

# ECONOMICS

**Paper 9708/11**  
**Multiple Choice**

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

## Key messages

Rather unusually, price elasticity of demand caused problems for many candidates. The application of the concept needs to be practised in a range of contexts such as price changes, tax imposition and subsidy payment.

## General comments

There was a 6 per cent rise in the number of candidates. Compared to last year the mean mark fell from 15.50 to 14.76, while the standard deviation narrowed from 5.28 to 4.96. The number of candidates gaining full marks fell from 3 to 1. The number of candidates who scored below 8, equivalent to the 'guessing' level, rose from 104 to 117.

**Questions 6, 10 and 18** proved to be easier than the target facility, while **Questions 15, 16 and 30** proved to be more challenging than intended. The topics with the highest facilities were supply data, influences on demand and supply and nationalisation. These were presented in numerical, graphical and text form. While all questions discriminated effectively there were common misconceptions that resulted in wrong options scoring more than the key. These are explained in the next section.

### Comments on specific questions

In **Question 1** the task required that the benefits and costs of the action be compared to establish the sacrifice in monetary terms. The largest group of candidates opted for D which considered only two of the three costs and ignored the monetary benefits entirely.

The topic in **Question 7** was unitary price elasticity. Nearly half of the candidates opted for A, perfectly inelastic demand. This would result in falling total revenue as price fell, not the constant revenue shown in the data. This occurs when  $PED = 1$ .

Price elasticity of demand also featured in **Question 15**, where the largest number of candidates assumed wrongly that the tax would not affect the number of items sold and opted for C. Applying the standard formula shows that there will be a 15 per cent fall in sales, so 10 cents would be raised on each of 850 items making B, \$85, the key.

The question with the lowest facility was **Question 16**. Candidates may well not have been taught that the total subsidy goes to reduce price when price elasticity of demand is zero. Sketching diagrams matching the different circumstances would have enabled them to deduce it. The largest number opted for the least effective case (option D). Candidates usually find little difficulty in calculating the change in a price index.

This was not the case with **Question 21**. The largest group opted for A, suggesting that they had ignored the need to include a weighting from the last column in their calculation. When this is done the key is C. The price index rise for P is offset by the smaller price fall with the greater weighting for Q.

In **Question 24** candidates needed to be careful identifying which foreign exchange market was relevant. More considered the market for euros than considered the relevant market for the US\$. The increase in holidays in Europe means US citizens sell US\$ to buy Euros. This means a fall in the value of the US\$ that is option D. Position B would have applied had it been the market for Euros valued in US\$.

In **Question 30** the large majority of candidates recognised that the expansionary policies would improve deflation. However this process was not carried through to the impact on the balance of payments, particularly the import position.

# ECONOMICS

Paper 9708/12  
Multiple Choice

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

## Key messages

The performance was somewhat less impressive on numerical questions than on the text and diagram items. Practice with the standard calculations would be beneficial.

## General comments

There was a more than 5 per cent increase in the number of entries compared to last year. The mean mark fell from 18.88 to 18.67, but was still one of the better performances recorded in recent years. The standard deviation rose from 6.00 to 6.29. The number of candidates who achieved full marks rose from 38 to 97, although the proportion of candidates who scored below 8 marks, the equivalent of the 'guessing' level, rose to 3.5 per cent of the entry.

While **Questions 1, 3, 4, 5** and **8** were at the top end of the facility range none reached a facility of 0.80 or higher. The topics that were well-known were shortage, production possibility curves, functions of money, market supply and inferior goods. **Question 2** proved to be the most difficult on the paper, although still above the lowest target facility.

All questions discriminated satisfactorily. Overall, the test worked very well with a clear indication of sound understanding over the width of the syllabus. Comments on the difficulties candidates found in answering certain questions are given in the following section.

### **Comments on specific questions**

**Question 2** recorded the lowest facility, 0.27, on the paper for the key B. The question discriminated satisfactorily and there was no indication that the better performing candidates opted for this choice. The most popular option was C (0.47). It is possible that there may have been a difficulty with the interpretation of the language but it seems more likely that the exact nature of a production possibility curve was understood imperfectly. The economy would automatically have a production possibility curve however effective or otherwise is specialisation. Its existence would not promote specialisation but would be a reflection of it.

**Question 13** called for an interpretation of the rate of change of consumer surplus. Candidates have in the past sometimes found difficulty in identifying amounts of surplus at different prices and in distinguishing absolute and percentage changes. This was not a question that they would necessarily answer from their knowledge; rather they needed to interpret the diagram. In this case they would need to recognise the total values at each of the 4 prices and calculate the changes to the total. While 40 per cent gave the correct answer C, 32 per cent went for B. This missed the fact that while the amount of change altered by a constant this would have a cumulative effect on the change in the total.

**Question 18** hinged on why the form of privatisation would be by sale to managers and workers rather than say by public auction. All options would be possible motives for privatisation generally, but this particular form is most likely to increase incentive for its new owners to make a success of the company. The other options may follow but would be less directly influenced.

None of the other questions had a facility below 0.50 or indicated particular problems of understanding.

# ECONOMICS

**Paper 9708/13**  
**Multiple Choice**

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

## Key messages

The performance on numerical items was significantly below that on the text and diagram forms. Practice with the standard calculations would be beneficial. Generally candidates should be advised against rushing answers.

## General comments

The number of candidates for this paper remains relatively small, and was almost identical to last year. Generalisations about performance may not therefore be fully representative. After last year's encouraging improvement of the mean score to 17.35, this year saw a fall to 16.53. The standard deviation narrowed from 5.9 to 5.3. One candidate scored full marks. The percentage of candidates who scored below 8 marks, the equivalent of the 'guessing' level, was identical to last year.

**Questions 1, 2, 3, 10 and 20** proved to be easier than the target facility. These showed clear understanding of production possibility curves, government market intervention, supply elasticity and inflation. **Question 30** proved to be more difficult than intended. The latter, although it discriminated satisfactorily, had an even spread of choice between the options which suggests guessing might have been taking place. Candidates need to take their time in working through questions. At some points the type of errors were sometimes those associated with rushing.

### **Comments on specific questions**

In **Question 9** only 39 per cent of candidates chose the key C. The others were evenly split between the various options. This question involved straightforward concepts but demanded steady, careful analysis of the data presented.

In **Question 11** slightly more chose option D than selected the key C. If candidates are familiar with this approach, which has been used before, it should be a matter of clearly structuring the method and working steadily through it.

