

ECONOMICS

Paper 0987/11
Multiple Choice

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

General Comments

1025 candidates sat this paper. The mean mark was 21.8. (The paper was not taken in June 2020).

The questions for which most candidates selected the correct answer were **1, 2, 3, 5, 6, 7, 13, 17, and 21**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **11, 12, 20 and 27**. These were answered correctly by fewer than 60 per cent of the candidates.

Comments on specific questions

Question 11

Question 11 was answered correctly by 42 per cent of the candidates who chose option **C**. 8 per cent chose option **A**, 9 per cent chose option **B** and 41 per cent chose option **D**. The change in employment is shown by the difference between the level of employment demanded at the original equilibrium and the level of employment demanded at the new wage. Those who chose option **D** compared the demand for labour and the supply of labour at the new wage rate, not the change from the original wage rate.

Question 12

Question 12 was answered correctly by 59 per cent of the candidates who chose option **A**. 15 per cent chose option **B**, 14 per cent chose option **C** and 12 per cent chose option **D**. Diseconomies of scale occur in the long run when average costs increase. This is option **A**. The other options do not necessarily cause average costs to increase.

Question 20

Question 20 was answered correctly by 57 per cent of the candidates who chose option **D**. 24 per cent chose option **A**, 11 per cent chose option **B** and 8 per cent chose option **C**. The most likely direct result of deflation is that the purchasing power of money increases (option **D**). Deflation is when prices are falling so a given amount of money can purchase more products or services.

Question 27

Question 27 was answered correctly by 38 per cent of the candidates who chose option **B**. 13 per cent chose option **A**, 31 per cent chose option **C** and 18 per cent chose option **D**. International specialisation would result in goods and services being produced by the countries that are most efficient at providing those goods and services. Countries that are less efficient at producing the goods and services would import them. This could result in domestic firms in those countries becoming uncompetitive. Their products would be more expensive, demand would switch to imports and this could lead to unemployment (option **B**).

ECONOMICS

Paper 0987/21
Structured Questions

Key messages

It was good to see that so many candidates were able to take the exam this summer. The exam format was different to June 2019 as **Section B** now includes only 4 rather than 6 questions for candidates to choose from. It also means that each question may have a wider coverage of the syllabus than previously but there is no evidence that this has had a detrimental effect on the performance of candidates. However, there have been two trends that will have had a negative impact on the performance of candidates.

Compared to previous years, there was a much larger proportion of candidates that answered questions out of sequence e.g., choosing to answer some parts of a question and coming back to the rest after attempting another question. This may not affect the overall marks of most of the candidates, indeed some of the answers at the end were very good, but it does increase the chances of forgetting to complete all parts of a question and therefore a loss of potential marks. This was particularly true of **Question 4(c)** where 10 per cent of candidates did not provide an answer.

There was also a significant increase in the number of candidates that attempted all 4 questions in **Section B**. Again, in some cases candidates were not adversely affected and the final question attempted gained higher marks than an earlier question. However, by answering all 4 questions, less time is available for each question, and this could result in lower marks for each of the three question that gained the highest marks.

General comments

The quality of answers to **part (a)** questions in **Section B** were generally weaker than in previous years. These two-mark questions are usually based upon knowledge and understanding of basic concepts and economic terms which candidates should know. Therefore, it was surprising that less than 30 per cent of candidates were able to give a correct definition of cyclical unemployment.

There were some misconceptions of economic terms used in questions. For example, many candidates thought that low inflation meant that prices were falling and that purchasing power of consumers increased. This meant that many got low or no marks for **Question 3(c)** as they were analysing deflation. However, answers were generally sound on **5(c)** which was a question about deflation. Answers to **Question 2(b)** showed that some candidates were not clear about the difference between a movement along a demand curve and a shift in the demand curve

Another area where candidates need to improve related to two of **part (d)** questions in **Section B**, with candidates broadening the scope of their answers beyond what was asked for in the question. This was particularly the case with **Question 2(d)** where key words in the question were 'countries' and 'consumers'. Many answers focused on individuals or firms specialising rather than countries, perhaps because they knew more about it. In addition, some answers focused on the benefits for the country rather than the consumer. It is important that candidates do read the whole question and the key words within it before starting their answers.

