ECONOMICS

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

General comments

The mean score for the paper fell from 18.64 to 18.00, while the standard deviation widened from 5.27 to 5.52. Three questions (**5**, **6** and **25**) proved to be easier than intended while no questions proved to be more difficult than intended. There was no significant difference in performance in verbal, numerical or diagrammatic styles of question.

Comments on individual questions

While it was not surprising that candidates found **Question 5** on movements along the demand curve to be straightforward, it was pleasing that they found no problem with relationships between products in **Question 6** and the novel presentation of inflation data in **Question 25**.

Candidates found **Question 8** quite difficult, and slightly more selected option D rather than the correct option C. For the income elasticity for nuts to be zero, consumption would have had to remain at 0 packets, when in fact it rose from 0 to 1 packet.

When answering **Question 15**, a majority of candidates thought that the private rate of return would increase. The increase in the cost of tuition fees relative to the unchanging benefit received would, however, indicate a reduced rate of return.

In **Question 16** nearly as many opted for B as for the correct answer C, while less than 10% selected A or D. The question concerned the selection of a site for a port based on private and external costs and benefits. C is correct as it yielded $5 m more net benefit than its nearest rival, site B.

Question 18 worked perfectly well, but a significant proportion of candidates selected the equilibrium revenue (C) and did not recognise that the introduction of the maximum price would create a disequilibrium so that it was the revenue at that output (D) which was relevant.

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General Comments

The standard displayed covered the whole spectrum of attainment from excellent to totally inadequate. Unfortunately, despite the high standard of work from some, other candidates lacked the preparation required for this level of work. Candidates still find the data response exercise more demanding than the essay and would benefit from practice with this form of assessment.

Particular weaknesses in exam technique which were common in this session were the inability to give concise, accurate definitions, the confusion between cause and effect and the tendency to introduce aspects of a topic which were not demanded by the wording of the question. A small number of candidates answered more than one essay question.

Comments on Individual Questions

Question 1

The question considered aspects of the appreciation of the Zambian currency.

(a) (i) A wide range of months were selected as indicating the largest appreciation and it was impossible to see the logic underlying some choices. November stands out clearly as the greatest change. June and February seem to have been selected on the basis of their highest and lowest positioning.

(ii) The answer was usually given in a number of units of currency rather than in percentage terms. The mark was not awarded if the units were not specified or if the monthly start and end values only were given. Since the diagram was not presented in a large scale a range of answers were tolerated around 1000 Kwacha.

(b) Most were able to see that the degree of fluctuation suggested a floating exchange rate. Those who recognised this often went on to get full marks. It was not acceptable to suggest more than one system. Weaker candidates did not get beyond describing its movements, or believed it to be a pegged system as it was denominated in US dollars.

(c) The intention of the question was to analyse the change in the currency when caused by an increase in demand (exports) and a decrease in supply (reduced debt).

(i) Some candidates recognised the increased demand for Kwachas to finance the purchase of the exports, supported this with a diagram and concluded that there would be an appreciation to gain full credit. Others reversed cause and effect to show the impact of the appreciation on the export performance. Others changed the question to explain possible reasons why exports might have increased.

(ii) Although of the same structure, this was done far less well than the previous part. Many answers were simply not tackling the question. Although it was expected that a reduction in supply of Kwachas would be the approach, credit was given when a candidate reasoned through to an increase in demand as a result of the actions taken by the government of a less indebted country. Candidates generally scored poorly on this part.

(d) Candidates who understood the concept of the terms of trade had little difficulty in gaining full marks. However, many did not understand the term. It was confused with the balance of trade or general trading conditions. Even those familiar with the term sometimes spoke of value when they meant price.

(e) The better answers went beyond the effects on the balance of trade and also considered the impact on the real economy. In addition they introduced the relevance of the elasticities involved. Less convincing answers were able to identify a range of impacts but asserted the outcomes rather than explained them. The weaker answers saw an appreciation as a totally positive development which improved all aspects of the economy. A common error was to see the appreciation as an inflationary pressure. This type of question requires consideration of conflicting outcomes and it is important to make clear any assumptions upon which a line of reasoning is based.

Question 2

The focus of the question was the basic economic problem and the effectiveness of the price mechanism in attempting to solve it. It was the most popular essay.

