

# ECONOMICS

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**Paper 9708/01**  
**Multiple Choice (Core)**

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	16	<b>C</b>
2	<b>D</b>	17	<b>B</b>
3	<b>A</b>	18	<b>A</b>
4	<b>B</b>	19	<b>D</b>
5	<b>B</b>	20	<b>C</b>
6	<b>C</b>	21	<b>C</b>
7	<b>C</b>	22	<b>A</b>
8	<b>C</b>	23	<b>B</b>
9	<b>C</b>	24	<b>D</b>
10	<b>D</b>	25	<b>A</b>
11	<b>D</b>	26	<b>D</b>
12	<b>D</b>	27	<b>C</b>
13	<b>B</b>	28	<b>A</b>
14	<b>D</b>	29	<b>B</b>
15	<b>A</b>	30	<b>C</b>

## General comments

This session's entry increased by almost 10% to 7809 candidates. The mean score rose from 18.10 to 18.64, while the standard deviation fell to 5.27 from 5.88. 42 candidates achieved full marks and slightly over 70% scored more than half marks. One **Question (16)** proved significantly easier than the design limit. No question proved more difficult than intended. No form of question was less accessible than any other. The test worked well as a whole and at individual question level.

## Comments on specific questions

In **Question 1** the largest group of incorrect respondents identified the quantity of good X (option C) which could be produced with good Y rather than the amount of good X sacrificed. A significant number of candidates opted for B in **Question 11**, but the price of X would have risen as a result of the increased supply of a complement good Y. A common error surfaced in **Question 12** when some candidates failed to realise that a maximum price above the equilibrium would be ineffective, so option A would be incorrect. The performance on **Questions 16, 17 and 18** indicated a firm understanding of **section 3** of the syllabus. It was encouraging that 70% of candidates were correct on **Question 19** as absolute and comparative advantages are usually an area of difficulty. The same applied to **Question 21** on the terms of trade, which has often caused problems in the past. In **Question 25** a surprising number believed that experiencing demand-pull inflation would improve a country's balance of trade. The effects of changing exchange rates are found difficult by some candidates although a rather difficult question last year was well answered and suggested improved understanding. This time in **Question 29** candidates needed to realise that the pound (£) had depreciated so UK imports would become more expensive and could cause imported inflation (option B). It would not have resulted in increased demand for imports (option A) or higher priced exports (option C).

**Question 30** had the lowest level of correct responses (31%). A majority of candidates selected option A, overlooking the fact that devaluation is a policy with a fixed exchange rate, not a freely floating one.

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Paper 9708/02

Data Response and Essay (Core)

## General comments

The outcome this session was disappointing in the light of the improving performance in recent years. This was entirely the result of the weak performance on the data response question. Marks on the essay were almost invariably higher than those on the data response. The troublesome topics were public goods (which have been examined before in essays and have not presented undue difficulty) and consumer surplus, which has often featured in multiple-choice questions. Candidates would benefit from meeting concepts in a variety of contexts and should not expect topics to be examined in only one way. They also need to have the courage to question and challenge data and statements. The standard of the essays, on the other hand, was pleasing and demonstrated good understanding. In answering the essays all candidates must remember to provide precise definitions and to respond to the question set rather than the title they would have preferred to see.

## Comments on Specific Questions

### **Section A**

#### **Question 1**

The data response centred on broadcasting services. It examined the idea of complementary goods, consumer surplus and public goods.

- (a) (i) Most candidates were able to draw a production possibility curve and show an outward shift, as either a parallel (or concentric) or a pivoted movement. Some gave inaccurate labels to the axes. Fewer candidates recognised the increase in the licence fee as a potential increase in real resources. It was not necessary to explain the nature of the curve.
- (ii) TV licences and TV sets were usually recognised as complementary goods. A rise in licence cost would therefore result in some degree of demand reduction for TV sets. This was well understood. The reference to the market for TV **sets** was often overlooked. It was expected that resulting changes such as a lower price, reduced sales or reduced revenue would be identified. The best answers made use of a demand and supply diagram to support the analysis.
- (b) This question proved to be extremely difficult with many candidates not scoring. It was intended that the diagram (Fig. 1) and the phrase 'more value than viewers pay for' would direct candidates to the notion of consumer surplus. This happened relatively rarely. While candidates offered a variety of imaginative interpretations of Fig. 1, few were valid. Those who recognised consumer surplus often gained full marks.
- (c) (i) Most gained one mark for noting that national defence had both a greater degree of non-rivalry and non-excludability than police services. Comments were varied but usually included mention that national defence was nearer to being a pure public good. The other common point that gained credit was that police services tended to be less non-rival as consumption by one member of the public would reduce availability to others. There was some misunderstanding of non-rivalry by those who believed it referred to competition in provision. The diagram was sometimes misinterpreted as showing levels of expenditure or the degree of importance of the two services. Surprisingly some candidates made comparisons between services other than those stipulated in the question. Non-excludability and non-rivalry were not always accurately understood and distinguished.