**Question 12** proved to be one of the more difficult questions on the paper. The largest group of candidates opted for D. This was correct in identifying the amount of consumption but underestimated the volume of imports. This is shown by the difference between the new domestic supply and the demand at the world price. Hence the key was C.

**Question 14** dealt with the nature of taxes. A majority of candidates recognised that taxes on standard rate goods and luxury goods were regressive and progressive respectively. Slightly more thought the tax on all goods was regressive. This did not reflect the fact that there was 0 per cent tax on the product most consumed by low income groups and the highest tax rate on the product most consumed by high income groups.

In **Question 16** there was a clear preference for option A over the key C. Option C is correct as a transfer payment is one that is made without an exchange for goods or services rendered e.g. unemployment benefit. A dividend payment is a reward for the provision of capital to a company, so it is not a transfer payment.

In **Question 30** only 20 per cent of candidates correctly chose A. It is hard to understand why 45 per cent opted for C and D as an indirect tax is likely to directly raise the rate of inflation. Raising the international exchange rate would have the effect of both lowering import prices so reducing cost push inflation pressure and raising export prices so reducing demand for exports which lowers demand pull inflation pressure. Hence a higher value for the exchange rate would be the method to reduce inflation and A was correct.

# ECONOMICS

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<p>Paper 9708/21 Data Response and Essay</p>
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## Key messages

- Candidates need to ensure that they focus on the particular ‘command’ or ‘directive’ word that is being used in a question, such as **explain** or **discuss**.
- It is important that candidates understand that in the second part of the **discuss** questions in **Section B**, a certain number of marks can be awarded for **evaluation**. There is often a clue in the question to guide candidates towards this, such as in **Question 2 (b)** which required candidates to discuss whether attempts to help poorer consumers through the introduction of a maximum price for necessities **can ever** be successful; or in **Question 4 (b)** which required candidates to discuss **whether overall** a favourable movement in an economy’s terms of trade would be likely to have positive or negative effects on the economy.
- Candidates need to ensure that diagrams are correctly drawn and clearly labelled. There were, unfortunately, a number of examples of poor labelling and, in some cases, no labelling at all.
- It is important that candidates read questions very carefully to avoid making an error in their answer. For example, in **Question 2 (a)**, some candidates wrote about how a new equilibrium position was established when there was an increase, rather than a decrease, in demand; or in **Question 2 (b)** where some candidates wrote about the introduction of a minimum, rather than a maximum, price.

## General comments

A diagram was explicitly required in one of the questions in **Section A, Question 1 (b)**, but some candidates did not draw one.

It was obvious in some answers that candidates had not looked closely at the command or directive word being used in the question. It is important that candidates do recognise whether they are being asked to **explain** something, as in the first part of the **Section B** questions, or **discuss** something, as in the case of the second part of the **Section B** questions.

It is also important that candidates focus on whether there is any additional guidance provided in a question, such as in **Question 2 (b)**, where they were required to discuss whether attempts to help poorer consumers through the introduction of a maximum price for necessities can ever be successful.

## Comments on specific questions

### **Section A**

#### **Question 1: Compulsory Data Response**

- (a) Most candidates were able to state that the revenue from tourist arrivals in Fiji was a credit, or a positive contribution, and would be recorded in the ‘trade in services’ section of the invisibles.
- (b) The majority of candidates were able to draw a supply and demand diagram that showed how the government investment referred to in the article affected the price of sugar produced in Fiji by shifting the supply curve to the right, leading subsequently to a fall in price. Unfortunately, some candidates shifted the supply curve to the left, not to the right, and some candidates shifted the demand curve instead of the supply curve.
- (c) Many candidates were able to demonstrate a clear understanding of the concept of price elasticity of demand, often by giving the formula for its calculation, and then went on to explain that the price elasticity of demand for sugar would be elastic because a fall in price had resulted in an increase in

demand by a greater percentage, resulting in a rise in expenditure. Unfortunately, some candidates believed that the price elasticity of demand for sugar was inelastic.

- (d) There were a number of good answers to this question, with candidates recognising that although there would be an increase in aggregate demand, leading to an increase in price, this would be offset by an increase in aggregate supply, so that the inflationary pressures remained subdued. A diagram was not asked for in this question, but many candidates included one and used it to good effect to support their explanation.
- (e) Many candidates were able to offer a good explanation of how increased investment could address supply side constraints in the Fiji economy, demonstrating a sound understanding of the supply side of the economy and including a number of appropriate examples to indicate how supply side policies could have an effect.
- (f) The majority of candidates were able to discuss a number of economic factors that might help to explain the changes in visitor arrivals to Fiji from Australia and Japan, pointing out that there was an increase in arrivals from Australia and a decrease in arrivals from Japan. Examples of such factors included differences in relative exchange rates, differences in income changes and differences in the price of related products such as travel. Unfortunately, a few candidates believed that there was an increase in arrivals from both Australia and Japan.

## Section B

### Essays

#### Question 2

- (a) In this part of the question, candidates were required to explain the meaning of the term 'equilibrium price and quantity' in the market for a good or service, and then to show how a new equilibrium position was established when there was a decrease in demand. Many candidates were able clearly to explain the meaning of such an equilibrium in terms of there being no tendency to change, and they then went on to explain that a decrease in demand could be shown by a shift of the demand curve to the left, leading to a decrease in price. Although the question did not explicitly require candidates to include a diagram, the majority of them did include one and used this to good effect to show how a new equilibrium position would be established following a decrease in demand for a good or service.
- (b) In the second part of the question, candidates were required to discuss whether attempts to help poorer consumers through the introduction of a maximum price for necessities could ever be successful. The majority of candidates demonstrated a sound understanding of a maximum price, often drawing a diagram to support the analysis of the concept. Although the majority of candidates drew the diagram to show the maximum price below the equilibrium, a few incorrectly drew the maximum price above the equilibrium. A number of candidates responded intelligently to the inclusion of the words 'can ever' in the question to offer a useful evaluation of the likely success of a maximum price.

#### Question 3

- (a) In this part of the question, candidates were required to outline the functions of the factor enterprise in a modern economy, and then to go on to explain how enterprise could respond to a rise in the demand for a good. Many candidates demonstrated quite a good level of knowledge and understanding of the functions of enterprise, both in terms of its risk taking function and in terms of its function in organising, managing and co-ordinating the other factors of production. There was also a good understanding of how enterprise would be likely to respond to the rise in price brought about by a rise in the demand for a good.
- (b) In the second part of the question, candidates were required to discuss why some goods and services were provided by private enterprise and others by the government in a mixed economy. Many candidates were able to provide a good analysis of this provision by clearly showing that they understood the key differences between private, merit, demerit and public goods, often by using appropriate and relevant examples to support their analysis. A number of candidates made quite a good attempt to offer an evaluation of the provision of different types of goods by the public and private sectors in a mixed economy.



