

ECONOMICS

Paper 9708/11

Multiple Choice (Core)

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

General comments

There were a very similar number of candidates compared to last year. The mean score fell from 14.9 to 13 with an increased standard deviation of 5.1. Two questions (**Question 3 and 9**) proved relatively easy, being at the top end of the test's design limit and three (**Question 7, 27 and 28**) proved relatively difficult. This meant a greater reduction in relatively easy items than in relatively difficult items compared with last year. The result of this change was that, although the highest candidate score rose to 29, the overall performance compared slightly less favourably with that of last year.

Comments on individual questions

Question 3 (opportunity cost) and **Question 9** (market supply) involved topics that continue as in recent years to provide a straightforward challenge to candidates. A large proportion of candidates answered correctly.

In **Question 7** option D was correct as wage rate changes affect the position of the supply curve (shift) while the price of substitute goods affect the position of the demand curve and hence the position on the supply curve (movement along). With option A both influences involve a movement along the supply curve, while in option B both influences result in a shift of the supply curve and are consequently wrong. The choice of options for **Question 27** was evenly spread, which sometimes suggests a degree of guessing. The point of the question was that depreciation would result in lower priced exports with reduced export revenue whenever demand is inelastic. The correct key was therefore A. There was the possibility of careless reading of either the stem or the diagram in **Question 28**. The foreign exchange market was for the US\$ not the Euro. The equilibrium would become point D (not the more popular B) as more US\$ would be supplied in exchange for Euros to finance foreign holidays.

In some questions more candidates opted for wrong options than the correct response suggesting a common misunderstanding. In **Question 8** option A was incorrect as complements have negative cross elasticity values. Some stronger candidates opted for B in **Question 11**. However here, all three linear supply curves cutting the origin have the same unitary elasticity, so D is correct. In **Question 21** only option C results in a change greater than 2%. The use of a calculator starting from a base of 100 would be the simplest approach. The diagram in **Question 23** provided difficulties for some candidates. The key element is that the short-term and long-term unemployment rates combine to give the total. This leads to the conclusion that the most selected option C is wrong as Country Y was the most successful not the least successful in reducing the short-term unemployment rate because of the rise in the relative importance of long-term unemployment. A common error surfaced in **Question 24**, namely the confusion between price levels and inflation rates. Option B is wrong as it is the rates of inflation that are stable in Saudi Arabia not prices. Prices were more stable in both China and the United States.

Question 5 and **15** produced a very similar response in which two options were each very popular and two drew little support. In the former question, option D was incorrect as the demand curve does not have unitary price elasticity throughout its length, while in the latter option A was wrong as it failed to include the increase in private benefit from extra consumption within the additional social benefit.

ECONOMICS

Paper 9708/12

Multiple Choice (Core)

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

General comments

There was a significant increase in candidates this year. The mean score fell from 16.7 to 16.2 with a standard deviation of 5.4. The highest score was 29 gained by eight candidates, while 255 candidates scored below the guessing level. The general performance compared less favourably with that of last year. Three questions (**Question 5, 17 and 21**) proved relatively easy, being at the top end of the test's design limit and two (**Question 20 and 27**) proved relatively difficult.

Comments on individual questions

Candidates scored particularly well on the questions that tested demand effects, merit goods and the terms of trade.

Inexact use of technical terms was evident in **Question 4**. Capital was interpreted in a non-economic context by the 30% who wrongly selected option A.

In **Question 9** more candidates opted for option A than the correct option B. The payment of a 10 cent per kilogram subsidy shifts the supply curve to the right and reduces the equilibrium price to 10 cents. The fall is not by the full amount of the subsidy as suggested by option A as this will only happen when demand is perfectly inelastic.

Question 16 proved a problem, with the largest proportion of candidates, including some of the higher performing candidates, preferring option D to the correct option A. The nature of the operation of a bridge is not non-excludable as the existence of many toll bridges illustrates, therefore this would not prevent private firms from earning a profit from building and operating the bridge.

Uncertainty was evident in **Question 20**, where candidates seemed to miss the possibility of trade diversion. The change in the tariffs faced by X is likely to cause it to replace trade with W by trade with Y and Z, while the change in tariffs facing Y and Z may lead them to trade more with X than one another. B is the correct key.

Question 27 produced some unexpected statistics with a disappointingly low number of candidates getting the correct key. Candidates may have struggled to distinguish between cause and effect, which is often evident in essay answers or more likely may have paid insufficient attention to the word 'necessary' in the stem. In terms of the latter aspect other outcomes may occur but do not have to. The point of the question is that a current account surplus must result in an increased net claim on foreign assets.

Answers were spread evenly between the four options in **Question 29**, with the largest proportion of only 30% opting for the correct key C. A price change that neutralises the effect of currency depreciation would leave the price of the product in Pakistan unchanged and hence the company's revenue in rupees would be constant.

ECONOMICS

Paper 9708/13

Multiple Choice (Core)

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

General comments

There were a similar number of candidates this year compared to last year, all from New Zealand Centres with a mean score of 18.9 (down from 19.3) and a higher standard deviation of 5.3. Eight candidates scored full marks, while 10 made a single error and five candidates scored below the guessing level. The general performance was impressive and the statistics confirmed that all items were valid, so there are not a great many issues to comment upon. Five questions (**Question 1, 7, 14, 15 and 30**) proved relatively easy while one question (**Question 9**) proved relatively difficult. The small entry makes generalisations about performance less certain.

Comments on individual questions

Questions on opportunity cost (**Question 1**) and market supply (**Question 7**) proved to be easier than expected and continue to be areas in which candidates usually score highly. Other topics in the syllabus which met with scores at the top end of the test's design limit were merit goods (**Question 14**), excludability and non-rivalry (**Question 15**) and capital (**Question 30**). Candidates show clear understanding of these concepts.

The one case where the largest proportion of candidates selected a wrong key was in **Question 9**. Here, 49% chose option B with only 30% picking the correct option D. In the diagram the three linear supply curves all cut the origin and have constant unitary price elasticity of supply. Option B suggests different elasticity values so is incorrect. The steepness of the linear curves when they start from the origin is not a guide to their elasticity.

A number of questions each had one wrong option that attracted a third or more of candidates, although the largest number chose the correct key. This may suggest some fairly common misunderstanding among a significant group. The choice of B in **Question 5** is incorrect as the imposition of a tax would shift the position of the supply curve rather than cause a movement along the curve. Option D rather than A is correct in **Question 6** as complementary goods have negative cross elasticities of demand. The selection of A would have been appropriate for substitute goods. In **Question 13** 36% of candidates favoured option A. This only takes into account the additional external benefits of consumption. The additional willingness to pay indicates the additional private benefit that is required to calculate the additional social benefit. This makes C the correct response. The choice of B in **Question 22** comes from a common confusion of price levels and rates of inflation. It is the rate of inflation that is most stable in Saudi Arabia, not the price level. Both China and the United States had more stable prices. In **Question 23** the choice of B is wrong as demand-pull inflation is more likely to worsen rather than improve an economy's balance of trade, as imports get 'sucked in' to meet the increased demand in the economy.

ECONOMICS

Paper 9708/21

Data Response and Essay (Core)

Key messages

In order to improve candidates should;

- Pay careful attention to key command words especially 'Discuss'.
- Include definitions/explanations of relevant economic vocabulary in their answers.
- Read the questions carefully in order to avoid digression and to help retain focus.
- Understand the differences between related economic concepts such as external costs and benefits, and social costs and benefits, production and productivity, and comparative and absolute advantage.

General comments

The question paper provided an appropriate level of challenge for an AS examination. There were very few high- scoring answers getting 30 marks or more and a significant number of candidates scored marks in single figures, indicating their grasp of the subject fell a long way short of the standard required for success at this level. Part of the problem was poor examination technique and if the key messages above had been heeded marks would have been much higher.