- (ii) Education and health are usually considered to be merit goods or private goods rather than public goods. The best answers showed why they lacked the qualities necessary to be public goods and why they would be defined in the alternative way. Answers that took this approach scored high marks. It seemed that some candidates were daunted by the prospect of challenging what they believed the diagram to be showing. As a result correct knowledge was contradicted by their conclusions as candidates sought to 'sit on the fence' about the statement. There were some long descriptions of the value of good education and health services; they gained little reward as they lacked economic rigour. Candidates need to be prepared to question information and use economic concepts to arrive at considered conclusions.

## **Section B**

### **Question 2**

Overall this was the most popular and best answered question. It examined the roles of enterprise and division of labour and the efficacy of the move to the market economy.

- (a) While both concepts were familiar, division of labour was explained more effectively, although on occasion at unnecessary length. Taking enterprise to mean a form of business organisation rather than a factor of production limited the marks gained. Answers which treated each concept separately generally had a clearer structure. It was not evident why some responses omitted enterprise entirely. Good candidates were able to score full marks.
- (b) Candidates were knowledgeable about the features and performance of different economic systems. The main challenge was to structure the answer effectively. The approach that identified the advantages of both market and planned systems lacked focus and involved considerable repetition, albeit in a reverse manner. Dealing with one of either of the alternative systems was more effective and avoided repetition. Some responses were unbalanced in that they concentrated on the benefits of market systems and overlooked possible weaknesses. On the other hand, there were many impressive scripts.

### **Question 3**

This question dealt with the measurement of inflation and the contrasting impact of rapid inflation on different groups within the economy.

- (a) A small number of candidates did not understand what was meant by measurement, so instead wrote about levels and types of inflation. Most candidates started with a definition of inflation, although not all mentioned that a rise in prices had to be persistent as well as general to constitute inflation. At the other end of the scale there were some thorough detailed accounts, which clarified surveys, product selection, base year, weighting and calculation. It was not necessary to identify the weaknesses and problems of the measurement. The main discriminating feature between different standards of answer was the extent to which the ideas were explained rather than identified or asserted.
- (b) The most important point to be made about essay technique in the context of this part is that the wording of the title must be followed precisely. It is not a general guide to the topic. The essay required analysis of the impact of rapid inflation upon groups; it did not want analysis of the effects on the economy as a whole. A discussion of the differential effect on, say, borrowers and lenders was appropriate while discussion of the impact on the balance of payments position was not. Those who understood this wrote about, among others, fixed and variable income earners, firms and consumers, exporters and importers and employers and employees. The strongest answers made clear assumptions about the relative rate of inflation in arriving at their conclusions.

**Question 4**

This was the least popular of the essays and resulted in some of the highest and lowest standards of response. The focus of the question was policies to deal with balance of payments problems.

- (a) Few candidates opted to define the concepts of the balance of payments or a disequilibrium position. Among those who did there was confusion between a deficit and a disequilibrium. There were some thorough accounts of the difference between expenditure-switching and expenditure-dampening policies. Inevitably some candidates confused the two or attributed the wrong policy to each group. Some answers treated this part as a discussion question and went into the effectiveness of the various policies. This might have been avoided by reading the whole of the question rather than starting immediately on the first part.
  
- (b) The anticipated structure of the answer was an analysis of an economy's current account position, followed by details of actual or potential policies for improvement, ending with a judgement of the ability to implement them or their effectiveness. The first step was done in great detail, the second reasonably but the final step was given little attention. Evaluation is an important skill that candidates need to be aware of and practise. It was hoped that candidates would refer to details of their own economy but a significant number preferred to use detail of other economies such as USA, China or UK. In this they often showed a good awareness of recent trends. Disappointingly some candidates were unfamiliar with the current account position of their own economy, with claims being made for surplus in Kenya and deficit in Egypt. In such cases credit was given for subsequent valid economic thinking even though the initial assertion was wrong.

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<p>Paper 9708/03</p>
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<p>Multiple Choice (Supplement)</p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>C</b>	16	<b>C</b>
2	<b>B</b>	17	<b>C</b>
3	<b>D</b>	18	<b>D</b>
4	<b>C</b>	19	<b>A</b>
5	<b>C</b>	20	<b>B</b>
6	<b>B</b>	21	<b>C</b>
7	<b>A</b>	22	<b>C</b>
8	<b>B</b>	23	<b>C</b>
9	<b>C</b>	24	<b>C</b>
10	<b>A</b>	25	<b>A</b>
11	<b>C</b>	26	<b>B</b>
12	<b>D</b>	27	<b>A</b>
13	<b>C</b>	28	<b>D</b>
14	<b>D</b>	29	<b>D</b>
15	<b>C</b>	30	<b>A</b>

## General comments

The mean percentage score on this paper was 56.3% compared with a mean percentage of on 54.6% the corresponding paper in June 2006. 26 out of the 30 items on the paper passed all the standard statistical tests. There were two items, **Questions 25** and **27**, which did not discriminate as well as one would have wished, and there were two items, **Questions 3** and **14** which proved to be too difficult for the majority of the candidates.