**Question 4**

- (a) In this part of the question, candidates were required to explain what might cause a favourable movement in an economy's terms of trade. Many candidates demonstrated a good knowledge and understanding of the fact that movements in an economy's terms of trade would come about through changes in the price of exports relative to the price of imports, but unfortunately some candidates seemed confused and mixed up the terms of trade with the balance of trade.
- (b) In the second part of the question, candidates were required to discuss whether overall a favourable movement in an economy's terms of trade would be likely to have positive or negative effects on the economy. Most of them offered a balanced response, analysing both the possible positive effects and the possible negative effects, but unfortunately some candidates focused on just the positive or the negative effects, but not both. A number of candidates did make quite a good attempt to offer an evaluation, especially in relation to the concept of price elasticity of demand and the Marshall-Lerner condition.

# ECONOMICS

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**Paper 9708/22**  
**Data Response and Essay**

## General comments

The performance of candidates showed considerable variation. A large number of scripts gained marks above 30. These scripts were of a very high standard and displayed good knowledge and understanding together with the ability to apply economic concepts where appropriate. They provided well-developed analysis and many scored good marks for evaluative comment. A large number of candidates however scored low marks. These candidates appeared unprepared for the demands of an examination in Economics at this level.

## Key messages

- Candidates need to recognise that since this is an economics exam it is expected that appropriate economic terms be used where appropriate.
- Economic concepts need to be grasped fully with formulae and definitions presented with accuracy and precision. Diagrams should have appropriate labels and be drawn carefully and accurately.
- Candidates are advised to consider each question's requirements carefully so that the import of the question is grasped and responses are focused upon all aspects of the question set.
- The directive words in questions should be considered carefully so that evaluative comment is included where appropriate.

## Comments on specific questions

### **Section A**

#### **Question 1: Compulsory Data Response**

- (a) To score here candidates needed to recognise that Turkey's current account was in deficit in both years and that the deficit had increased in 2013. Many candidates were able to perform the calculation to come to this conclusion and gained both marks available. Some candidates failed to score however because they simply performed the calculation but did not state that the figures represented a deficit. It was not enough to simply show a calculation with a negative sign. This is an economics exam and it is expected that appropriate economic terms be used in the context of the question set.
- (b) This question asked candidates to show the intended outcome of the structural reforms in Turkey using a production possibility diagram. The extract made it clear that the structural reforms were intended to increase Turkey's potential growth. This is most usually represented through a shift outwards in an economy's production possibility curve. Many candidates recognised this and provided an appropriate production possibility diagram with accurate labels. Many candidates lost marks however because they labelled the axes incorrectly. Examples of incorrect labelling of axes included price and quantity and inflation and unemployment. A production possibility curve shows the choices open to economies in terms of producing one category of goods such as consumer goods or another such as capital goods. It was necessary for candidates to show recognition of this in their answers to gain full marks, but as stated, it was clear that many candidates did not fully grasp the significance of production possibility curves in the context of the question.

- (c) In response to this question, candidates often drew a simple diagram showing price and quantity on the axes. This was acceptable if the prose made it clear that they were writing about the foreign exchange market. Some labelled the axes appropriately and showed a shift of the demand curve to the right or a shift in the supply curve to the left. Such approaches gained the mark available. For the second mark it was necessary to state why an expected increase in the rate of interest in the U.S. would cause a rise in the demand or a fall in the supply of the dollar. It was sufficient for example to state that the rise in demand would occur as investors would demand dollars to deposit in U.S. banks to take advantage of the better returns. Many lost a mark because they simply stated what was shown in the diagram such as an increase in the demand for the dollar.
- (d) Responses to this question varied considerably in standard. Often candidates explained correctly the likely outcome of the interest rate rise in the U.S. such as the fall in the value of the Turkish currency, but failed to go on to consider whether the changes explained were likely to be harmful for the Turkish economy. Some lost marks because they did not consider the possibility that the outcome might be beneficial for Turkey.
- (e) Many candidates failed to recognise the demands of this question and as a result provided largely irrelevant answers that failed to score. Many for example explained how the increase in prices in Turkey between 2013 and 2014 would reduce the demand for Turkey's exports but made no reference to the factors that would influence the extent of this effect. These factors include the price elasticity of demand for Turkey's exports and imports, relative inflation rates, and any offsetting changes in exchange rates. Those who recognised the focus of the question developed these points and scored well.
- (f) This question was well answered by many candidates. Many showed good knowledge and understanding of the meaning of 'tight fiscal policy' and were able to discuss the likelihood that such a policy would be expected to help Turkey to solve the problem of inflation that the extract made clear was the first priority of the MTP. Many of those who lost marks did so because, although they knew how fiscal policy could have an effect on the macro-economy, they were unable to relate this to the context of the case study. In addition, a significant number of candidates did not have a firm grasp of the policy instruments that are included in fiscal policy. They mistakenly described how changes in the interest rate or the quantity of money might be expected to achieve a low rate of inflation. Some candidates who were able to explain how tight fiscal policy might reduce inflation lost marks because they did not make any evaluative comment on how effective this was likely to be.

## Section B

### Essays

#### Question 2

- (a) Most candidates made reference to the qualities of excludability and rivalry in consumption that are essential in establishing the distinction between private and public goods. There was considerable variation however in the extent to which these were fully understood. Many candidates clearly did not understand these concepts and provided a confused explanation. This lack of understanding then undermined their ability to score well on the second part of the question. Without a firm understanding of non-excludability it is unlikely that candidates would be able to explain the 'free-rider' issue. The confusion was often emphasised in the examples of private and public provided. Many candidates for example, stated that non-excludability was a distinguishing feature of public goods and then suggested that health care was an example of such a good. Confused responses scored poorly.
- (b) In this question, it was expected that candidates would provide some analysis to explain how the factor enterprise and the free working of the price mechanism respond to consumers' wishes and then go on to consider whether imperfect information might prevent a satisfactory outcome for consumers. This topic is indicated in section 1(g) of the syllabus. Imperfect information leads to over-consumption of demerit goods and under-consumption of merit goods so this is clearly not a satisfactory outcome for consumers. A large number of candidates did not recognise the focus of this question. Many provided answers with no reference to 'imperfect information'. Many answers were provided that gave long descriptions of the price mechanism with no mention of demerit or merit goods. Some gave largely irrelevant answers on free market and centrally planned economies. Inevitably, a failure to answer the question set resulted in a low mark.

