- **(d)** The answer was strong, revealing a good understanding of price elasticity of demand and an ability to apply the concept. There might have been a little more explanation of some of the points. For example, the candidate might have explained why cars may become more of a luxury and how taking up a small proportion of income may affect affordability rather than income.

Example Candidate Response – middle

Examiner comments

4	a	<p>Gives out loans ¹</p> <p>Gives out money ²</p>
4	b	<p>Emigration from a country may decrease increase due to inflation: life is expensive so people leave the country and go to a country that is cheaper. And also maybe they found another job which gives more wages ⁴ therefore leave the country and go to the other country.</p>
4	c	<p>Bank workers might demand for higher wage because maybe they have been working more hours due to people demanding for more loans. Maybe due to it being the oldest bank there are old experienced skilled workers that demand more wages due to their experience. Maybe also due to inflation, prices are high therefore workers demand more wages. ⁶</p>
4	d	<p>Demand for cars might increase because the prices will go down so it becomes more affordable, or maybe transportation fees get expensive so people choose to get a car, or maybe incomes increase so people buy cars, people might also demand less for cars due to it transportation fees being cheaper cheaper or people not wanting to pollute the air or maybe because the price of car complements increases, for example petrol. ⁹</p>

¹ The candidate identifies relevant functions.

² It is not clear who the money is given to and on what conditions. Mark for (a) = 1 out of 2

³ The candidate explains this point on the influence of inflation.

⁴ The candidate needs to explain why more wages would attract people to emigrate or why wages may be higher in another country. Mark for (b) = 3 out of 4

⁵ This point is clearly expressed using relevant economics.

⁶ Experience, skills and inflation are relevant causes. Any of these points could have been explored further to be awarded more marks. Mark for (c) = 5 out of 6

⁷ The candidate does not answer the question.

⁸ At this point, the candidate needs to link to change in the price of cars.

⁹ There is no reference to the price elasticity of demand for cars. The candidate does not answer the actual question set. Mark for (d) = 0 out of 8

Total mark awarded = 9 out of 20

How the candidate could have improved their answer

- (a) The candidate clearly identified one function. The second function the candidate gave was too vague. The candidate may have been thinking about lending money, but this was not clear.
- (b) The candidate needed to explain why higher wages may attract emigrants.
- (c) The candidate produced a good answer which just required a little more depth. For example, the candidate might have explained why workers would need higher wages when there is inflation.
- (d) The candidate did not answer the question set. The candidate made no reference to price elasticity of demand and instead wrote about why demand for cars may or may not increase. It is important that candidates consider what a question is asking before they start writing their answer.

Example Candidate Response – low

Examiner comments

4	a	Commercial bank gives loans to any individual ¹ - it also for businesses and firms ²
	b	Because most people say that the oldest things are the ones that stays longer so people will be go buy cars and from Italy some people come from abroad to buy cars or to work ³ some in relatively highly paid jobs in the country's expanding tourism industry. ⁴
	c	The possible causes of a rise in the wages of bank workers is because first of all bank workers can get loans so which means that many bank workers will get tempted to take loans and the more they take the more wages increases. ⁵ People that come from abroad take loans. Every bank worker take loans so that is why it rises more than car workers because it is not all car workers that can take loans.
4	d	Demand for cars will become more price elastic in the future - Price elastic is infinite - the more cars increases the more it becomes price elastic - The model of the car for example it can be used the - It will depend on the model of the car and the when it had been produced - It will also depend if the car is automatic or not Demand for cars will become more price elastic in the future - if the car's cars do not increase ⁶ - if the cars are the oldest and becomes "tired"

- ¹ A relevant function.
 - ² This statement is not clear. The candidate may mean that it also provides loans for firms as well as individuals. This would still be lending.
Mark for (a) = 1 out of 2
 - ³ This is a reason for visiting rather than living in another country.
 - ⁴ This is a relevant reason but one which needs explaining.
Mark for (b) = 1 out of 4
 - ⁵ There is just some idea that demand for loans may increase.
Mark for (c) = 1 out of 6
 - ⁶ The answer contains vague statements which do not answer the question.
Mark for (d) = 0 out of 8
- Total mark awarded = 3 out of 20**