Comments on specific questions

Section A

Question 1

- (a) Most candidates selected the right data of \$32.7 bn (import of goods) and \$10.4 bn (balance of trade in goods) but a very high proportion made the wrong calculation. If the balance of trade of goods is positive at \$10.4 bn that means exports are higher than imports. So, the correct answer is $\$32.7 \text{ bn} + \$10.4 \text{ bn} = \$43.1 \text{ bn}$, whereas many candidates calculated $\$32.7 \text{ bn} - \$10.4 \text{ bn} = \$22.3 \text{ bn}$. A few candidates calculated it correctly but then they did not show that it was in billions.
- (b) Nearly all candidates were able to identify two of the three capital goods mentioned in the source material – delivery vehicles, machines and office equipment. A common error was either to name capital goods not in the source material e.g., tractors or identify goods such as maize, footwear or oil named in the source material, but which are consumable goods.
- (c) Most candidates confirmed that Nigeria had a budget deficit; however, the reason given was often incorrect. The correct answer was that government spending was greater than tax revenue and some candidates stated this and also used the figures set out in the source material. A few correctly calculated the deficit as \$6.6 bn. Those that stated it was a budget surplus relied on using the trade data or combined the budget and trade data as evidence. A few simply did not understand what was meant by a budget deficit or deficit and changed their answers several times.
- (d) Candidates were generally good at explaining that training would result in workers gaining better skills, higher wages, better job opportunities and becoming more productive. This would lead to higher revenue and profits for firms. However, many answers did not explain why this led to an increase in tax revenue. As the question states that it might lead to a rise in tax revenue, candidates needed to state which taxes would rise e.g., higher salaries resulted in greater income and tax revenue, and higher profits by firms would result in higher revenue from corporation tax. It was insufficient to say that those higher wages would mean higher rate of tax being paid leading to an increase in tax revenue and most importantly stating the specific taxes where revenue would rise, e.g., income tax and sales tax. Too often the response was simply that tax revenue would rise but this was in the question. A typical strong answer included ‘as firms increase their output and make more profit, tax revenue from corporation tax will increase.’ A typical weak answer was ‘there will be more tax revenue for the government as more people will be paying taxes.’
- (e) There were some strong answers that showed candidates fully understood the data in Table 1.1 and many candidates were able to gain full marks. A strong answer included ‘Life expectancy at birth in Nigeria is lower at 59 years than Ethiopia where it is 63 years, and this could be due to better healthcare in Ethiopia.’ Whereas a weak answer was ‘life expectancy in Nigeria was 59 years and in Ethiopia it was 63’. The latter was simply description of the data in the table with no analysis.
- (f) Most candidates were able to identify one or more of the measures such as lower interest rates, subsidies and reducing corporation tax as mentioned in the source material. The strong answers were able to analyse how such measures would result in encouraging firms to increase their investment. For example, ‘lowering corporation tax would increase profits for firms and encourage them to invest to increase their profits further.’ Weaker answers did not make the link between the measure and increasing investment. The weakest answers used measures not mentioned in the source material, e.g., lowering income tax. Some used a named measure wrongly e.g., raising interest rates so that firms could earn more by saving.
- (g) Stronger answers were from candidates who generally understood that an increase in Nigeria’s population was likely to lead to an increase in the labour force and in output but that there could be shortages of food and increased pollution and gave valid reasons for this. Weaker candidates often assumed there would be an increase in output per head, that there would be higher employment or greater unemployment and that imports and exports would rise or fall without justifying why this might happen. Some of the answers given speculated on information about Nigeria that was not in the source material.
- (h) Most candidates understood how the imposition of a tariff would increase the price of a good and, in many cases, were able to explain why imposing a tariff could result in an increase in demand for

domestically produced rice. However, answers were generally weak in analysing why this would lead to an increase in output of rice in Nigeria. The main reason for this was that candidates did not make sufficient use of the source material. The source material indicated that costs of production were higher in Nigeria, so even with higher import prices, imported rice might still be cheaper than domestically produced rice. Strong answers identified this fact and also made comments about the quality of Nigerian produced rice and that if demand was inelastic, which was likely for a basic necessity such as rice, an increase in price as a result of a tariff might not reduce demand of imported rice. Some weak answers made little reference to Nigerian rice production.

Question 2

- (a) Generally, candidates correctly identified that private costs (internal costs) and external costs make up social costs. A few did not know what social costs meant and gave other costs such as fixed cost and variable cost or actual examples of social costs e.g., air and water pollution. Some answers were simply guessing, e.g. 'less fish and more pollution'
- (b) Strong answers identified and explained two causes of a shift to the right in the demand curve for fish. One common cause identified was a rise in the price of a substitute food, e.g. chicken. A second was an increase in income which made it more affordable to buy more fish. A common error was that the price of fish had increased but this would lead to a movement along the demand curve. A second error was a change in the supply of fish; but this would not cause a shift in the demand curve. A typical weak answer was 'an increase in pollution will decrease the supply of fish which will increase the price of fish and shift the demand curve to the right.'
- (c) There was a wide variety of answers given to this question. Some strong answers focused on the impact on individuals e.g., better health, the improved standard of living and job opportunities. Others concentrated on the economy e.g., the reduction in air or water pollution, improvement to the environment, attracting tourists and increase in production and GDP. Some concentrated on the impact on the fishing industry which is a valid response. Weaker answers tended to cover why pollution was bad for the economy rather than how cleaning up pollution benefits an economy.
- (d) Most candidates understood what was meant by specialisation. However, relatively few applied this to how it benefited consumers, and instead explained what specialisation meant for an individual or the country as a whole. These were poor answers as they did not answer the question being asked. Where candidates did focus on consumers, the answers to how consumers might benefit was usually well done but even here answers to how consumers might not benefit were weak and were often limited to comments about the cost of imports. Overall, the question was poorly answered as responses lacked both focus and depth.