### Question 3

- (a) This was the most popular essay and the majority of candidates understood what was meant by the concept of price elasticity of demand. Many answers were weakened however through inaccuracy in explaining the meaning of an elastic coefficient. Many, for example provided a formula that ignored the fact that the change in demand in response to a price change was compared in percentage terms. This often resulted in vague explanations that identified a price elastic good as one where demand changed by a large amount when price changes. The more accurate answers explained that the demand for an elastic good changes by a greater proportion than the price change. Many candidates wasted a great deal of time describing each type of elasticity rather than focusing upon the relevant concept. The application here was generally more successful. Candidates generally had a good grasp of the factors that influence elasticity and scored well. Common factors mentioned included the number of substitutes available and the proportion of income spent upon the good.
- (b) Very few responses progressed beyond the idea that if demand for a good were inelastic total revenue would go up if price rose and that price falls would raise total revenue if demand were elastic. As a result, many answers were undeveloped. Similarly, when considering how elasticity might be changed, a number of candidates suggested that advertising and branding products might lead to a product becoming more inelastic, but this was not fully explained in terms of reducing the perceived substitutability of these products. Whether a change in the price elasticity of demand was achievable was left unconsidered by a large number of candidates and many lost marks as a result.

### Question 4

- (a) This was the least popular essay but there was good knowledge and understanding displayed amongst many candidates who attempted this question. The instruments of both monetary policy and supply side policy were usually understood and explained well.
- (b) Responses here were less successful although there were some very high scoring answers. Those who did less well often lost sight of the question requirements. Although there was considerable recognition of the advantages and disadvantages of supply-side policy these were often presented in general terms. This was acceptable, but many candidates failed to use these to consider whether supply-side policy would be effective in an economy facing a labour shortage. Marks were, as a result, lower than they might have been if this aspect of the question had been covered. More careful consideration of the question requirements would lead to candidates making more productive use of the knowledge and understanding at their disposal and result in a higher mark.

# ECONOMICS

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**Paper 9708/23**  
**Data Response and Essay**

## General comments

Although some candidates provided high quality scripts there were many who lacked the required skills to do well. Many candidates had knowledge of the economic concepts tested but seemed unable to use this to good effect. Application was weak, analysis was often left undeveloped and evaluative comment was limited.

## Key messages

- Knowledge and understanding of economic concepts must be comprehensive and thorough if high marks are to be secured.
- Understanding is essential if application is to be successful. This should be practised through extensive completion of past papers.
- Analysis provided in essays must be sufficiently developed to answer the question fully.
- Evaluation is a key assessment objective and all essays will require some evaluative comment to be included, often in the form of a conclusion. If no evaluative comment is provided marks will be lost.

## Comments on specific questions

### **Section A**

#### **Question 1: Compulsory Data Response**

- (a) (i) Most candidates had the required data handling skills to calculate the change in Australia's trade balance. It was acceptable to do this using either the seasonally adjusted figures or the trend data. Each gave a sufficiently accurate approximate change to score the two marks available.
- (ii) Candidates could produce a diagram showing either an increase in supply or a decrease in the demand for the Australian dollar. It could be reasoned that either would be likely to occur as a result of the declining trend in Australia's net trade balance. This would lead to a fall in the value of the Australian dollar. The majority of candidates gained credit here, but some failed to set the diagram in the context of the foreign exchange market. As a result a mark was lost.
- (iii) A large number of candidates gained full marks here. They had the required knowledge to identify net income flows and current transfers as the other components that would be required to measure the change in Australia's current account over the period in question. Only a small number used the terms primary and secondary incomes that are increasingly being used to describe these elements in the accounts. Several candidates, however, seemed unaware of the structure of the accounts and failed to score here.
- (b) The decline in Australia's terms of trade shown in Table 1 could have been caused by a number of changes in export and import prices. For example, a fall in export prices and a rise in import prices could have been responsible for the change. Also, a rise in import prices at a higher rate than a rise in export prices could have caused the change. Any valid possible change was acceptable. Although some candidates found this easy, a fairly large number of candidates continue to be unable to distinguish between the terms of trade and the balance of trade. As a result there were

many confused responses here. Understanding of the terms of trade is an essential requirement for a full understanding of the causes of changes in an economy's external balance.

- (c) This question was generally done well by most in the sample and some high marks were awarded. Some good answers were provided that explained why for example, Chinese consumers would benefit and those employed in export orientated firms in China would lose if a rise in China's exchange rate occurred. A number of candidates identified winners and losers but failed to go beyond this to explain this further however and such approaches lost marks as a result.
- (d) Some good answers were also provided in response to this question. Many candidates were able to explain the impact of both lower interest rates in China and a rise in China's exchange rate upon Australia's balance of payments. The main weakness amongst many candidates however was that the explanations that were provided were not used to reach a conclusion. The wording of the question makes it clear that some evaluative judgement is necessary. Without this a limit was placed on the marks awarded. In addition, a number of candidates provided only brief and superficial analysis here.

## Section B

### Essays

#### Question 2

- (a) This was the most popular of the three essay questions and some good answers were produced. It is clear that elasticity is a central concept taught in Schools and there was evidence that knowledge and understanding is of a good standard amongst many candidates. The ability of candidates to apply the concept however showed considerable variation. Many candidates who produced the formulae for income and cross elasticity of demand became confused as they attempted to apply the concepts to distinguish between the various types of good. Some for example explained incorrectly that inferior goods had an income elasticity between 0 and 1, others that substitutes had a cross elasticity that was negative and that complementary goods had a cross elasticity that was positive. Such errors suggest that the candidate had tried to learn rather than understand the concepts. Confused explanations result from a lack of clear understanding and marks are inevitably low.
- (b) It was expected that candidates would provide analysis to explain how knowledge of these concepts and the way in which products react to income changes and changes in the price of substitutes and complements can help governments and entrepreneurs make decisions. In terms of governments this might include decisions over which goods to tax and how the demand for products would change during periods of boom and recession. In terms of entrepreneurs, decisions might be aided through knowledge of the way in which competitors might react to changes in the price of its products. Some good answers were provided, but the weakness in understanding shown by some candidates in the first part of the essay also affected their discussion in this part of the question. There was also a general lack of evaluative comment. Few candidates for example questioned the value of this knowledge as economic factors change or the unreliability of estimates of elasticity values as the *ceteris paribus* assumption is relaxed.