However, there were many positive points in the performance of candidates. The paper was accessible to all but a small minority of candidates. Most candidates were able to demonstrate a sound grasp of economic principles at some, if not all, points in their answers. In the past many candidates have produced unbalanced answers, devoting a disproportionate amount of time to one answer at the expense of the other, but this time there were very few examples of this problem. Candidates wrote legibly in most cases, there were hardly any rubric infringements and there was no real evidence that candidates experienced problems caused by the time constraint.

Comments on specific questions

Section A - Data Response

Question 1

- (a) Because there were no details of what happened to prices between July 2004 and October 2006 it was decided that candidates who dealt only with the price behaviour shown on the graph could earn full credit. Most candidates focused on the graph and earned two or three marks. The command word was 'compare' so candidates who gave three totally separate accounts with no comparison earned a maximum of two marks. Weaker candidates gave descriptions that were inaccurate and/or incomplete e.g. failing to deal with the fall in prices during the last few months.
- (b) Most candidates earned some credit with price and income the most frequently mentioned influences identified. Some of the explanations lacked depth with candidates re-stating the obvious relationship without explaining it. For example, many identified price as a factor, but the only 'explanation' offered was that when price goes up less is bought and vice versa. Some simple explanation was required using ideas such as value for money, affordability and consumer surplus. Some of the weaker answers dealt with supply factors although the question is about demand, illustrating the need to read the question carefully.

- (c) As above, some candidates muddled supply and demand and a small number failed to include a diagram, even though this was clearly specified in the question. Most candidates recognised that there would be a fall in supply and included a diagram with a supply curve shifting to the left. Disappointingly, only a small number showed the supply curves diverging indicating an *ad valorem* tax. No candidates drew the curves to show that this tax only applied to goods costing over \$20 000.
- (d) Most candidates scored two marks but only a few earned the third mark for indicating which group(s) of people would be affected e.g. the damaged wildlife habitat would disadvantage tourists and the tourist industry, conservationists and the local community. The answers demonstrated that a number of candidates are confusing external costs and social costs.
- (e) This was a challenging question and marks of more than four were rare. Good answers started by stating the functions and characteristics of money to earn two marks. Candidates were then expected to apply these to diamonds. For example they could have said that as diamonds are durable and easy to store, they could serve as a store of value. On the other hand, because diamonds can be manufactured (forged) they are not always acceptable as a medium of exchange. Few candidates applied their knowledge in this way and many answers consisted of a few simple points, while some digressed into barter.

Section B – Essays

Question 2

This was probably the most popular essay question.

- (a) There were some good responses from candidates with a clear understanding of the distinction between private, external and social costs and benefits. Most candidates realised that profit was the main motive of private firms but the understanding of the motive of government was less precise. Many candidates mentioned cost-benefit analysis but the elaboration was often weak or non-existent. As in **Question 1(d)** above, there was a lot of confusion between external and social costs and benefits.
- (b) There were a few very good answers from candidates who had an excellent grasp of the classifications and were able to score highly on the characteristics of the two goods. It was more challenging to highlight similarities and difference but many of the better candidates made at least two relevant comparisons. Many candidates were limited to low marks for this question because they did not have a clear understanding of the classifications. Therefore, for example, the most common misunderstanding was that many thought they were both public goods because both were provided by the state. Economists make much use of classifications of goods e.g. normal and inferior, public and private, merit and demerit and it is essential at this level that candidates have an awareness and a clear understanding of these various classifications. This was a 'discuss' question and candidates needed to structure their answers to highlight the similarities and differences between the two services, but few did this.

Question 3

- (a) There were a few really good answers where candidates began with good definitions of comparative advantage and opportunity cost before explaining the factors that influence comparative advantage. However, while many candidates attempted a definition of comparative advantage, many did not define opportunity cost at the outset although some of these picked up some credit for showing an understanding of the concept later in the answer. Some candidates lost their focus and digressed into detailed illustrations of comparative advantage, though many were confused between absolute and comparative advantage. The core of the question was about the influences on comparative advantage and many scored two marks for dealing with some of the factors of production. Only a few went beyond this to bring in influences such as transport costs, the level of technology and government policies. Too many candidates used the term 'resources' in their explanation without specifying the nature of the resource(s) they were dealing with.

- (b) There were a few excellent answers to this question from candidates who had a clear understanding of expenditure switching and were able to examine a range of policy instruments highlighting their benefits and disadvantages. These candidates recognised the significance of the word ‘discuss’ in the question, but too many examined only the beneficial effects. There were weaknesses in both understanding and examination technique in many answers which meant that these candidates failed to get half marks. At the outset most candidates showed that they did not understand the meaning of a current account deficit even though this has cropped up in recent examinations and the misunderstanding pointed out in previous reports. Many still think the current account is just the balance of trade and a deficit occurs when imports exceed exports. The understanding of expenditure switching was often incomplete, with many believing it is just about switching from imported goods to domestically produced goods and ignoring the role of increased exports. Finally, many candidates digressed into expenditure dampening policies and, while this might have been appropriate as part of a reasoned conclusion, it was not relevant in the main body of the essay.

Question 4

- (a) Some candidates took the opportunity to earn credit by defining the two key economic terms in the question- ‘labour force’ and ‘productivity’- though there were very few examples of two precise definitions. There was some evidence of confusion between production and productivity. When it came to explaining the factors there were a number of unstructured answers where candidates sought to deal with size and productivity together. However, there were a number of candidates who earned full marks for their explanation of the factors and even the weaker candidates often scored two marks.
- (b) Most candidates began with an attempted definition of unemployment and the better candidates were aware of the two main methods of measuring unemployment, the claimant count and the Labour Force Survey. However, very few attempted to compare their accuracy in a structured way. Most candidates were well aware of the problems associated with the collection of accurate data and many went on to score all six marks available for this section of the answer and contributed to this question having the highest average mark of the three essay questions.

ECONOMICS

Paper 9708/22

Data Response and Essay (Core)

Key messages

- It is clear that some key economic concepts are not fully understood by a large number of candidates. These include for example the terms of trade, which candidates seem to find difficult to grasp, and the basic economic problem which candidates can often state, but which many fail to understand fully. Answers provided based upon incomplete understanding of key underlying concepts will inevitably score poorly.
- Candidates do not always appreciate the full meaning of the directive words used in questions. For example, the directive word, 'discuss' implies that two sides of an argument need to be presented and considered and a reasoned conclusion reached. Such candidates should be encouraged to practice essay writing under exam conditions.
- Many candidates seemed equipped with the necessary knowledge and understanding of the key concepts, but did not access all the marks available because of deficiencies in exam technique, particularly where essays are concerned. Many candidates started essays well but tended to lose focus as the answer was developed.
- Candidates are advised to be succinct in constructing answers. There is clearly an opportunity cost in writing extensively and providing more than is required, especially on questions with a low mark allocation.

Comments on specific questions

Section A - Data Response

Question 1

Most candidates displayed a sound level of competence with many marks in the 11-15 range, but there were very few really outstanding answers to all parts of the case study.

- (a) Answers to this part of the question were disappointing. The majority of candidates need to be able to calculate a greater than 100% change. The most common mistake was being to divide by three instead of four. There were occasional completely inexplicable answers, for example four digit final answers.
- (b) This question was well done on the whole with most candidates able to interpret the data in order to gain some credit. A common weakness was a tendency to write over-lengthy and descriptive accounts of the changes over time; another was to repeat the terms used in the text. Candidates needed to use simple economic concepts such as supply and demand to explain the changes. A small number of candidates also lost marks because they ignored the changes that occurred after May 2008.
- (c) The general idea that India might restrict rice exports to increase supplies to the home market was grasped by most candidates. They then needed to go on to explain why that might be necessary and why India might be prepared to forgo the export earnings to achieve this. Pressure on food supplies in India could have resulted from population growth which would increase the demand for rice or through crop failure which would reduce rice production.