Question 3

- (a) Cyclical unemployment should be one of the best understood types of unemployment, so it was surprising that less than 30 per cent of the answers correctly related it to lack of total demand in an economy due to a recession. A few understood that unemployment meant not having a job but were unable to explain why. Answers included descriptions of seasonal and frictional unemployment and a cycle of employment and unemployment. For example, 'cyclical unemployment happens when people keep losing their job'
- (b) Most candidates correctly identified two ways in which a firm could increase the productivity of workers. Common ways included paying higher wages, bonuses and providing fringe benefits such as holidays and better working conditions. However, in quite a few cases, the reason why this led to an increase in productivity was not explained. Weak responses often simply stated that the identified way increased productivity which was the question rather than what caused the productivity to increase.
- (c) This was poorly answered by many candidates. Strong answers made clear that with low inflation prices were still rising, but only slowly and then explained the positive impact that this would have e.g., removing uncertainty for firms in investing and increased exports to countries where inflation was at a higher rate. The high number of weak answers started from an incorrect assertion that prices were falling and that this increased the purchasing power of consumers, resulting in higher demand and economic growth.

- (d) Strong answers gave a balanced discussion of whether a reduction in unemployment would reduce poverty. Such answers explained that poverty would be reduced because those gaining jobs would have income which could be used to meet basic needs. Increased tax revenue could be used by the government to support the poor. Answers also recognised that absolute poverty might still exist, that incomes might still be very low, e.g. new jobs were at minimum wages or only part-time and that not all those in poverty could work. Weak answers were restricted to just a brief comment on rising income for those now employed. Some answers lacked balance and quite often lacked focus by explaining that an increase in incomes would cause inflation which would lead to loss of jobs or lack of purchasing power for the poor.

Question 4

- (a) Quite a few candidates understood that the labour force included both the employed and the unemployed. A strong answer was 'The labour force consists of individual who are able and willing to work and are actively looking for a job' Many answers were only partially correct, e.g. those willing to work or the working population or those who were employed, forgetting that the labour force also includes those unemployed.
- (b) Strong answers identified that a low birth rate and a low death rate were the main causes of an ageing population and then explained what caused them e.g., the rising costs for raising children meant families were having fewer children and better healthcare leading to people living longer. Weaker answers either only identified and explained one reason or identified both but did not explain why they were low. A few confused the word 'causes' with 'effects' and wrote about the impact of a low birth rate and/or death rate on the economy.
- (c) Strong answers explained that a fall in the value of a currency meant the currency had depreciated and this resulted in exports becoming cheaper and imports more expensive. This meant that the value of exports rose, and the value of imports fell resulting in a reduction of the trade deficit. Weak answers tended to get the impact the wrong way around with exports becoming more expensive and imports cheaper. Other weak answers wrote about the impact on prices within the country with no mention of international trade. Ten percent did not attempt this question.
- (d) Most candidates understood that an increase in consumption led to higher demand. Strong answers provided a balanced argument that explained that countries benefited from an increase in demand for goods and services. This led to more job opportunities and more tax revenue for the government to spend on public services and goods such as education and healthcare. They also explained that it could lead to demand-pull inflation and/or greater imports to meet consumption leading to an adverse effect on the current account. Weaker answers provided less depth and, in some cases, were limited to the benefits only. A few of the weak answers stated that the increase in demand would lead to pollution, the using up of resources and little else.

Question 5

- (a) The most common correct responses were fishing and mining, but less common answers included felling trees, hunting and oil extraction. A few incorrectly mentioned farming or farm products which were wrong as these relate to agriculture which was in the question.
- (b) The strongest answers recognised that there would a shortage of food which might lead to famine and starvation. Their second point often related to less exports/more imports of agricultural products leading to an adverse effect on the balance of payments. A few also mentioned that it could lead to a shortage of raw materials for secondary industries and could result in redundancy of workers. Weak answers often did not make specific reference to agricultural products in their answer, e.g. 'low skilled workers will not be able to find other jobs and will be unemployed.'
- (c) The term deflation was understood by most candidates, even by some of those candidates who had given incorrect answers to 3 (c). Strong answers correctly identified that expansionary monetary policy such as lower interest rates and an increase in money supply would lead to more borrowing, rising demand and firms raising prices. Weaker responses fell into two camps. Some correctly identified the role of the central bank, but analysed the effect of a rise in interest rates and a reduction in money supply probably because they confused deflation with inflation. Others correctly analysed how expansionary fiscal policy could reduce deflation, but this was outside the scope of the question as a central bank has no such powers to reduce taxes and increase government expenditure.

- (d) This question required a focus on the individual firm and how it might benefit from growth. Strong answers discussed both the advantages of growth in gaining market dominance and gaining economies of scale and the disadvantages often associated with diseconomies of scale. Some explained that growth could be internal or external e.g., through mergers and takeovers. The strongest answers were also able to discuss why firms may have other objectives, such as survival, staying small and serving the community or maximising profits. Weak responses tended not to make any reference to economies and diseconomies of scale and often wrote about the effect of growth on the economy including lower unemployment and the downside of growth leading to inflation and greater pollution.