#### Question 3

- (a) This was done well by most candidates who attempted this question. There was good knowledge and understanding of the meaning of both aggregate demand and its components together with aggregate supply. These concepts were generally used well to distinguish between the two types of inflation. Some good marks were awarded.
- (b) This part of the question was done less well. Many candidates who were familiar with the causes of inflation were less confident in explaining the consequences. Many were unable to distinguish between the domestic and external consequences. Few seemed aware of important domestic consequences such as the re-distributive effects and the impact upon savings and productive investment. Focus tended to be on menu and shoe leather costs and several mentioned 'inflationary noise', but the more serious domestic consequences were either ignored or treated superficially. Similarly, few seemed to be aware of the external consequences of inflation for international competitiveness and the trade balance. These weaknesses resulted in low marks and

affected the quality of evaluation provided. A conclusion was essential, but few candidates provided one.

#### Question 4

- (a) This was the least popular of the essay choices and this part of the question was answered poorly by many candidates. Although most scored marks for showing knowledge and understanding of production possibility curves, few used this to show the benefits of specialisation and international trade. Also, few showed any understanding of the significance of comparative advantage.
- (b) Attempts at this part of the question were more successful, but many candidates provided quite superficial analysis that was insufficiently developed to score well. There was only limited reference to valid reasons for protectionism such as the infant industry argument and as a result evaluative comment was generally absent. A small number of candidates did well on this part of the question, but overall the marks were generally low.

# ECONOMICS

**Paper 9708/31**  
**Multiple Choice**

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

## General comments

1076 candidates took this paper and the mean mark was 14.8 which was comparable to the mean mark of 15.0 last year.

The questions for which most candidates selected the correct answer were **4, 17, 18, 21, 23** and **29**. These questions were answered correctly by 65 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 **2, 8, 13, 15** and **25**. These questions were answered correctly by fewer than 33 per cent of the candidates.

There were no questions which were generally answered incorrectly by candidates who scored well on the test overall.

## Comments on specific questions

**Question 2** was answered correctly by 25 per cent of the candidates who chose option C. 4 per cent chose option A, 17 per cent chose option B and 54 per cent chose option D. Pareto criteria requires that one person is better off while the other person is no worse off. 'Better off' in this case can be interpreted by having more of a good. For Joshua this occurs by moving from I to C while for Ruth the quantity remains the same.

**Question 8** was answered correctly by 14 per cent of the candidates who chose option B. 45 per cent chose option A, 14 per cent chose option C and 26 per cent chose option D. The principal-agent problem can



occur with a divorce of ownership and control. The small number of managers may work together to achieve other aims such as enjoying work, getting on with other workers while making a level of profits – but not necessarily maximum profits – that keeps the company in business.

**Question 13** was answered correctly by 20 per cent of the candidates, who chose option B. 15 per cent chose option A, 8 per cent chose option C, 57 per cent chose option D. With a large supply of entrepreneurs it is likely that there will be a bigger number of businesses starting up which have fewer employees.

**Question 15** was answered correctly by 32 per cent of the candidates, who chose option A. 21 per cent chose option B, 12 per cent chose option C and 34 per cent chose option D. The firm will start by employing the number of workers shown by the intersection of the MRP curve and the minimum wage. Without the wage, the firm would employ the number of workers shown by the intersection of the MRP curve and the MFC curve. This is a decrease equivalent to the distance between J and K on the diagram.

**Question 25** was answered correctly by 21 per cent of the candidates, who chose option A. 45 per cent chose option B, 13 per cent chose option C and 21 per cent chose option D. The availability of more machines dispensing cash would mean it is less likely that the public would need to hold cash. Charges for credit card use (the more popular option chosen) would mean people would prefer to hold cash than pay the charge for using the card. Candidates may have misread the question as ‘what is likely to cause an increase in the ratio...’

The rest of the questions gave results which were well within the levels expected.

# ECONOMICS

**Paper 9708/32**  
**Multiple Choice**

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

## General comments

9217 candidates took this paper and the mean mark was 19.4, which is higher than the mean mark of 16.8 last year.

The questions for which most candidates selected the correct answer were **5, 7, 10, 12, 14, 15, 17, 18, 20, 21, 22, 23, 24, 29** and **30**. These questions were answered correctly by 65 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 **4** and **26**. These questions were answered correctly by fewer than 33 per cent of the candidates.

There were no questions which were generally answered incorrectly by candidates who scored well on the test overall.

## Comments on specific questions

**Question 4** was answered correctly by 33 per cent of the candidates, who chose option A. 12 per cent chose option B, 25 per cent chose option C and 29 per cent chose option D. For there to be a Giffen good the negative income effect must outweigh the positive substitution effect and the amount of the good acquired will be less than at the initial equilibrium. This occurs by moving from M to A.

**Question 26** was answered correctly by 32 per cent of the candidates, who chose option B. 6 per cent chose option A, 30 per cent chose option C and 32 per cent chose option D. The statistics could indicate that the

candidates were guessing at the answer – particularly as the question is towards the end of the paper. For equilibrium, the injections on the left-hand side of the equation should be balanced by the leakages on the right-hand side. These are shown in option B.

The rest of the questions gave results which were well within the levels expected.

# ECONOMICS

**Paper 9708/33**  
**Multiple Choice**

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

## Key messages

This paper had only 46 candidates and, therefore the statistics are not as reliable as on the other papers.

## General comments

58 candidates took this paper and the mean mark was 14.4 which was higher than the mean of 12.9 last year.

The questions for which most candidates selected the correct answer were **2, 3, 7, 11, 13, 17, 18, 21, 23, 24,** and **29**. These questions were answered correctly by 50 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions which caused the biggest challenge for candidates were **9, 25, 27** and **28**. These questions were answered correctly by fewer than 33 per cent of the candidates.

**Questions 9** and **28** were also answered incorrectly by some, but not all, of the candidates who did well on the test overall.

**Comments on specific questions**

**Question 9** was answered correctly by 24 per cent of the candidates, who chose option A. 33 per cent chose option B, 28 per cent chose option C and 15 per cent chose option D. Those who chose option B may well have confused average total cost and average variable cost. Average total cost would rise with a reduction in output.