- (d)(i) It was pleasing to see that most candidates understood the term 'effective minimum price for exports' and recognised that for this to be effective it was necessary to place this above the equilibrium price. Disappointingly, a smaller number were able to explain why this might have helped India's position. Many provided inaccurate analysis here and so did not access all available marks.
- (ii) The most likely reason that India changed from the use of a minimum export price to an export ban is that the minimum export price was ineffective and not achieving its aims. Although this was recognised by most candidates, it was not always explicitly stated. In addition those candidates who recognised that the minimum export price was ineffective did not fully grasp why this might be the case. As a result the number of candidates gaining both marks available for this question was quite limited.
- (e) This was quite well done by most candidates although a common weakness was to provide a quite unbalanced answer that focused only on the potentially harmful effects for India with no mention of the effects on the rest of the world. In addition many candidates wasted time explaining the potential benefits of a protectionist trade policy which gained no credit at all.

Section B - Essays

Question 2

- (a) The definitions of the production possibility curve provided were often incomplete or lacked precision. A common failing was to provide a diagram of the production possibility curve with little accompanying explanation. This weakness was further exacerbated by a tendency to label the diagram incorrectly or to fail to label the axes at all. Although asked to identify two ideas, many candidates failed to make their choices explicit and instead allowed their ideas to emerge from their explanation of the production possibility curve. Candidates were awarded some credit for this approach, but a more accurate explanation of the curve together with a clearer statement of the ideas chosen would have allowed more focused application and a higher mark would have resulted.
- (b) Most candidates started by defining the economic problem, but as stated many did not fully understand the problem sufficiently clearly to score well. In addition the contribution of improved technology and globalisation were not always treated as distinct factors. The contribution of each is quite distinct, but many candidates treated improved technology and globalisation as one process and this meant that the distinctive impact of each was not identified, explained and considered. Despite this it was pleasing to see that most candidates came to the considered view that the economic problem could not be solved and were able to explain their conclusion with some success.

Question 3

Many candidates spent far too long answering a different question to the one set and writing at length about merit goods, demerit goods and public goods, some of which was worthy, but much of which was irrelevant and detracted from the quality of the answer.

- (a) There were two broad approaches in evidence. Some candidates provided their theoretical list of factors that influence demand; others completely ignored supply and demand influences and referred to social and political factors. This latter approach resulted in quite descriptive answers. When assessing the provision of healthcare there needs to be a consideration of both theoretical and other factors. Without these answers become either a list of theoretical factors with little application to healthcare or descriptive approaches with little theoretical underpinning. For example, many candidates referred to the significance of price in the provision of healthcare; however the significance of this factor depends upon the mix of private and public sector provision. Where healthcare is universally provided by the state as a service supplied free of charge at the point of consumption, price has no significance. Similarly, many candidates mentioned that changes in the price of substitutes and complements would influence the provision of healthcare without any attempt to identify what substitutes and complements of healthcare might be. Candidates should be advised that it is better to explain a small number of influences in depth and with sufficient development rather than a very wide range of factors with only superficial comment.

- (b) In answer to this it was clear that candidates had been prepared for a question that required an appreciation of the difference between merit goods and public goods and a number of candidates spent some time explaining why healthcare is insufficiently provided in a free market. This was relevant to the question, but a more balanced approach was essential with some consideration of the benefits of free market provision. Some candidates misinterpreted the question and wrote about the benefits of healthcare, especially where extensive consumption occurs rather than who should provide it.

Question 4

The quality of answers to both sections of this question very much depended on whether the candidate fully understood the terms of trade. Many candidates made the usual error of confusing the terms of trade with the balance of payments and scored poorly as a result.

- (a) The familiar misunderstanding of the concept of terms of trade was present amongst many of those who chose to answer this question. Although many were able to provide a formula for the terms of trade, it was clear that many did not fully grasp the concept and incorrectly assumed that an improvement in the terms of trade was the same as an improvement in the balance of trade. The small number who had a firm understanding of the concept tended to score well, but far too many gained a very poor mark as a result of their imperfect understanding of the central concept.
- (b) The terms of trade part of this essay was done well by those who fully understood the central concept. Good analysis was provided by these candidates with excellent and relevant application of price elasticity of demand. The impact of a fall in the domestic price level was done less well with a large number of candidates confusing this with a fall in the rate of inflation that would bring with it a healthier economic climate promoting growth, investment and employment. This incorrect interpretation of the impact of a fall in the domestic price level meant that candidates were unable to make a judgement on which occurrence should concern an economy the most. As a result, such candidates gained disappointing marks for this section of the question.

ECONOMICS

Paper 9708/23

Data Response and Essay (Core)

Key messages

- It is clear that some key economic concepts are not fully understood by a large number of candidates. These include for example the terms of trade, which candidates seem to find difficult to grasp. Other examples include the difference between production and productivity which candidates seem to find difficult. Answers provided based upon incomplete understanding of key underlying concepts will inevitably score poorly.
- The significance of the distinction between the short-run and the long-run time period is not always understood and candidates often fail to apply these to the context of questions. Much economic theory makes use of this distinction and it is essential that candidates appreciate the difference between each.
- Candidates need to appreciate the full meaning of the directive words used in questions. For example, the directive word, 'discuss' implies that two sides of an argument need to be presented and considered and a reasoned conclusion reached. Candidates are advised to consider the directive words used in each question to ensure that the answers provided are relevant and correctly focused.
- Many candidates seemed equipped with the necessary knowledge and understanding of the key concepts, but could not access all the marks available because of deficiencies in exam technique, particularly where essays are concerned. It is essential that candidates practice essay construction to ensure a high mark.

General comments

A noticeable feature of the scripts produced this year was that there were very few really high marks awarded. Several candidates scored very highly on the data response question, but very often failed to match this with a high scoring essay. Alternatively, some excellent essays were provided but seldom with good responses to the Data Response section. On the other hand there were very few candidates who appeared completely unprepared and out of their depth. Most were equipped with the required knowledge and understanding for success on this paper with most scoring more than half marks.

Almost all scripts were legible and candidates had little difficulty in completing the paper. They seemed to have been able to allocate sufficient time for each of their questions with very few examples of unfinished answers. There were no rubric infringements, suggesting that instructions were clear and understood.

Comments on specific questions

Section A - Case Study

Question 1:

Most candidates displayed a sound level of knowledge and understanding of the relevant concepts with many marks in the 11-15 range, but there were few really outstanding answers to this question.

- (a) It was pleasing to see that most candidates were able to interpret the tables with accuracy and most scored two marks. Many failed to score full marks however because they quoted figures provided in the table rather than manipulating the data to provide support for their assertions.

- (b) Many candidates need to understand the distinction between production and productivity and this undermined the quality of their answers although most were able to gain some credit even though responses were not always in the correct context.
- (c) A number of candidates scored full marks but others lost marks because they lacked clear explanation of the effects of price and income on demand. A small number misread the table and thought the figures represented total consumption. Care must be taken in interpreting data to ensure accuracy of interpretation.
- (d) A small number of candidates seemed unaware of the concept of cross elasticity of demand. The majority of candidates however were able to provide a formula and a definition and were able to identify the products as substitutes with a positive cross elasticity of demand. Few got much further than this however and attempts at explanation were either too simplistic or confused.
- (e) A large number scored four marks for this question, usually with an explanation of tariffs followed by the familiar arguments for and against tariffs in the context of world trade and welfare. The concept of 'tariff escalation' was understood by few of the candidates and the meaning was usually misinterpreted. As a result few scored full marks on this question.