Only 24% of the candidates answered **Question 3** correctly, while no less than 58% wrongly opted for B. In retrospect, it is not difficult to understand why B turned out to be a positive distractor. Clearly, the shift in the budget line from JK to JH in the diagram could have been due to a reduction in the price of good X. However, one cannot definitely conclude that this is what caused the shift in the curve. Another possible cause would be an increase in money income accompanied by an increase in the price of good Y. All one can say for certain is that there has been a fall in the relative price of good X and that the consumer's real income has increased.

**Question 7** was another item where a majority of the candidates, in this case 53%, chose an incorrect option, B, compared with 28% who answered the question correctly. However, in this case, those who opted for B were mostly the weaker candidates. It is true that where a labour market is perfectly competitive, if the workers join a trade union which succeeds in negotiating a higher wage, then this will result in a decrease in employment. Those who answered **Question 7** incorrectly, however, failed to recognise that this may not apply where a firm enjoys monopsony power.

**Question 14** turned out to be far too difficult and also proved to be a poor discriminator. Only 15% of the candidates answered the question correctly, with no less than 57% opting for C. Most candidates probably have a basic understanding of how a cartel operates. However, it would seem that very few are aware that those who gain most, at least in the short run, from a cartel arrangement will be the those producers who cheat by exceeding their quotas or those who do not sign up to the cartel in the first place.

# ECONOMICS

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**Paper 9708/04**

**Data Response and Essays (Supplement)**

## General comments

### Question 1

- (a) Most candidates were able to give the identification of the letters as Gross Domestic Product and explain the meaning of the term.
- (b) Candidates were able to identify that the reasons for low GDP might be the extent of the traditional unpaid work, the poor use of labour resources, the level of literacy and the extent of the employment in unskilled work.
- (c) This question was a question on the general factors affecting the supply of labour in total. Candidates could have mentioned the level of wages, training, non-wage factors, occupational mobility, geographical mobility, birth rate and migration.
- (d) Candidates were expected to suggest what might happen when labour migrates from rural areas to city areas. One result could be that those in employment will have larger incomes, spending will rise, with resulting effect on growth and GDP. However, the workers may be inefficient so the increase in incomes may not be large. Also output, if it were recorded, would be lower in rural areas as labour migrates and this would have a negative effect on GDP. The overall effect is uncertain from the information that has been given.
- (e) This was a question where candidates were asked to look at the information provided and form a conclusion from the evidence presented. Some evidence suggests that Turkey should be classified as a developing country, for example, the amount of traditional unpaid work, the inequalities in education, the % employed in agriculture compared to other known developed countries, the % given of those below poverty line, and the information on problems in the economy. All of these fit the description of a developing economy. Most candidates, therefore, concluded that Turkey was a straightforward case of a developing economy.

However, better candidates were able to mention that this information alone was not sufficient to make an overall conclusion and other information should be provided, for example, on levels of GDP and change in the GDP, on distribution of income, on income levels per head and on information about health provision. There is also some conflicting information given about the % of GDP from employment in manufacturing and services which does not match the % expected in a developing country but there is no comparison given with other countries.

### Question 2

- (a) In the first part of the question, candidates were required to explain what was meant by productive and allocative efficiency. The majority was able to demonstrate a sound knowledge and understanding of the two types of efficiency and used diagrams to good effect (although the inclusion of diagrams had not been explicitly asked for and was not essential). In relation to productive efficiency, candidates either explained the significance of the minimum point of the average cost curve or showed that clearly on a diagram. Many candidates also used the production possibility curve to aid the explanation. Perfect competition was discussed and illustrated in relation to both types of efficiency and allocative efficiency was explained in terms of  $P=MC$ .

The weaker candidates, however, were sometimes inclined to describe rather than explain the two concepts. This was particularly so with regard to allocative efficiency, which did not seem to be as well understood as productive efficiency. For example, although  $P=MC$  was often stated, it was not always made clear why this would produce a situation of allocative efficiency. Some candidates, although they drew the appropriate diagrams, failed to label them correctly.