**Question 25** was answered correctly by 20 per cent of the candidates, who chose option B. No candidates chose option A, 76 per cent chose option C and 4 per cent chose option D. Those who chose option C may have misread the question as what is likely to cause an increase in the desire to hold cash.

**Question 27** was answered correctly by 22 per cent of the candidates, who chose option D. 33 per cent chose option A, 17 per cent chose option B and 28 per cent chose option C. Those who chose option A most likely inverted the equation.

**Question 28** was answered correctly by 13 per cent of the candidates, who chose option D. 26 per cent chose option A, 30 per cent chose option B and 30 per cent chose option C. The distribution of the statistics could well indicate that the candidates were guessing, particularly as the question was towards the end of the paper.

The rest of the questions gave results which were well within the levels expected.

# ECONOMICS

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<p><b>Paper 9708/41</b> <b>Data Response and Essays</b></p>
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## Key messages

- Candidates need to read the question carefully and direct their knowledge to the particular phrase and question asked.
- In evaluative and discussion questions it is important that responses discuss the question and come to a well-thought out conclusion stating what the candidate believes as a result of the arguments they have put forward rather than leaving it to the reader to decide what the candidate believes.
- Diagrams should be presented clearly with accurate labels.

## General comments

There were some good answers to this paper and those candidates are to be congratulated on the use of their studies to achieve such marks. They presented well-balanced and clearly structured answers, accurately directed to the question and enhanced by relevant examples and applications where appropriate.

Regrettably, some candidates confused the focus of the question. For example, in **Question 2**, they did not discuss the concentration of market power but gave a general account of the theory of monopoly without reference to the public interest. In **Question 3(a)** some wrote about market equilibrium. Sometimes candidates gave a general answer to the topic but did not direct their comments to the precise question asked. For example, in **Question 4**, they gave a general account of wage theory but did not discuss whether wages differences were either inevitable or justified. Thus they did not always achieve as high a mark as their knowledge could have allowed them to because they did not read the question carefully and did not direct their knowledge to the particular phrase and question asked.

Candidates should be reminded that evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes – such a statement can be a preface to the answer rather than an addendum but it needs to be made somewhere. Quite often candidates merely presented material and left the reader to decide what the candidate believed. Examples of this omission occurred in **Question 2, 5(b) and 6(b)**.

Most candidates, when using diagrams, presented them in a clear manner. There were some, though, who squashed the diagram into a corner of the page or drew it so small that the intersection of the lines was not possible to determine accurately. All diagrams, if used, require a narrative explanation. Some were presented with little comment on their meaning or without labels on the curves.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) Candidates found no difficulty in identifying that the primary had decreased, the secondary and tertiary sector had increased. Better candidates used the information to give supporting figures to their statements. Weaker candidates forgot to make any comment about whether these changes might be expected in an emerging economy.
- (b) The answers to this section ranged from broad generalisations to more detailed comments which included remarks that businesses might suffer (profits could be reduced), investment might appear

less attractive, incomes and employment might fall, government revenue might be reduced. Some mentioned that export revenue may decline – depending on elasticity – and the balance of payments would be affected. But candidates also recognised that falling prices might increase consumer demand which could have a positive effect.

- (c) Candidates were able to use the information to state that China consumes a large proportion of imports of raw materials (up to ten times as much as a % of GDP than other countries), so a fall in price of materials and fall in demand would support the opinion that it would be bad for the countries that trade with China. Better candidates recognised that not all manufacturing has declined and some imports of consumer durables will increase particularly if consumption spending increases.
- (d) Candidates were able to comment on the probable longer term changes that might occur from the investment approach compared with the consumption approach. They also commented on the exploitation of the country's resources and the need for sustainable development. They illustrated their remarks with reference to likely changes, for example, on employment, incomes, standards of living, government tax revenue and the rate of growth.

## Section B

### Question 2

Questions such as this invite candidates to consider an argument or an opinion and develop a response to it. In this question candidates were expected to consider the argument. Firstly, what is meant by a perfect market system and is it possible? Secondly, does a complex modern economy inevitably lead to a concentration of market power? And thirdly, if this is so, does it serve the public interest? Candidates could have refuted, or accepted, the subsidiary conclusion about market power, or the final conclusion or both. Many candidates began the question well and explained the first part of the argument. They then discussed the possibility of market failures and whether such outcomes served the public interest. The market failure they considered was usually the existence of negative externalities. Sadly, in doing this many forgot the second part of the question about the inevitable development of concentration in the absence of perfect competition. They did not consider whether the absence of perfect competition always resulted in market concentration and whether that was necessarily against the public interest or whether some concentration of market power could be beneficial.

### Question 3

- (a) Candidates appeared to find this question difficult. Some were able to explain the analysis of the meaning of utility and the derivation of the equi-marginal principle which underlies an individual demand curve. They could have explained consumer equilibrium either with reference to marginal utility/price or by using indifference curves. Quite often they confused total and marginal utility or drew diagrams showing indifference curves that crossed.
- (b) Candidates were more able to show the change that would occur with the budget line than the change in preferences that occurs when the indifference curve is added to the diagram. Better candidates were able to discuss the income and substitution effect of the price change and were able to distinguish between normal and inferior goods. Some also included Giffen goods.

### Question 4

This question presented a statement which the candidate had to assess. It was expected that candidates would analyse whether the theory does explain differentials in wage rates and discuss the conclusion that they can be justified. Candidates were expected to form their own conclusion indicating whether they agreed with the statement. This question was answered well by many candidates who drew upon their knowledge of imperfect markets to illustrate how differences in wages could occur.

### Question 5

- (a) There was some confusion in the answers to this question. It was hoped that candidates would be able to distinguish between the analysis of the law of diminishing returns and economies of scale and recognise that the two can be used together, diminishing returns in the short run and economies of scale in the long run. The individual short run curves can illustrate diminishing returns. It is more likely that economies of scale occur in imperfect competition where large scale is possible. The significance of the long run and the short run link to the concepts was not explained

by some candidates while others drew a diagram showing a long run average cost curve but referred to diminishing returns.

- (b) The answers to this part of the question were structured better than the first part. Better responses considered whether perfect competition implied perfect knowledge and profit maximising. They then discussed whether these concepts may be found at all, or only sometimes, in monopoly, and if not, what other aims might exist.