Section B - Essays

Question 2

This was by far the most popular of the three essays.

- (a) There were very few answers awarded more than six marks here. The definitions of the production possibility curve provided were often incomplete and few explained the short term limitations on production. A common failing was to provide a diagram of the production possibility curve with little accompanying explanation. This weakness was further exacerbated by a tendency to label the diagram incorrectly or to fail to label the axes at all. Many candidates displayed a failure to make the distinction between the short-run and the long-run and many ran the two together rather than treating the changes as distinct. Of the candidates who did make the distinction, the long run was explained better than the short run, though surprisingly few provided a diagram to show the outward shift in the curve in the long run.
- (b) There were very few high scoring answers to this question, despite the fact that it covers a very familiar area of the syllabus. Most gave an acceptable definition of a market economy and many mentioned welfare indicators at some stage in their answers. When it came to the core of the argument however, only a small number of candidates had taken on board the idea that the directive word 'discuss' implies a balanced response with both sides of the argument considered. A further common weakness was the lack of balance in the responses, with the focus mainly upon the ways in which the free market reduces or harms welfare and with little consideration of the possible benefits of a free market.

Question 3

This question was avoided by most candidates with only a small percentage of candidates selecting this essay.

- (a) The familiar misunderstanding of the concept of terms of trade was present amongst those who chose to answer this question. Although many of those attempting this question were able to provide a formula for the terms of trade, it was clear that many did not fully grasp the concept and incorrectly assumed that a rise in the terms of trade was the same as an improvement in the balance of trade. The small number who had a firm understanding of the concept tended to score well, but far too many gained a very poor mark as a result of their imperfect understanding of the concept.
- (b) The main reason for poor marks on this part of the question was a lack of balance in the answers. The candidates were on the whole well able to explain how governments are able to contribute to a current account surplus, but few went on to non-government influences or only gave this aspect of

the question taken consideration. This meant that they were unable to come to a reasoned answer to the question.

A further source of weakness remains. Despite the fact that the current account of the balance of payments has featured many times on examination papers, and the misunderstandings have been pointed out many times in Principal Examiner's reports, a large number of candidates continue to equate the current account with the balance of trade.

Question 4

This was a quite popular choice and on the whole it was done most successfully. It gained the highest average mark of the three essays.

- (a) Most candidates understood the term 'depreciation' in the context of foreign currencies and most were able to identify and explain at least one effect of the depreciation of an economy's currency on the export and import prices of that economy. Most were able to go on to explain at least one impact of depreciation on the rate of inflation in an economy, usually the effect of higher import prices on cost-push inflation. Fewer traced through the link between depreciation and demand-pull inflation and only a very small number were able to give a balanced explanation of both. Many candidates wasted time explaining the causes of inflation and provided good accurate diagrams to support their explanation. This failed to score of course because it was not required by the question. Only a small number provided a relevant aggregate demand and aggregate supply diagram and as result were able to score more than six marks.
- (b) Most candidates began with a good, accurate definition of inflation. The better candidates were able to explain a number of impacts, both domestic and international, and this assured them of good marks. Weaker answers lacked balance however and provided a sufficiently thorough discussion of only the domestic or the international effects. A one dimensional approach meant that the candidate was unable to reach a reasoned conclusion in answer to the question posed. Marks were lost as a result.

ECONOMICS

Paper 9708/31
Multiple Choice (Supplement)

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

General comments

The mean percentage score on this paper was 44.2%. Although this was higher than on the corresponding paper in 2010, candidates clearly found most of the questions quite difficult. Even so, there were only 3 questions, **7**, **13**, and **16** which had facility scores at or below the 25% guessing level.

Comments on individual questions

There is a specific reference in the syllabus to the relationship between total, average and marginal costs, and diagrams designed to test candidates' understanding of this relationship have appeared on past papers. The low facility score on **Question 7** was, therefore, unexpected. Candidates had similar difficulties in the November 2010 paper with a question on the relationship between the marginal and average propensities to consume. All of this suggests that teachers should perhaps pay more attention to these relationships.

There have been several statistical questions on past papers featuring graphs or tables showing growth rates either in different countries or over different periods. Candidates are then asked about GDP or output levels. The correct answer to these questions is often that GDP rose in all the countries (or over all the periods). One wonders whether familiarity with this type of question could possibly explain why 59% of the candidates opted for C in **Question 13**, even though an examination of the statistics would show that, in this case, this was clearly the wrong answer.

Candidates should always pay close attention to any words or terms that are emphasised in bold print. In **Question 16**, 65% of the candidates opted for D, the increase in income, rather than C, the increase in **consumption**.

There were a further two questions, **Question 2** and **22**, which were answered correctly by fewer than one third of the candidates.

Setting questions about productive efficiency is problematic since the way this topic is treated in most A level texts is quite different from the way it is presented in introductory texts used in universities, some of which are included as alternatives in the Resource List. Therefore, one has to be very careful in this topic area to ensure that candidates are not penalised in any way. In **Question 2**, whichever textbook candidates might have used, one would have expected them to realise that C was the key. However the statistics suggest that a good many resorted to guesswork.

Much the same applies in **Question 22**, which is something of a surprise given the intense coverage devoted to fiscal deficits in the news media over the last two or three years.

ECONOMICS

Paper 9708/32
Multiple Choice (Supplement)

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

General comments

The mean percentage score on this paper was 45.6%. This was slightly higher than the score recorded on the corresponding paper in 2010. Nevertheless, candidates clearly found many of the questions more difficult than had been anticipated.

Comments on individual questions

Three questions, **7**, **24** and **28** had facility scores below the 25% guessing level, and a further two questions, **3**, and **29** were answered correctly by less than one third of the candidates.

One of the central tenets of conventional economic analysis is that, so long as participation on the part of all parties is voluntary, engaging in trade will be beneficial to all parties. Some parties may gain more than others, depending on their relative bargaining strengths, but it is generally assumed that no party will voluntarily enter into a transaction if this is detrimental to their interests. The performance of candidates on **Question 3**, and indeed the performance of candidates on similar questions on past papers, indicates clearly that this is a proposition which the majority of candidates find difficult to comprehend.

Question 7 proved to be very difficult for most candidates, with only 10% opting for the correct answer. Almost half of the candidates thought that the table showed increasing marginal productivity of labour, whereas an examination of the first three rows clearly shows that the marginal product of labour actually falls as the number of workers increases. One can only suggest that candidates should be given more practice in tackling numerical questions of this kind.

Rapid growth in a country's labour productivity is likely to reduce relative labour costs, reduce inflation, improve the trade balance and strengthen the currency. The performance of candidates on **Question 24** would suggest that they have little understanding of this and so another area for candidates to focus on.

Examiners regularly aim to avoid negative stems since Examiners recognise that these can be confusing, particularly in an examination setting. However on occasions we do use them in a MCQ and this may well have been a factor which contributed to the difficulties candidates experienced on **Question 28**.

More candidates chose A, rather than the correct answer B, in **Question 29**. One possible explanation for this is the reference in the stem to tax free allowances which are relevant to income taxes, but not to tobacco duty, which is a specific tax. However one would have expected candidates to recognise that the real burden of a specific tax on tobacco will become smaller during a period of wage and price inflation.

ECONOMICS

Paper 9708/33

Multiple Choice (Supplement)

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

General comments

The performance of candidates on this paper was highly commendable. The mean percentage score of 65.2% was more than 10 % points higher than was achieved by candidates in the corresponding paper in 2010. From an examining perspective, the only problem with the paper was that most candidates found some of the questions too easy. No fewer than seven of the questions, **3, 4, 9, 13, 19, 22, and 27** had facility scores at or above 80%.