How the candidate could have improved their answer

- **(a)** The candidate gave one relevant function in their answer. Their attempt at a second function was too vague. They did not make clear what function a commercial bank may provide for firms. If they intended 'loans', this would have been lending again.
- **(b)** The candidate identified higher paid jobs but did not explain why this might attract emigrants. Going to buy cars in another country is unlikely to result in people emigrating.
- **(c)** The candidate's answer suggested that demand for loans may increase bank workers' wages. This could have been linked to higher profits and more causes could have been considered.
- **(d)** A number of statements were made in the answer. These were, however, confused and did not answer the question. For instance, it was not clear what was meant by 'the more cars increases' and it was difficult to work out why demand for cars would not become elastic if they became 'tired'.

Common mistakes candidates made in this question

- **(a)** Confusing the functions of a central bank with the functions of a commercial bank. Some candidates provided answers that were too vague, for example, 'to help firms'. A small proportion of candidates wrote about the functions of money.
- **(b)** Not explaining the points identified. Also, some candidates did not make clear whether they were referring to the country emigrated from or emigrated to.
- **(c)** Not exploring the question in sufficient depth. For example, some candidates wrote that an increase in demand for bank workers would raise wages without explaining why demand may increase.
- **(d)** Not paying sufficient attention to the question. A number of candidates wrote about whether demand for cars will increase or decrease in the future rather than whether demand will become more responsive to a change in price in the future. Defining price elasticity of demand at the start of the answer might have helped candidates to focus on the actual question.

Question 5

Example Candidate Response – high

Examiner comments

5	(a)	Wages are the reward given to workers for their labour. They can be time-rate or piece-rate. 1
5	(b)	<p>Inflation within the country can cause prices of exports to increase, and this reduces their competitiveness, and demand on the countries exports may fall. Also, if interest rates within the country rise, then hot money flows into the economy, raising the demand on the domestic currency, increasing its exchange rate, so exports become more expensive, and exports fall. 2 3 4</p> <p>Also, if labour productivity within a country slows down, then quality of exports will fall, and so will their demand. 5</p>
5	(c)	<p>As investment in an economy rises this means that more capital goods will be purchased. 6</p> <p>Capital goods are very productive and efficient, and they increase the output per worker. As the total output increases, the productive capacity of the economy has also increased, leading to economic growth. Also, if there is foreign direct investment in the country, there will be more job opportunities for workers, and as the average income per worker rises, so will their purchasing power, and spending. This increases the aggregate demand, which means firms will supply even more, hiring more workers. If the economy is able to produce more than it needs, it can begin to export which is good for the economy, as it creates a current account surplus, signifying economic growth. 7 8 9 10 11 12</p>

1 A clear definition. Mark for (a) = 2 out of 2

2 The candidate identifies a possible reason.

3 The candidate explains the reason, i.e. inflation.

4 The candidate identifies a second reason.

5 The candidate explains the second reason. Mark for (b) = 4 out of 4

6 First link.

7 Second link.

8 Third link.

9 Fourth link.

10 Fifth link.

11 Sixth link.

12 This is a strong answer. There are more links present than are required to be awarded full marks, e.g. more exports and higher incomes. Mark for (c) = 6 out of 6

Example Candidate Response – high, continued

Examiner comments

5 (d) A country should switch to a floating exchange rate. A floating exchange rate is when the price of a currency relative to other currencies is left to fluctuate with the market forces of supply and demand. The merits of a floating exchange system is that it allows the government to see the true value of the currency, and how to improve things in the country. ~~Compared to fixed exchange rates,~~ floating exchange rates if the floating exchange rate is low, it can encourage exports as they have lower prices, which creates jobs in the economy and promotes economic growth, due to higher