(a) Generally, candidates performed well on this part; the number gaining full marks was pleasing. Weak answers were variously characterised by poor explanations of scarcity, merely listing the three questions, or the inclusion of 'how much?' 'where?' and 'when?' as the economic questions. Reference to the different types of economic system was not needed. Very few made the error of discussing issues such as inflation and unemployment.

(b) The key to good marks was a clear structure that established the nature of the price mechanism and considered its strengths and weaknesses. The first step was done well, although sometimes in greater detail than necessary. The second part was often taken for granted or treated very briefly. The final step was often thorough with consideration of externalities, public goods and merit goods. It was not necessary to go into the methods of government action used to deal with market problems.

Question 3

This was the least popular question. It dealt with the labour force and links between labour shortage and inflation.

(a) The labour force includes both the employed and unemployed, and this was not always known. An inaccurate understanding of the concept invalidated some of the suggested influences, which instead concentrated on the employment level. Candidates were usually able to identify some influences such as ages for retirement and school-leaving, population size and cultural attitudes. In some cases these amounted to little more than lists but in others they were carefully explained.

(b) This proved to be a demanding question. A possible structure was to clarify the types of inflation, to explain how labour shortage and associated wage rises operated to cause inflationary pressure and to consider why other influences might be more influential. Those candidates who equated labour shortage with high unemployment struggled to make valid links to inflation. Much of the analysis was expressed in micro terms and the price of an individual product rather than in macro terms. Stronger responses recognised the importance of the share of labour in production costs, the ability to replace labour with machinery and the possibility of importing labour as mitigating effects on inflationary pressure.

Question 4

The question centred on the structure of the current account and the use of tariffs to correct a current account deficit.

(a) All candidates were aware of the inclusion of visible and invisible items in the current account. The income and current transfer sections were less widely known. The more accurate identifications of a deficit referred to the balance of all of the inflows and outflows rather than trade flows alone and to value rather than volume measures. Examples helped to make meanings clearer. The other parts of the balance of payments and causes and remedies for deficits were not relevant.

(b) There were some very impressive scripts with an accurate definition and detailed diagram. Generally candidates found it easier to justify the use of tariffs than to criticise it, but most answers were able to produce a balanced answer that considered arguments on both sides. The 'write all you know' approach of some candidates resulted in much irrelevance that dealt with the operation of other forms of trade protection which were not the subject of the question.

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

The overall mean percentage score of 60% on this paper was some 3% points higher than on the corresponding paper in 2007, and was well within the target range.

In **Question 4**, in the case of both factors of production, marginal value product was below the factor price, and to maximise profits the firm should, therefore, employ less of both factors. It is not clear why this proved to be the hardest question on the paper and only 17% of the candidates managed to work this out. 51% of the candidates thought the firm should employ more of **Y** and less of **X**. One possible explanation is that in similar questions on past papers the correct answer has been that a firm should employ more of one factor and less of the other. The lesson clearly is that candidates should focus on the actual question rather than seek to recall the correct answer to similar questions they may previously have encountered!

45% of the candidates answered **Question 22** correctly, but some of the better candidates on the paper overall wrongly opted for **A.** The most likely explanation for this is that the horizontal axis on AD/AS diagrams in a number of text books is simply labelled 'national output'. It is clearly important that candidates should be made aware that this refers to real national output.

Apart from **Question 4**, the only other item answered correctly by fewer than 40% of the candidates was **Question 23**, where almost as many candidates opted for **A** as for the correct option, **C**. The performance of candidates on this item confirms what has been apparent on past papers, namely that the process of credit creation is not well understood, and, in particular, that candidates have difficulty in working out the impact of bank loans on banks' assets and liabilities.

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Section A.

Question 1

(a) Candidates were able to use the information provided to recognise that the North Sea oil industry supports a considerable number of jobs. They were able to suggest that these jobs and the investment in the oil industry would generate income and spending and thus affect national income. Some also stated that there will be an effect on the trade balance, either from income earned from exports, or from a reduction in imported oil due to domestic use of home-produced oil. This will also affect national income.

(b) There is conflicting evidence in the information. Candidates were required to search for that evidence, present it and then assess whether it was possible to form a definite opinion on the oil industry. The evidence for expansion includes the number of jobs – although some may be for exploration of new fields; the increase in investment; the continued technological advances; the fact that large profits are made and possibly the government encouragement.