Comments on individual questions

Question 6 and **8** were the only two questions which presented candidates with a major challenge.

There is a specific reference in the syllabus to the relationship between total, average and marginal costs, and diagrams designed to test candidates' understanding of these relationships have appeared on past papers. The 36% facility score on **Question 6** was, therefore lower than one might have expected. Candidates have had similar difficulties in past papers with questions about the relationship between the marginal and average propensities to consume. All of this suggests that this is an area which perhaps warrants more attention from candidates.

The statistics suggest that the majority of candidates resorted to guess work in **Question 8**. Only 34% of candidates chose the correct response, B, and there were almost as many who opted for C and for D.

In **Question 8**, over 60% of the candidates failed to realise that charging higher fares for peak period journeys does not constitute price discrimination since the higher fares reflect the higher costs involved in catering for peak period demands. Charging lower return fares to air passengers on the Kuala Lumpur-

Hong Kong route who stay over Saturday night in Hong Kong is an example of second degree price discrimination. One hoped that candidates would recognise that pricing strategies of this kind are designed to attract passengers (usually non-business passengers) who would be unwilling to pay the full standard fare.

ECONOMICS

Paper 9708/41

Data Response and Essay (Supplement)

Key messages

- While knowledge and understanding are often in evidence, it is analysis and evaluation that are demonstrated less frequently and, as a result, the higher level marks are less accessible.
- Candidates need to provide clear, accurately labelled, supporting diagrams.

General comments

The overall standard of performance varied significantly both between and within Centres. Although the structure of the paper and the associated degree of difficulty remained the same as previous years, the general performance did not reach past levels. A large number managed to gain a pass level but a significant proportion failed to build upon this and achieve a higher level grade. Whilst knowledge and understanding were clearly in evidence, analysis and evaluation was demonstrated less frequently and, as a result, final marks were often less than satisfactory.

In addition there was a noticeable inability to provide clear, accurately labelled, supporting diagrams. This was unusual because it was not consistent with the improving trend demonstrated in this area in recent years. Also, it meant that candidates frequently lost the opportunity to build upon knowledge and application with a more analytical approach embodied in diagrammatic form. Particular examples relating to diagrams will be referred to within individual question comments set out below.

Section A questions were generally answered more effectively than their counterparts in **Section B** and this was rather surprising given the lack of choice in **Section A** compared to **Section B**. Also, as stated above, **Section B** provided the opportunity to demonstrate higher order skills and, unfortunately this opportunity was often not taken up. The candidate's choice of questions appeared to be evenly balanced between microeconomic and macroeconomic.

There were few instances of rubric infringement and candidates on the whole seemed to allocate their time quite well. The standard of written expression did not vary significantly compared to past papers.

Comments on specific questions

Section A – Data Response

Question 1

- (a) This question required candidates to be able to interpret a bar chart and to use this chart to address a specific question relating to the year which retail sales 'stopped increasing' in the US. It was essential that candidates understood and focused upon the words above in inverted commas, to ensure a correct response. Far too many responses were clearly based upon the looking at the chart and noting when the 'rate of increase' fell instead of noting when the rate of change became negative, that is, in 2008. Although only one mark was available for this question, it should be noted, that this confusion between relative change and absolute change is still frequently in evidence in spite of numerous attempts by Principle Examiners to emphasise this key distinction.
- (b) Candidates were required to use the chart provided to compare the trend in sales between the US and the Euro areas. In this case the key word was 'compare'. This essential requirement was not fulfilled by the majority of responses. Hence few answers gained full marks. It is very important when answering questions of this nature to reflect carefully upon the wording within the question

before proceeding to interpret charts. Most answers simply described from the charts what had taken place and, apart from marks gained for an implied comparison, did not gain what could be seen as two/three relatively straightforward marks

- (c) There were some very good responses to this part of the question. Given that this part of the syllabus has not been dealt with effectively in the past, it was pleasing to note relevant diagrams and some good supporting explanation was provided. As a result full marks were frequently awarded for this section.
- (d) This part of the question also addressed one of the less popular parts of the syllabus and which previously has produced many unimpressive responses. It was pleasing to note that this was not the case this time. Most candidates were able to gain at least three out of four marks for this part. Most were able to supply the key equi-marginal equation and relate this to utility. Moreover, the majority were able to correctly conclude that payment by cash or credit would not affect reliance on this principle. Primarily marks were not gained, somewhat surprisingly, because of the failure to explain the economist's meaning of utility, i.e. the level of satisfaction. Better responses explained the meaning of utility and the difference between marginal and total utility.
- (e) Candidates were expected to use the article in some detail to assess whether unemployment would necessarily be a disadvantage for all businesses. The key command word was 'assess'. This gave candidates the opportunity to construct an argument to either support or reject the stated opinion. There were eight marks for this section and it was expected that candidates would look for evidence to support two sides of the argument. This is common practice in questions of this nature and therefore it was surprising to note the significant numbers who were unable to provide evidence to support both sides. The evidence was clearly identifiable within the text. Also one mark was available for a conclusion and again, there were many who did not choose to conclude their responses in any relevant manner. Marks were not gained for simply reproducing the text. High marks were gained for those who provided discursive responses combined with a relevant conclusion based upon a preceding argument.

Section B – Essays

Question 2

There were three separate parts to this question. Firstly, candidates were required to demonstrate knowledge and understanding of the key concepts of efficiency. Then the main body of the answer needed to focus upon identifying the key determinants of imperfections in the market and finally an examination was required relating to how well these market imperfections could be dealt with.

This question proved to be a very good discriminator based upon the wide range of quality of responses. There were some excellent responses which provided clear definitions of different types of efficiency and which were sufficiently developed to demonstrate an in-depth knowledge of market failure relating to public goods, positive/negative externalities and monopoly markets. These responses also made some attempt to examine the extent to which government intervention could help to solve these problems. Less effective responses only provided relatively superficial explanations of inefficiencies and/or only a very limited discussion relating to perhaps a single cause of market failure, with no attempt to provide a valid conclusion. References to the role of governments were in little evidence.

Question 3

- (a) The subject matter in this question is generally accepted to be a mainstream part of economics and as such, one would expect that candidates would be well prepared to answer a question of this nature. Although most answers were able to clearly distinguish between normal and abnormal profits, a significant number did not address the second part of the question which required an explanation of when such profits might occur. Few progressed beyond an explanation of the situation in a perfectly competitive market, although they did use this structure to show differences between normal and abnormal profit and how this changed depending upon the short run or long run situation. Marks were lost for failure to discuss these concepts beyond that of a perfectly competitive situation. In addition there were far too many inaccurate diagrams which served to underline misunderstanding rather than to clarify or explain the differences. Good responses examined both short run and long run situations in both perfect and imperfect markets, and supported their explanations with appropriate diagrams.

- (b) Answers to this part of the question demonstrated a wide ability range. The distinguishing feature related to the extent to which candidates were able to progress beyond simply describing the main characteristics of an oligopolistic market and to establish some clear links between these characteristics and the subsequent behaviour of these firms. For those who were unable to discuss the latter, a Level 2 grade proved to be the maximum mark attainable. The extent to which each characteristic was developed and used to examine behaviour determined the final mark awarded. Some very good answers provided clearly labelled diagrams illustrating interdependence and the kinked demand curve and used this to show why prices might be fairly rigid in this type of market and why alternative approaches such as collusion or non-price competition might have been adopted. Less detailed responses tended to list characteristics but failed to use these to explain behaviour.