13 A good definition.

14 This could be explained more.

15 This is a reasonable explanation of the benefit of a lower exchange rate.

5 (d) (continued) consumer spending. Also, a floating exchange rate could reduce the rate of inflation, as it fluctuates, and when it falls, purchasing power also falls, and this lowers the general price level. 16

However, fixed exchange rates are better because they provide firms with certainty of how ~~they~~ suppliers are priced, and this allows them easier calculation of their costs. Floating exchange rates ~~do~~ make it hard for an economy to remain stable, as the market forces of supply and demand are not always a reliable ~~some~~ ~~of~~ measure of economic growth. 17

Fluctuating exchange rate will cause the ~~pr~~ exports and imports to fluctuate as well, and this causes a lack of consistent growth in the economy. 18

19

16 This is rather confused. A lower exchange rate would be expected to increase inflation as total demand may rise and import prices would increase.

17 This is a relevant advantage of a fixed exchange rate.

18 The reference to 'measure of economic growth' is confused.

19 This sentence links in economic growth better but the candidate needs to explain how fluctuations in the exchange rate can reduce economic growth or the stability of growth. For example, the effect on investment might be examined. Mark for (d) = 5 out of 8

Total mark awarded = 17 out of 20

How the candidate could have improved their answer

- **(a)** The candidate gave a clear definition of wages.
- **(b)** The candidate provided a good explanation of two reasons why a country's exports may rise. They linked higher inflation to demand for and the competitiveness of exports and an increase in the exchange rate to a higher price of exports.
- **(c)** The answer showed a good awareness of the nature of investment and economic growth.
- **(d)** The answer showed an understanding of both a floating and a fixed exchange rate. It was two-sided but could have been stronger on the effects of a fall in the exchange rate and could have considered more advantages of a floating exchange rate.

Example Candidate Response – middle

Examiner comments

Question	Part
5	(a) Wages are payments to workers according to the number of hours they worked. e.g. was \$2 per hour, in 5 hours they would earn \$10. 1
	(b) - The government may want to reduce the balance of payments surplus, to stop the currency from appreciating, as it makes goods and services expensive for other countries. 2
	- The The country may not have enough goods and services so the government would reduce exports to provide for the economy in order to increase consumption, thus increasing economic growth. 3
	(c) Investment would mean more people set up businesses in the country which creates employment. Increase in the labour force would lead to an increase in production of goods and services as there are more workers. 4
	This would increase exports made by the country which increases a country's economic growth rate and export revenue. 5
	It would also increase the GDP in a country hence increasing demand and consumption of goods and services which also leads to an increase in economic growth. 6
	(d) A country should inter-switch because:- 7

1 A clear definition.
Mark for (a) = 2 out of 2

2 A higher price of exports is a reason. The reference to an appreciation is not clear. It is not certain how the government would stop the appreciation.

3 This is a possible reason.

4 This shows some confusion. Economic growth can arise from selling more products at home or to other countries.
Mark for (b) = 2 out of 4

5 First relevant link.

6 Second relevant link.

7 Third relevant link.

8 Fourth relevant link.

9 A clear answer. Other aspects could be considered, e.g. the effect of higher investment on advances in technology and productivity and so on economic growth.
Mark for (c) = 4 out of 6

Example Candidate Response – middle, continued

Examiner comments

Question	Part	
		A fixed foreign exchange rate system is one that is fixed and controlled by the central bank on behalf of the government. 10
		- Once the central bank realises that it is becoming expensive to buy import goods, it could revalue the fixed exchange rates so it is cheaper and more affordable to buy imports. 11
		- If the country is not making enough revenue then it would be possible to revalue the currency in order to increase export revenue. 12
		Floating foreign exchange rate is one ^{based} where were supply and demand conditions. 13
		- The central bank would have less control on the depreciation of the currency and the country would have no choice but to buy imports at an expensive price which is not an ideal situation. 14
		In conclusion ^{or} the country should not switch from a fixed foreign exchange rate system to a floating one because there would be less control.