#### Question 6

- (a) This question required an explanation of the equilibrium level of income in terms either of aggregate demand and aggregate supply or injections/withdrawals. Equilibrium can be at less than full employment. Not many candidates answered this question and those who did seemed to find this question challenging. The explanation of equilibrium was sometimes confused with market equilibrium or the equilibrium of the firm when it maximises profits.
- (b) It was expected that candidates would explain the meaning of the growth rate of an economy and consider what benefits it might bring in terms of employment, incomes, standards of living, trade and wealth. They could also have commented on possible drawbacks of growth in terms of environmental change, resource use, distribution of income. Most candidates who answered this question were able to present the positive and negative aspects of an increase in economic growth.

#### Question 7

Candidates who answered this question were expected to explain what issues they would consider to be important. Their choice should have been supported by reasons. They could have chosen, for example health, housing, education, crime, income distribution, employment – or any issue they considered significant. It was then hoped that the candidates would discuss the merits of using different economic indicators to evaluate their choices. They could have discussed, for example, the value of GDP, or HDI, or MPI or MEW or commented on a comparison of some of these indicators. Many of the candidates who answered this question did follow the expectation. Some, however, mentioned a choice of issues but did not consider any of the economic indicators that could be used to assess the quality of life in a country.



# ECONOMICS

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<p><b>Paper 9708/42</b> <b>Data Response and Essays</b></p>
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## Key messages

- Candidates generally demonstrated that they understood the relevant theory but failed to develop fully the analytical aspects of the question or to apply it to the context of the question. The best candidates were able to articulate the analytical aspects within the context of the question.
- Many questions contained the command words 'discuss' or 'consider'. Both of these terms require an argument or debate within the answer and the drawing of a conclusion to access the higher levels in the mark scheme. Many answers were one sided or left the Examiner free to draw their own conclusions.
- Candidates are reminded that a thorough reading of the question is necessary to understand its full breadth. This is especially true of the questions without sub-parts.
- Most questions require a number of elements to be addressed; for example **Question 2** has four elements while **Question 5(a)** required an explanation of both profit- and loss-making whilst the profit maximisation concept was applied.

## General comments

Many answers were again of a high standard in response to the questions.

There are still candidates making use of badly drawn or inaccurately labelled diagrams, or constructing a perfectly presented diagram without any words of reference to it in the essay. Some are making use of pre-learned answers that do not match the question which has been set.

A number of candidates wrote at great length. In many examples these responses were poorly directed towards the question set. Candidates who can produce a relevant, concise and well directed answer will always be fully rewarded.

## Comments on specific questions

### **Question 1**

- (a) Most candidates managed to identify one of the government policies from the article correctly.
- (b) Candidates showed a good understanding of the links between improvement in the housing and its wider economic impact. The better candidates developed the analysis to include the multiplier. Market.
- (c) This element of the question allowed the better candidates to show that they had read the question carefully and extracted from the article the counterpoints to an improvement and a conclusion that there were contradictions. Weaker responses discussed the positive aspects of house price increases and touched on the question tangentially. Some confusion existed between parts (b) and (c) in some responses.
- (d) Many candidates were able to identify two examples of government macroeconomic aims. The better responses went on to describe the effects of the two models on those aims. However some

confusion existed for a number of candidates, who reversed the logic of the question to explain the causes of increased consumer spending and higher exports but not their relationship to the aims.

## Question 2

The question had four elements to the answer: allocative efficiency, failures of the market, government policies to combat the failures, and the ability of the free market to allocate resources efficiently. The best responses recognised these different elements and made an attempt to address all of them. They covered in some depth a range of inefficiencies and possible government responses together with a conclusion which referred to the question set. To varying degrees other candidates reduced the number of aspects they dealt with. Many wrote extensively on productive efficiency which was not necessary, government policies were touched on briefly and their limitations ignored.

## Question 3

- (a) The candidates who read the stem of the question and recognised the need to use indifference curve analysis had the right approach to the answer. The better responses included an analysis which extended to show not only the point of equilibrium of an indifference curve and the budget line but also the effect on demand if the price of one of the goods changed and identified the substitution and income effects.
- (b) Candidates who read the question fully and wrote about the effect of an increase in indirect taxation on the demand for a good or goods, and went on to discuss the substitution effect, the income effect and how they might affect the overall impact on demand for the good were rewarded.

Unfortunately, some candidates only used marginal utility analysis rather than the indifference curve approach.

## Question 4

- (a) Candidates split into two groups: those who used marginal revenue product theory (MRP) together with relevant diagrams in their answers and gained the higher level of marks shown in the mark scheme, and those who only used supply and demand analysis. Those who went on to discuss why differences existed between wages in perfect competition were rewarded at the highest level, though many answers only referred to the equilibrium wage level in perfect markets.
- (b) This part of the question was generally answered well with candidates receiving high marks. This answer called for an understanding of trade union activity on wages and employment levels. Marks reflected the ability of the candidates to recognise the significance of 'inevitably' in the question. Those who went beyond the effect of a trade union imposed minimum wage to explore monopsony buyers and monopoly suppliers of labour gained good marks.

## Question 5

This was a popular question with candidates.

- (a) Candidates who explained the profit maximisation rule fully and then showed how its application could lead to super-normal and normal profits and losses were fully rewarded. Often answers only stated the profit maximisation rule and applied it to a limited range of circumstances for example, profit in perfect competition or monopoly.
- (b) The better answers wrote about the alternative business aims to profit maximisation and linked them to differing market structures. Many response dealt only about the differing market structures and profit maximisation.

## Question 6

This question was very popular and many candidates made a comprehensive response which discussed the concept of the quality of life, and how it might be measured via the use of gross domestic product (GDP) and its limitations. Candidates are showing a much greater awareness of the alternative measures to GDP and the elements which they include, for example, Multi-dimensional Poverty Index and Net Economic Welfare (NEW)/Measurable Economic Welfare (MEW). Candidates showed an awareness of other non-economic aspects which may contribute to the quality of life. It was the extent of the discussion which gave rise to the

range of marks this question attracted. Candidates often wrote movingly of the circumstances in their home country.

### Question 7

- (a) Candidates who were able to explain the difference in shape of the population pyramid in developing and developed countries and why they were so and who also discussed the differing employment structures split between primary, secondary and tertiary sectors gained good marks. Candidates divided into three broad bands: those who discussed the population, those who discussed the structure of employment, and those who wrote about development generally.
- (b) Generally this part of the question was answered well. Candidates were well prepared on types of unemployment. The best answers discussed how and why the differing types applied in developing and developed countries, while others ignored this element of the question.