Question 4

Questions relating to the labour market are a frequently tested part of the syllabus and on this basis it was clear that many candidates had been well prepared to answer a question of this nature. Those who did choose to answer this question produced a range of responses from competent to reasonably good. It was relatively easy to gain Level 2 marks for this question by providing a correct but undeveloped theoretical analysis of the workings of the labour market and by ensuring that the analysis went beyond supply of and demand for labour but actually used the marginal productivity approach to establishing the demand for labour and wage determination.

Far too many responses lacked focus on the specific question and simply proceeded to 'write everything they knew' about the labour market. This approach might gain a basic pass level but in this case, it was essential to attempt to explain other factors contributing to differences in wages, apart from pure supply factors. Higher marks were gained for answers which recognised the important potential role of governments and the trade unions, as well as the key contribution of the demand for labour. Good supporting diagrams were essential to show the necessary depth of understanding and, unfortunately, these were not always forthcoming. It is extremely important when attempting questions like this to ensure that some reflection and thought is given to the specific question before attempting to respond. Also it is vitally important, regarding the frequency of questions on the labour market, that candidates incorporate marginal productivity analysis as well as basic supply and demand analysis into their responses.

Question 5

- (a) This question focused upon the need for knowledge and recall. Marks were available for what are key definitions of certain elements of National Income accounts. Those candidates who were able to make the necessary distinctions between gross and net, domestic and national and market prices and factor cost, in relation to national income were able to gain some relatively easy marks. Few managed to show the link between the national income and national product after calculation but most could give at least some idea of the use of GDP as an economic indicator. Overall the performance on this part of the paper was not as good as one might have expected, given the basic nature of the question but this area is not frequently tested and perhaps this partly explains the less impressive performance.
- (b) At first sight this probably looked like a more straightforward question than it actually was. This seems to have been borne out by the many responses which chose to focus upon one element of the question only. The prime focus of many candidates was upon the use of and limitations of GDP as a means of comparing living standards. This part of the syllabus has formed the basis of many similar questions and as such candidates are generally well informed regarding some of the key issues surrounding the debate. In this respect candidates were able to gain marks for locating a whole range of reasons which might make the GDP an unreliable comparator for measuring living standards between countries. This was also often combined with some good evaluative comment. Better answers were able to point to alternative indicators such as HDI and MEW. The highest marks were gained by those who were able to achieve the above and ensure that the discussion remained focused upon the use of these indicators to examine and compare different living standards between a developed and a developing country.

Question 6

- (a) Candidates were allowed a significant amount of scope within this question to demonstrate knowledge and understanding and gain high marks in the process. A large number of candidates were successful in this respect because they were able to identify the main macroeconomic aims that a government might have. For example, a stable price level, relatively high levels of employment, positive economic growth rates and a stable currency. The extent to which each was explained tended to determine the core mark. The key higher level discriminator depended upon the discussion surrounding the choice of the most important indicator. Good candidates located a specific choice and then provided an appropriate rationale. Less effective answers simply made an unsubstantiated statement.
- (b) A significant number of candidates only managed to identify one conflict and this was usually that surrounding policies designed to solve the problem of unemployment, which eventually leads to a further problem of inflation. Whilst this conflict was generally explained quite well with some relevant supporting diagrams, it was expected that more conflicts, at least two for Level 3, would be located and discussed. Weaker responses either focused on one conflict or failed to develop the chosen conflicts and often omitted any kind of conclusion.

Question 7

- (a) This question required careful thought and careful management. Candidates needed to consider two quite separate types of demographic change and then examine the impact of each one on both the public and the private sector. Most answers focused upon the potential effects of an ageing population on the finances of the public sector, in particular the provision of health care. Marks were gained accordingly but opportunities to add to the overall mark were often lost due to the failure to discuss the effects of the rise in the number of immigrants, either on the public or the private sector. The contribution of immigrant workers to the economy might have been discussed, for example through taxation and savings. Also the additional demands upon social services such as education and health care might have been considered.
- (b) This part of the question presented far less problems and frequently elicited some high marks. There were many opportunities to explore alternative policies which governments might use to influence the distribution of income in an economy. Candidates invariably chose to explain the use of progressive direct taxation and gained marks for this. Better prepared candidates were able to explore alternative policies in more depth. For example, a recognition that a redistribution of income from rich to poor would be likely, due to the higher marginal propensity to consume of the poor, to lead to higher levels of aggregate demand, employment and economic growth therefore would be good for the economy in general. In addition, some responses were able to identify the positive benefits of increasing certain transfer payments, reducing regressive taxation or providing direct grants or subsidies. Less effective responses did not proceed beyond discussing a single policy option.

ECONOMICS

Paper 9708/42

Data Response and Essay (Supplement)

Key messages

- It would be worth future candidates practising how to work through the longer 25 mark questions and to keep focused on the question.
- It would also be worth them realising that most of the questions, including the two-part questions, which begin with the command word 'discuss' require a conclusion to be drawn.
- Diagrams are a useful shorthand, but only if they are clearly labelled and accurately drawn.
- Finally, it ought to be mentioned that a significant number of candidates failed to provide an appropriate conclusion and again a further opportunity to gain additional marks, with no extra information, was lost.

General comments

Overall, there were many good answers to these questions and the candidates are to be congratulated. It would be worth future candidates practising how to work through the longer 25 mark questions and to keep focused on the question. It would also be worth them realising that most of the questions, including the two-part questions, which begin with the command word 'discuss' require a conclusion to be drawn. It is best if the candidate does that explicitly rather than let the Examiner draw a conclusion. Presenting two sides of a discussion is good but it is important to make sure that the Examiner realises which of the two sides the candidate believes to be the more important. It is often better, also, to do that as the argument is presented rather than make a comment at the end of the answer. The presentation need not be one of stating one side and then stating the opposite opinion. It would be better, when stating the opposite opinion, if the candidate made clear, at each stage of that opinion, that the points within that opinion are refuted. This should make the answer 'flow' better and not appear a disjointed statement of, say, advantages, and disadvantages with no indication of which side was considered to be the stronger.

Comments on specific questions

Section A – Data Response

Question 1

- (a) Gross Domestic Product (GDP) measures the value of economic activity within a country. It is the sum of the market values, or prices, of all final goods and services produced in an economy during a period of time. It gives an indication of the growth of the economy, some indication of how the economy compares with other economies and gives a guide to what policies the government might need to manage the economy. The majority of candidates were able to demonstrate that they understood why GDP was an important economic indicator. Weaker candidates explained what GDP was but did not say why it was important.
- (b) Most candidates were able to use Figures 1 and 2 to compare the changes in the GDP of the UK and Japan between 2005 and 2009. There were some very good answers which concentrated on the data provided. Weaker candidates offered very general answers which, unfortunately, made no use of the data supplied. A few candidates wrote about just one of the two countries and made no comparisons at all.

- (c) There were some very good answers to this part of the question. These recognised that the weakness of sterling would have been expected to have produced an increase in export orders, not a sharp decline, and then offered an analysis of why this may have happened. Such answers suggested that the price elasticity of demand for UK exports appeared to be inelastic and then indicated why this might be the case, for example, in terms of the poor quality of products. The majority of candidates, however, did not grasp the link with elasticity and wrote very generally about the likely possible effects of the depreciation of a currency. A considerable number argued that the article was referring to an appreciation, rather than a depreciation, in the value of sterling.
- (d) Many candidates argued that the evidence suggested that the changes in GDP in Japan and the UK were caused by similar events, such as the fall in consumer spending, an increase in unemployment, a fall in business investment, a fall in exports or an increase in unemployment. Candidates needed, however, to also consider the different causes, such as the emphasis given to exports in Japan and the emphasis given to the housing market in the UK.