10 A relevant definition.

11 The candidate does not explain here why it may become expensive to buy imports under a fixed exchange rate system.

12 Re-evaluation may reduce export revenue.

13 A relevant definition.

14 This is a statement and not an explanation. It would be good to explain why a higher price of imports would be harmful and to consider the effect on exports. Mark for (d) = 2 out of 8

Total mark awarded = 10 out of 20

How the candidate could have improved their answer

- (a) The candidate gave a good definition of wages.
- (b) The candidate identified two reasons but did not adequately explain them. More expensive exports are likely to reduce exports but how a government trying to stop exports being more expensive would result in fewer exports is not clear. A lack of goods and services could also reduce exports but again the point was not clearly explained.
- (c) The candidate's answer was quite good but required more on why investment may increase output.
- (d) The candidate made a number of statements and provided definitions but did not develop the points. For example, the candidate did not explain why a higher price of imports may be a disadvantage.

Example Candidate Response – low

Examiner comments

5.	(a)	Wages is the amount of payment per weeks they get from their job. (weekly payments)
	(b)	1. Maybe because the demand from other country for their product decreases, that means they have to no other country to export to. 2. Because they don't have the materials/resources to produce something to export to other countries.
	(c)	When the the country's investment rise, it can increase a country's economic growth rate, because if the government increased its spending on investment, they can invest alot of money so that they can spend their government spending more.
	(d)	when a country switch switch from a fixed foreign exchange rate system to a floating foreign exchange rate system, it is possible that more tourist or immigrants will go to that country, because the exchange rate may increase or or decrease and tourists can get more amount of money than the suppose to when they exchange the currency back. However, floating foreign exchange rate is slightly more complicated than using fixed at exchange rate, because -
		floating exchange rate when using exchange rate, the revenue amount of money that after exchange can be different, while fixed exchange rate is more simple to calculate as the exchange rate doesn't change.

- 1 The candidate recognises that wages are a payment.
 - 2 It is not clear who 'they' are. Mark for (a) = 1 out of 2
 - 3 The candidate identifies but does not explain the lower demand for exports.
 - 4 The candidate gives a second relevant reason but this needs an explanation. Mark for (b) = 2 out of 4
 - 5 This sentence by the candidate does not answer the question. Mark for (c) = 0 out of 6
 - 6 It is too uncertain here as to whether tourists would get more for their money if the exchange rate increases or decreases.
 - 7 There is the idea here of greater stability in the case of a fixed exchange rate. Mark for (d) = 1 out of 8
- Total mark awarded = 4 out of 20**

How the candidate could have improved their answer

- **(a)** The candidate needed to state who 'they' were.
- **(b)** Two relevant reasons were identified but not explained. The candidate should have explained why demand for exports may fall and why not having sufficient resources may reduce exports.
- **(c)** The candidate wrote one long sentence which stated that higher government investment would increase a country's economic growth rate but provided no analysis of the relationship between investment and economic growth.
- **(d)** The first sentence of the candidate's answer needed to be clearer. For example, the candidate should have decided whether a decrease or an increase in an exchange rate would be likely to encourage tourism in the country. At the end of the answer, the candidate suggested that a fixed exchange rate is more stable than a floating exchange rate but did not develop the point.

Common mistakes candidates made in this question

- **(a)** Not linking wages to labour. A small proportion of candidates did not state that wages are a payment to workers (labour).
- **(b)** Not recognising that the question asks for reasons 'other than methods of protection'. As a result, a number of candidates wrote about tariffs and quotas. Some other candidates showed confusion of how a change in the exchange rate might affect the price of exports.
- **(c)** Jumping stages in the analysis. For example, some candidates wrote that a rise in investment would cause consumers to buy more goods and services without providing any links from investment to advances in technology, higher quality products, lower costs and lower prices and so to higher demand for goods and services.
- **(d)** Not going beyond definitions of fixed and floating exchange rates. Some candidates did not discuss, for example, the benefits of greater certainty in the case of a fixed exchange rate and greater flexibility in the case of a floating exchange rate.

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