- (b) In the second part of the question, candidates were required to discuss how the privatisation of an industry might affect efficiency in the allocation of resources. In the majority of cases, this was not answered as well as the first part. Many candidates wrote generally on privatisation but did not always link the discussion to the allocation of resources, preferring to focus on the arguments of state control versus private enterprise. This sometimes led to a wide digression, with discussion of public and merit goods. Some, however, did make the link to efficiency through a consideration of the monopoly situation, although privatisation would not necessarily lead to a monopoly. There were some useful comments on how a monopoly situation, should it arise, would be likely to lead to productive and allocative inefficiency.

### Question 3

- (a) In the first part of the question, candidates were required to explain how the analysis of wage determination in perfect competition would lead to an equilibrium. There were a number of good answers to this, with clear explanations of the relevance of both demand and supply. Demand factors were usually well explained through marginal revenue product, and the majority of candidates illustrated their answer with the use of diagrams. The context of perfect competition was considered by the majority of candidates but they did not always demonstrate a clear understanding of the distinction between the firm and the industry. The better candidates were able to offer an explanation in terms of both product and factor markets.

Weaker answers made no reference to the context of perfect competition. A number of candidates also focused purely on the demand side, making no reference to supply.

- (b) In the second part of the question, candidates were required to discuss how governments and trade unions could affect the equilibrium in a labour market. The majority of candidates demonstrated a good knowledge and understanding of the potential impact of both government and trade unions, although some offered a very unbalanced answer, choosing to write extensively on either government or trade unions but not both. In most cases, it was government that was the main focus and many candidates showed a good awareness of the analysis of a national minimum wage. In relation to trade unions, the impact of collective bargaining and the ability to influence the supply of labour were key considerations.

### Question 4

There were many good, comprehensive answers to this question. It was clear that candidates were well prepared and were able to identify and discuss a wide range of relevant factors. The overwhelming majority were able to gain good marks. The better candidates distinguished between quantitative and qualitative elements, going beyond the more conventional GDP per capita measure, with explanations of alternative measures such as HDI and MEW. Weaker answers simply focused on the reasons why living standards change within an economy and did not introduce any comparative analysis. Not all candidates, sadly, managed to provide an appropriate conclusion.

### Question 5

- (a) The multiplier concept was generally well understood and supported by appropriate diagrams, tables and calculations. Weaker candidates did not develop their response in the light of the specific question asked, which wanted candidates to consider how this analysis might be used to predict the effects of changes in fiscal policy. Many candidates did not consider this aspect and, therefore, their responses lacked the necessary clarity of structure required for higher marks.

- (b) Some excellent answers to this question addressed both positive and potential negative effects of a budget deficit. They were able to direct comments to the effects on employment, economic growth and opportunities for long-term investment. These candidates were also able to identify clear causes of concern, primarily the potential for causing of inflation, 'crowding out' effects due to rising interest rates and the possible negative effect on the balance of payments. This detailed comment was frequently supported by a carefully reasoned conclusion. Weaker candidates failed to discuss both positive and negative elements or simply referred to some aspects without any subsequent development or conclusion. Occasionally candidates confused a budget deficit with a balance of payments deficit.

#### Question 6

- (a) Most candidates who attempted this question were able to present a discussion which centred on changes in birth rates and death rates. Candidates who gave a more developed answer also mentioned the level of migration, health policies, education and change caused by AIDS which particularly affects some developing countries. It is important when candidates are asked to answer a question such as this that they do draw a conclusion. The question asks whether one population growth is likely to have been faster than another. While it is relevant to give the factors that affect population growth it is also very important to use those factors to form a specific conclusion to the question asked. Many candidates lost marks because they did not use the information that they presented to make such a conclusion.
- (b) The question has two parts. One deals with whether urbanisation necessarily leads to economies, the other deals with whether urbanisation, even if it occurs, is necessarily a solution to poverty. Candidates should have split the question into these parts and directed their answer to each. This would have enabled them to consider explanations of urbanisation, how economies might occur and whether those economies may or may not have helped alleviate poverty. As with **section (a)**, the structure of the argument in this question was not well done. Candidates too often left the reader to draw their own conclusion. Structured presentations with definite conclusions are important in this examination. Sometimes candidates may well conclude that there is uncertainty about an outcome. This is reasonable. What is not good is when no conclusion at all is presented, even an uncertain one, and information is just given without reference really to the crux of the question.

#### Question 7

Candidates were expected to discuss the aims of government policy and suggest which might be most important. It was hoped that candidates would be able to present the standard government aims and then suggest which they consider most important, giving reasons for their decision. The question makes a proposition that two particular aims are important. Candidates were expected to consider whether they agreed with this proposition. Sadly, many candidates wrote at length about policies, not about aims. They explained which policies might be used to reduce tax rates or to encourage low unemployment. They mentioned different types of tax, the distribution of tax, the link between employment and inflation and the causes of unemployment and how these causes might be addressed. They did not consider whether the two aims stated in the question should be the main two aims of government. This was another question where it was essential, in order to obtain high marks, to present an argument in a structured form.