Section B – Essays

Question 2

- (a) There were some good answers to this part of the question, with candidates offering a clear explanation of the link between a consumer's expenditure and the equi-marginal principle of utility. The analysis of the theory of marginal utility and the need to switch expenditure in relation to changes in price, in order to maintain an equilibrium position for a rational consumer, was, on the whole, well presented.
- (b) The first part of the question, in relation to the analysis of economic efficiency, was generally answered well, with many candidates providing a sound explanation of both productive and allocative efficiency. The second part of the question, which dealt with the question of whether efficiency was always achieved in a market, was often not answered as well. Candidates needed to consider why it might not be possible to achieve efficiency. It was expected that they might mention imperfect markets, externalities, lack of knowledge/information or factor immobility. Higher marks were reserved for those candidates who provided a clear explanation of both productive and allocative efficiency together with a good application and understanding of at least two market failures.

Question 3

- (a) The majority of candidates provided a useful argument of the possible reasons why small firms should be encouraged in an economy. It was expected that candidates would consider of the benefits of small organisations – personal service, individual products, niche markets, local provision – but the question did, however, require candidates to consider **whether** small firms should be encouraged. It was expected that candidates would set the advantages against the possible disadvantages – for example, the lack of economies of scale or research. Very good answers considered how small firms might be encouraged, perhaps by subsidies and reflected upon the possible alternative uses to which such subsidies might be put.
- (b) There were some very good answers to this part of the question, especially in relation to the different economies of scale that might be possible in a large firm. Candidates, however, were expected to develop their answers to include the possible existence of diseconomies of scale which could give rise to a situation where large firms had higher average costs than small firms.

Question 4

This question required candidates to consider whether they supported an opinion. They, therefore, needed to explain the opinion and present a reasoned account of whether they agreed with it. The opinion concerned wage determination and, therefore, candidates needed to present the theoretical analysis of wage determination by the market. They also needed to evaluate whether the market was the fairest means of wage determination or whether it might lead to an exploitation of the labour force. It was expected that there would be a conclusion to the candidate's answer. Points which candidates could have mentioned included a consideration of whether it might be sometimes suitable for government intervention to ensure a fair and equitable wage rate level or whether wage determination is best achieved through collective bargaining. It has been mentioned in these reports before that higher marks on questions on wages are reserved for those

who present their answer in terms of the marginal revenue productivity approach rather than simply demand and supply. The demand and supply analysis, without any mention of marginal revenue productivity, is quite acceptable but it does not merit the higher marks. The weakness of the answers from candidates who attempted this question included the failure to provide a conclusion and the failure to present accurate and clear diagrams. Diagrams are a useful shorthand, but only if they are clearly labelled and accurately drawn. A conclusion is imperative. If it is given, it should be clearer that the candidate has concentrated and focused on the question set and not just repeated, for example in this question, the entire analysis of wage determination as a general statement.

Question 5

- (a) Many candidates appeared to struggle with this question. They were able to explain what was meant by macroeconomic policies but found the idea of microeconomic policies harder. Some did not consider the microeconomic policies at all while others apparently did not read the question carefully enough and gave only one policy of each type. The question was quite open and candidates could have chosen any two types of policy that they wished. From macro they could have mentioned, for example, fiscal policy (or a particular fiscal policy), monetary policy, exchange rate policy, or supply side policy. From micro they could have mentioned, for example, price control or price fixing for particular industries, wage policy, monopoly regulation, privatisation, or the government supply of goods.
- (b) This part of the question was relatively well done although candidates did tend to concentrate on macro policies. They discussed tax policies, government expenditure, export encouragement, interest rate policy. Some mentioned regulatory or ownership policies, subsidies and grants. The increase in expenditure and the effect on economic growth was often explained, correctly, using multiplier analysis.

Question 6

- (a) This part of the question required some knowledge of each of the three Keynesian explanations of why an individual demands money, or alternatively, the individual's liquidity preference.

Good answers provided a clear explanation of the transactions, precautionary and speculative motives and supported these explanations with accurate, clearly labelled diagrams. Additional marks were gained for noting the relationship between each motive and the level of income and the rate of interest respectively.

Most candidates were able to describe the transactions and precautionary motives quite well. The speculative motive proved to be less straightforward and many failed to identify the key link between the demand for money and expectations regarding the future rate of interest. Weaker responses did not identify any of the Keynesian motives but simply referred to either the benefits of money, in general descriptive terms, as a means of buying products or saving for a 'rainy day', for which some marks were gained. Some focused only upon the characteristics of money and, therefore, gained no marks.

- (b) A good clear diagram, illustrating the money supply transmissions mechanism, enabled the better candidates to provide a clear explanation of the links between changes in the money supply, subsequent changes in the rate of interest and the final effect on the level of investment. High marks were then gained by those candidates who used these diagrams to show and discuss the importance of both the elasticity of the demand for money and the elasticity of the investment schedule. Less effective responses focused upon the loanable funds explanation of interest rates and this made it difficult to proceed to establish any appropriate link between changes in the money supply and the final effect on the level of investment. Wrongly labelled or inaccurate diagrams which meant that candidates could not access the higher marks, also contributed significantly towards lower grades.

Question 7

This question required candidates to explain key differences between developed and developing countries and then discuss the extent to which the problems of a developing country would be solved if developed status were achieved. It was clear that candidates had been well prepared to answer the first part of this question. There were many examples of very detailed responses which identified a whole range of distinguishing criteria. Low growth rates, poverty and welfare issues, as well as the differences in economic

and demographic structure, all figured prominently and marks were gained accordingly. Good answers were able to refer to various alternative measures of welfare such as HDI and MEW to underline some of the key distinguishing features.

The second part of the question was more discursive. As one might have expected this element of the question produced a much greater mark range. A significant number of candidates still seem to believe that developed economies do not suffer from high levels of unemployment, high inflation and/or severe balance of payments deficits. This was apparent by the number of responses that suggested that these problems would disappear once developed status was achieved. It was disappointing to note that very few candidates were able to argue that the basic economic problem of scarce resources in relation to unlimited wants would still persist in developed as well as undeveloped economies. There was some attempt, though, to deal with continuing problems of developed countries and marks were gained for reference to growing environmental problems, for example the maintenance of negative externalities, to exploitation of resources and to overcrowding

ECONOMICS

Paper 9708/43

Data Response and Essay (Supplement)

Key messages

- It would be worth future candidates practising how to work through the longer 25 mark questions and to keep focused on the question.
- It would also be worth them realising that most of the questions, including the two-part questions, which begin with the command word 'discuss' require a conclusion to be drawn.
- It is also best if the candidate does that explicitly rather than let the Examiner draw a conclusion.

General comments

For this paper candidates were required to answer **Question 1** in **Section A** of the paper and two other questions from a choice of six in **Section B** of the paper.

Overall, there were many good answers to these questions and the candidates are to be congratulated. It is a good idea, as stressed above, if the candidate does that explicitly rather than let the Examiner draw a conclusion. Presenting two sides of a discussion is good but it is important to make sure that the Examiner realises which of the two sides the candidate believes to be the more important. It is often better, also, to do that as the argument is presented rather than make a comment at the end of the answer. The presentation need not be one of stating one side and then stating the opposite opinion. It would be better, when stating the opposite opinion, if the candidate made clear, at each stage of that opinion, that the points within that opinion are refuted. This should make the answer 'flow' better and not appear a disjointed statement of, say, advantages, and disadvantages with no indication of which side was considered to be the stronger.