# ECONOMICS

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<p><b>Paper 9708/43</b> <b>Data Response and Essays</b></p>
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## General comments

There were fewer than 50 candidates who took this paper. The answers to Section A were better than the answers to Section B. Candidates, in answering Section A, did try to use the material given although some fuller development of the answer was often needed. The answers to Section B were nearly always very brief, often contained general descriptions with little analysis and not focussed on the question. Many candidates did not answer the required number of questions or only answered part of a question. It is difficult for the Examiner to understand a diagram if it is squashed into the corner of a page and not clearly legible.

Candidates should be careful to label all curves and make sure that any changes in the curves are clearly drawn and carefully explained in the narrative accompanying the diagram.

## Comments on specific questions

### **Section A**

#### **Question 1**

This question concerned the proposed development of an extra runway at an airport and its effect on the economy.

- (a) Most candidates were able to recognise that the runway would benefit more than just those who use it and they explained how the proposed development would result in increased spending, trade, investment and employment.
- (b) The idea of an externality affecting third parties was clearly explained with most candidates giving the example of traffic congestion.
- (c) This section was less well-answered. Candidates could have suggested that the motorway is used by people other than those who use airport, that the government is usually involved in large road projects because of the long term nature of the investment, because of the effect on general transport infrastructure and the wider effect on the encouragement of economic growth.
- (d) Many candidates stated that the information was factual. They used some of the evidence given to come to this conclusion. For example, the authorities said that they would pay compensation 25% above market rate for property; that homes would be demolished; that there would be noise; that more destinations would be served; that cost would be lower than a completely new airport.

Fewer candidates discussed how some of this evidence was given with information that was uncertain and, therefore, an opinion of the authority. For example, there were no firm statistics, only wide estimates. The statistics related to an initial proposal. The range of monetary values of benefits was uncertain. There was only a vague general statement about extent of wider benefits. Further, there was the presumption that many airport users would travel by public transport; a vague statement about pollution being within EU limits; a sweeping comment on the value of benefits for the airport expansion being greater than other options. This assertion was not matched by the figures produced from one alternative.

**Section B**

- 2 (a)(b)** This question required an explanation of the meaning of indifference with reference to extra utility lost or gained from a change in purchases. The principle of diminishing marginal utility was expected. A consumer may be indifferent between certain combinations of two products as shown on an indifference curve but the consumer would not be indifferent between one indifference curve and another.

The second part of the question expected that candidates would show that both demand curves and budget lines can be used to derive the change in consumer purchases. However, while demand curves directly relate to the price and quantity of one good bought, budget lines relate to the possibilities of buying two goods given an income and given prices. The budget line diagram cannot be used to tell how demand will change unless it is also used with the indifference curve and then the quantity plotted on another diagram against price. The budget line/indifference curve diagram has a greater possibility of showing income and substitution effects and thus is more able to distinguish between normal, inferior and Giffen goods.

This analysis was rarely understood by those candidates who answered this question.

- 3 (a)(b)** It was expected that there would be an explanation of the types of cost, the possibility of reducing average cost through economies of scale, the meaning of economies of scale, and a consideration of whether this always occurs.

**Section (b)** required a discussion of the meaning of contestable markets. Contestable markets require low barriers of entry/exit, a perfectly contestable market has costless entry. Every market is contestable to some degree. The extent of contestability may affect conduct of firms in determining price and may affect productive efficiency. The greater the availability of information, the greater is the contestability.

Candidates often did not explain that economies of scale are a long-run concept where all factors can be variable. There was a confusion between economies of scale and diminishing returns. Answers to the second section were usually very brief but did mention the possibility of potential competitors.

- 4 (a)(b)** It was expected that there would be an explanation of the part of the theory of wages that deals with supply. The conventional supply of labour diagram is backward bending reflecting income and substitution effects as wage rates rise. This could be related to the question; the need/wish to work rather than take holidays would be less if there is higher pay for holidays. Workers would not be so reluctant to take holidays. In an individual's case, it would depend where the new rate falls on that individual's supply curve as to whether fewer hours would be worked.

**Section (b)** required an analysis of wage theory in an imperfectly competitive labour market where there was a trade union negotiating wage rates. The fixing of a higher wage by a trades union may lead to unemployment depending on its level compared with the original wage and also on the extent of 'exploitation' that occurred in determining the original wage.

Some candidates did try to explain the backward sloping supply curve of labour but the analysis of the trade union and the link between any negotiated higher wage and employment was not achieved except in very few answers.

- 5 (a)(b)** This question required an explanation of the link between growth, spending, demand, resource availability and pressure on prices. Part **(b)** involved a consideration of economic growth and the link of economic growth to the standard of living. In evaluating the link between growth and the standard of living, the value of GDP might be important but also important was a discussion of other factors that might not be included directly in GDP – health, housing, education, crime, income distribution. Some discussion of the difficulties of comparing different cultures, climates, levels of subsistence production and relative price changes was expected together with a mention of alternative indicators that assess standards of living.

Those who answered this question presented a more developed answer to part **(b)** than part **(a)** but despite this they did not give a balanced discussion of the appropriateness of the use of economic growth and an indicator of the standard of living.

- 6** In answering this question candidates should have explained the link between injections and withdrawals and commented on the balance between them which forms an equilibrium. The process of a change in the equilibrium by the multiplier could have been explained. They could have presented any reasoned discussion about the merits of government policy. For example, they might have suggested that the equilibrium changes because of tax changes, or government spending changes. Investment might change because of interest rate policy. The private sector may be influenced by regulative policy. They could also have suggested that governments may encourage foreign investment or international trade.

There was, unfortunately, confusion over the meaning of national income equilibrium. Candidates wrote about consumer equilibrium or the equilibrium in a demand and supply market at a micro level for a single product. The relative merits of different policies were not usually evaluated.

- 7** There were three elements to this question. What is meant in economics by efficient use of resources? Is it likely that private developers use the idea in the same way as economists? Is it possible to achieve efficiency? Candidates were expected to explain the meaning of allocative efficiency and productive efficiency; they should have conjectured whether the private developers comments relate to profits rather than allocative/productive efficiency; they should have discussed whether private firms achieve allocative/productive efficiency. They could have mentioned policies that might be used to increase efficiency when the market does not reflect that situation – subsidies, regulation, taxes. It might, for example, be possible to achieve productive efficiency but more difficult to measure and achieve allocative efficiency.

There was little discussion of the meaning of efficiency and the focus of the answer on whether efficiency could be achieved was, sadly, often lost.