The evidence for a declining industry includes the fact that production levels are falling, although this may be only from the more accessible fields, and the need for extra measures to boost new firms.

Candidates were expected to draw a conclusion even if this conclusion was that the evidence was uncertain.

(c) Candidates were able to suggest some, if not all, the reasons for a continued increase in investment. These might well be that profits are increasing, that there have been changes in government regulations to support the industry and that there appear to be some advantages for small firms. One further crucial piece of information, which was missed by many candidates, was contained in the chart and not in the text. This was that prices have been rising.

(d) This section was not as well done as the previous sections. What was expected was that the candidates might suggest what the usual economic explanation might be and then relate it to the information provided.

Against the usual explanation, it could be stated that the industry is not one that provides a personal service, nor is it really a niche market or just local, it requires huge investment and employs a large number of people.

Contradicting this, and supporting the usual economic explanation, it could be stated that small firms often do need government encouragement and support and special concessions so without that they may not survive and this applies in the case presented. Also, profits are large so firms are attracted to the industry.

Once again candidates were expected to draw a conclusion even if they stated that the conclusion might be uncertain.

Section B.

Question 2

In answering this question candidates should have recognised that economic theory does not always suggest that charges should cover cost – it depends which costs, and whether short or long run, and whether

the firm is operating with the aim of profit maximising or some alternative goal. Apart from this, sometimes firms are deliberately subsidised, which means that they may not cover costs, and this is also allowed in theory. They should have then drawn an initial conclusion about the first part of the question.

Candidates should then have discussed the principles of allocative efficiency and debated whether economic theory indicates that firms should aim to set prices based on the principle of allocative efficiency.

Many candidates, however, gave explanations of allocative and productive efficiency but did not really relate these explanations to the question. Marks were awarded for this knowledge but they could have scored higher marks, with the same knowledge, if it had been better presented.

These questions which require an argument are not as difficult as they might at first appear. Candidates should take each part of the question and consider it in turn. First, is the idea that prices should cover cost supported by economic theory? Secondly, does economic theory support the idea that prices should be based on economic efficiency? Very many candidates ignored the first part of the question completely and gave only a generalised account of allocative efficiency.

The lack of an approach such as this to answer a question which presents an argument was a common weakness. Further references to it will be found below. If candidates can be encouraged to approach a question considering each part in turn, and then to present their own conclusion they could increase their mark without needing to use any further knowledge or analysis. Some tend to waste the information they present by using it badly.

Question 3

(a) Candidates were expected to give an explanation of the factors affecting the supply of labour. They might have suggested that the wage rate, the non-wage benefits, the wages in alternative employment, the idea of income and substitution effects leading to a backward slope in the supply curve were all relevant factors. The union might also have some influence on determining the wage rate, or possibly the non-wage benefits. Candidates should then have drawn a conclusion suggesting whether the union was the main factor affecting the supply of labour. Many candidates wrote about the influence of the existence of a union but did not give an indication of whether they considered the union to be the main factor. There should always be a conclusion to the answer, and the conclusion should relate to the question.

Some answers were similar to the style adopted for **Question 2**. They consisted of a generalised account of union activity but did not make any suggestion of the relative importance of that activity. It does not matter, in drawing the conclusion, whether the candidate can be sure of their suggestion about the relative importance. (The relative importance might vary depending on the occupation or the individual circumstances, so there may be no general definitive conclusion). What matters is that they present a conclusion and give an opinion about the question.

(b) Candidates were expected to explain the economic theory of wages and then introduce the union into the theory of the imperfect labour market. They should have then discussed how the wage rate could be fixed between the union demands and the market rate depending on the bargaining strength of the two sides. This part of the question was answered well and relevant diagrams were drawn with clear accompanying explanations. As usual, however, some of the diagrams were poorly presented and not labelled clearly. This was a pity, as they detracted from the answer rather than adding to it.

Question 4

This question produced a wide range of responses. There were three parts to the statement in the question and candidates were expected to consider each of them. The really good responses managed to deal with all three, but many candidates wrote a generalised answer on monopolies or monopolistic practices. This analysis, however, was clearly explained and candidates were thus able to identify possible problems with the market structure. These problems were usually expressed in terms of consumer exploitation, allocative/productive inefficiency and price discrimination. Candidates were also aware of the possible benefits of the market structure, such as lower prices due to economies of scale, investment in research and less wasteful advertising.