Comments on specific questions

Section A – Data Response

Question 1

- (a) This part was answered well by most candidates. An explanation of any suitable characteristics was accepted. The characteristics could, for example, include employment distribution, health, education, standards of living, sanitation, and dependence on overseas aid.
- (b) Most candidates commented that it is suggested that consumers in developed countries should buy local products because there is a concern about the total cost of production including the externality of carbon emissions. Their suggestion presented was that resources should be conserved and not exploited. This, it was said, could be achieved by switching to local products.
- (c) The answers to this part were more varied than for the previous two parts. It was expected that there would be a statement about the meaning of marginal utility, the relation of marginal utility to price and then a comment about buying more expensive products. Some candidates stated that a consumer would buy a product until the marginal utility was zero. This would only apply if the good were free. Other candidates did mention the relation between marginal utility and price. The comments on the expensive good were sometimes very well argued. The theory does not prevent the purchase of more expensive items and is not contradicted by buying such products. It may be that fewer would be bought if the price were higher, but this would depend on the value (utility) consumers placed upon the product. The expensive product might be considered as a different product in the mind of the consumer either because of its quality or because of its status, and its

utility might be greater. It might, however, be questioned whether buying **the same** product at a higher price was rational and whether the statement in the question was reasonable.

- (d) Candidates could have mentioned that developing countries depend on agriculture and could have quoted some figures from the article. They could have mentioned that agriculture depends more on the weather than other sectors. Incomes, therefore, are more volatile. An example was given in the article. They could also have mentioned that developing countries have come to depend on trade with developed countries and that trade is likely to be withdrawn if the climate change argument prevails. Developed countries are rich enough to go to other suppliers; developing countries would find it difficult to find other buyers. It is likely, therefore, that the statement in the question is true but there is only a little supporting evidence and some general background information in the article. Candidates often mentioned the dependence on agriculture, and the possibility of the withdrawal of demand but they did not always refer to the article when doing so. They did not always draw a conclusion about whether the evidence was sufficient.

Section B – Essays

Question 2

There are usually 25 mark questions in the examination and quite often they are presented as an argument or a statement which the candidate is asked to consider. With such statements the candidates should consider each part in turn. They should not write general comments about the topic mentioned. So, for example, in this question, general descriptions about the structure of perfect and imperfect markets would not merit high marks. Sadly, quite a number of candidates gave such general comments. With the same information, presented differently, the candidates' marks could have been increased. It was expected that, for this question, candidates would discuss the proposition. The question states that there is little difference between perfect and imperfect markets and instances some points which are said to be similar. Candidates should consider each in turn. All market structures may have profit as an aim, but some may have alternative aims also. A consideration of the similarities and differences was more important than describing the diagrams for normal and abnormal profits. They may all be subject to competition – with monopoly this might be in the form of contestable markets – depending on how monopoly is defined. Whether the producer has all the benefit is debateable. However, there are differences in the amount of control over prices, over abnormal profits, over information, over collusion, over branding and price discrimination depending on the market. Candidates should then have drawn an overall conclusion.

Question 3

- (a) It was expected that candidates would recognise that both changes would increase national income and that this increase would be greater than the initial change in expenditure because of the working of the multiplier process. The majority of the candidates who answered this question presented a competent answer which described the process of the multiplier and the change in national income caused by an increase in demand/expenditure - which may have been initiated by lower prices as a result of a government subsidy.
- (b) Candidates were expected to discuss general macroeconomic objectives. The choice of any possible conflict was for them to argue. They could have, for example, suggested that an increasing demand might conflict with controlling prices overall and also might have balance of payments repercussions if the new cars are imported. Increasing demand would be more unlikely to conflict with decreasing unemployment or increasing growth. Some well-reasoned answers were given to this section of the question.

Question 4

- (a) This question involved a comment on the influence of demand for labour on the wage rate paid and was restricted to perfect competition. Most candidates drew a diagram to explain the demand for labour. Better answers used the marginal revenue product (m_{rp}) theory diagram; average or weaker answers explained the idea through a standard demand curve. Answers should then have considered how this demand (either presented as a marginal revenue product curve or a demand curve) was related to the supply to fix the wage rate. Sadly, many candidates only explained the derivation of the demand curve. Alternatively, some candidates wandered from perfect competition and considered imperfect factor markets also. This was not required by the question. As published in past mark schemes, it is worth noting that although answers which are restricted to

demand and supply analysis are acceptable, those answers on wages which do not use the marginal revenue productivity theory but are restricted to demand and supply analysis are not able to achieve the highest marks.

- (b) It was this section of the question which required an analysis of the change in wage rates when the market becomes imperfect. Candidates should have explained that the marginal wage and average wage would not be identical in imperfect competition and the wage rate would be pushed down when they are related to the demand, or marginal revenue product curve. Very few candidates mentioned that if the product market is also imperfect the average and marginal revenue will not be the same and this will affect the marginal revenue product value. It was expected that candidates would mention that these changes may be modified either because a trade union influences the level of the wage rate or because the wage rate is fixed by the government. Candidates could have discussed, in this connection, the effect of a minimum wage. There were many good answers to this section of the question, although those who dealt with imperfect competition in **section (a)** found that they had to repeat a lot of material.

Question 5

- (a) This question required candidates to explain how an indicator which might be used to measure the rate of growth of an economy was calculated. It was expected that candidates would describe what was meant by economic growth and then explain an indicator such as gross national product or gross domestic product and how it might be used in measurements of growth rates. Many candidates answer this question well but some, regrettably also spent some time explaining the drawbacks of the indicator that they had chosen. These drawbacks or difficulties were the subject of part (b) of the question.
- (b) Some variation of this question is often asked and candidates are usually able to present a good structured answer discussing the effectiveness of using an increase in economic growth as a measure of an increase in the standard of living, or of how a country's standard of living compares with other countries. For this question, candidates mentioned the difficulties of calculating growth rates but also suggested other factors which might be important in comparing living standards, such as health, housing, education, crime, income distribution and the difficulties of comparing different cultures and climates which are not accounted for in standard measures of GDP.

Question 6

- (a) It was expected that candidates would mention the transactions, precautionary and speculative motives for demanding money. Most candidates who attempted this question presented a good account of the three motives although the weakest explanation, unsurprisingly, was usually the more complicated of the three, the speculative motive.
- (b) It was expected that there would be a discussion of effect of increase in the supply of money on interest rates, with discussion of the elasticity of the liquidity preference schedule. Candidates were then expected to discuss the effect of changes in the rate of interest on the decision to invest, with discussion of elasticity of investment schedule and extent of the marginal propensity to save. Many were able to discuss the first part of this link but not all developed the answer to include a comment on the effect of interest on investment. Others omitted to mention that the effect would vary depending on the elasticities. Some very good answers also considered, very competently, the effect of a change in money supply and interest rates on the international situation with possible impacts on changes in imports, exports, speculation and exchange rates. They mentioned that such impacts could lead to changes in government policy.

Question 7

This was another 25 mark question, which, like **Question 2**, required candidates to work through a statement and consider each part that was presented. First, candidates were expected to explain the meaning of allocative efficiency and productive efficiency. They were then, secondly, required to discuss whether efficiency was achievable. They could present this part of the answer as either the possible achievement of efficiency by the market or as policies that might be used to encourage or approach efficiency when it was not achieved by the market alone. To do this, they could have discussed the use of subsidies, regulation, taxes, prohibitions, ownership and the provision of government services. It was expected that some conclusion would be drawn. One conclusion would be that it is likely that it might be possible to achieve productive efficiency but more difficult to measure and achieve allocative efficiency. Candidates obviously

knew the two types of efficiency and also knew about market failures. Many presented good reasoned accounts. The weaker answers, however, did not link the two parts of the question together and did not draw a conclusion. They presented an account of efficiency and then an analysis of, for example, public and merit goods which they introduced as a market failure. However, they did not say clearly why or how public or merit goods would affect efficiency. The same information, slightly differently presented, more focused on the question, could have resulted in higher marks.