However, not all the answers linked these points explicitly to the question, which was a pity. Had they done so, the same information could have produced a higher mark. In questions such as this which present an

argument, candidates must consider each of the premises of the argument and then draw a conclusion themselves which considers the accuracy of the conclusion presented in the question. The conclusion in the question was that 'large firms should be regulated by the government' – because of the assumption stated that they adopt undesirable practices. Many candidates failed to consider this aspect and thus missed the point of the argument. Instead they presented generalised statements about monopolies or monopolistic markets.

Those that did relate their answer to this part of the question mentioned taxation, nationalisation and maximum price regulation and some suggested that subsidies might be used to allow some monopolies to produce at an allocatively efficient level of output whilst still maintaining some abnormal profits.

Question 5

(a)   This section was answered reasonably well. Most of the answers identified what was meant by development or were at least aware of the causes of economic development. Candidates were expected to explain economic development in terms of an increase in GDP, GDP per capita, an increase in national income, productive capacity, or in terms of HDI and standards of living. Better answers use HDI to illustrate explanations which went beyond the simple use of statistics such as GDP per capita.

(b)   This section was not answered as well as **section (a)**. Sadly, the discussion which was presented was often cursory and lacked depth. Candidates were asked to consider in turn three suggestions which, it was stated, would lead to economic growth. Some referred to all the suggestions in the statement and presented good attempts to consider them. Unfortunately it was rare to read such responses which actually discussed the relevance of these suggestions and how far they could be relied upon to solve the problem of unsatisfactory development.

The question may at first appear to be difficult but when it is broken down in the manner stated above it becomes less daunting. Candidates had no trouble considering whether scientific advances might lead to economic development but they omitted to consider the other two suggestions. They could have used the same approach that they used with scientific advances to consider market forces. In the past, candidates have presented good answers about the drawbacks of the use of the free market and its detrimental effect on the economy, so it was not thought that this was something which was beyond the syllabus. It is recognised that the more difficult suggestion in the question was the statement about economic theory. However, candidates could have attempted to evaluate whether economic theory was a useful explanation of everyday events or whether it presented unrealistic situations, perhaps referring to one or two examples such as perfect competition, utility theory, wage determination or profit maximising.

Question 6

(a)   In the first part of the question, candidates were required to consider the link between a change in taxes and national income. Most candidates demonstrated a sound knowledge and understanding of this link, pointing out that in many situations an increase in taxes might well lead to a fall in national income. However, a number of them argued that this might depend on what types of taxes were being considered, whether they were direct or indirect, progressive or regressive. It was also pointed out that the overall effect on national income could be somewhat uncertain as an increase in taxation could lead to an increase in government revenue and, if this were used to finance public expenditure, there might be an overall increase in national income.

(b)   In the second part of the question, candidates were required to discuss whether a fall in the level of national income in a country would be a good indicator that there had also been a decline in the standard of living. Many candidates demonstrated a very good knowledge and understanding of what was involved in measuring the standard of living of a country, considering issues such as the existence of an underground/hidden economy and the amount of money spent on defence. A number of candidates showed that they were aware of other ways of measuring standard of living, apart from real GDP per capita, such as the Human Development Index. Unfortunately a few candidates did not realise that the focus of the question was on one country and tended to answer a different question, on the problems of comparing standards of living between different countries.

Question 7

(a) In the first part of the question, candidates were required to consider the purposes for which people demand money. There were a few rather vague answers, but the majority of candidates concentrated on Liquidity Preference and the three motives for holding money, distinguishing clearly between the transactions, precautionary and speculative motives. The first two of these motives were usually explained reasonably well, but some candidates struggled to explain precisely what was meant by the speculative motive. A number of candidates used appropriate diagrams to support their explanations to very good effect. Some candidates gave an answer that explained the characteristics of money rather than why people demanded money.

(b) In the second part of the question, candidates were required to discuss the effect of an increase in the supply of money on interest rates and national income. The majority were able to demonstrate that they understood that an increase in the supply of money would be likely to lead to a fall in interest rates. Again, diagrams were used to very good effect to aid the discussion of this link. Candidates then considered how a fall in interest rates would be likely to encourage an increase in consumer spending and an increase in investment. They used the concept of the multiplier to show how this might lead to an increase in national income. A number of candidates had clearly grasped the link between money supply, interest rates, national income and the multiplier extremely well.