

# ECONOMICS

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

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

## Key messages

Two areas of the syllabus that caused problems for candidates were price elasticity (both of demand and supply) and exchange rates. These difficulties were usually with the text form rather than with numbers or diagrams.

## General comments

A few questions proved to be easy, with **Questions 1, 11, 26** and **27** having greater than the target facility. **Questions 12, 25** and **29** proved to be the most challenging on the paper but none was harder than the test target.

The topics with the highest facilities were scarcity, substitutes and complements, free trade and import substitution. While the questions discriminated effectively and the paper worked well, there were some weaknesses in understanding demonstrated that are discussed in the next section.

### Comments on specific questions

In **Question 7** while the largest proportion selected the key **A** almost as many opted for **B**. A product is most likely to be price elastic when it makes up a large proportion of consumer income.

Influences on price elasticity of supply (PES) were the basis of **Question 9**. 44 per cent of candidates chose key **C**. The use of perishable raw materials makes storage problematic so there would be inelastic PES matching the value of 0.3. The other options all made for more elastic PES.

Only 36 per cent of candidates chose the key **C** in **Question 12**. The other choices were spread fairly evenly between the remaining options. The slope of the curves (assuming the same scale) can form the basis of the answer. An approach by sketching diagrams could be the basis of the approach.

In the calculation of the terms of trade in **Question 24** a third of candidates selected option **D** instead of key **C**. This suggests that it was thought to involve a subtraction of the change in values rather than a division involving the two new resulting totals.

Almost as many chose option **A** as chose the key **C** in **Question 25**. While X has comparative advantage in food in both option **A** and option **C**, it is only in **C** that the exchange rate of 1 unit of clothes to 1.5 units of food can be between the opportunity cost ratios of the two countries.

Candidates' choices were unusually evenly split between the options in **Question 29**. Possibly some candidates did not take sufficient care in reading the question and were expecting to deal with a reduction in a deficit or increase in a surplus. **C** and **D** are more relevant to those cases. Higher interest rates (**A**) would reduce expenditure including imports so raising the surplus. Higher investment spending (**B**) would raise national income and spending including imports so lowering the surplus. Capital equipment might also need to be imported, making **B** the key.

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

## Key messages

The performance on numerical questions improved on that of last year. The use of economic ideas in less familiar contexts proved to be a stumbling block and would be helped by the use of a wider range of examples of applied economics.

## General comments

Five questions, in this case **Questions 2, 9, 13, 15, and 28** were at the top end of the facility range and proved to be easier than intended. The topics that were well known were planned economies, elastic supply, producer surplus, subsidies and income tax effects. **Question 1** proved to be more difficult than the test's design specification. Overall, the test gave a clear indication of sound understanding over the breadth of the syllabus.

### Comments on specific questions

In **Question 1** about rationing, the largest proportion of candidates opted for **B** rather than the key **C**. The market price (**B**) would favour the better off over the poorer would-be consumers. This might be either in terms of the greater availability of income or of time to enable purchase resulting in an uneven distribution of goods. A political decision (**C**) on the nature of the method of rationing could make equal distribution a priority.

**Question 11** dealt with influences on the demand for bus travel. Almost 80 per cent of candidates correctly agreed that increased parking charges would increase bus travel, making the first statement correct. However increased frequency of bus services was not considered to be likely to increase demand for bus services by 45 per cent of candidates, including some of the higher performing candidates. As an improvement in quality of service this is likely to also have a positive effect. This made the second statement incorrect. Therefore the key is **B**.

In **Question 16**, 58 per cent of candidates failed to identify the correct example of a transfer payment (**A**). Their choices were split quite evenly between the other three options. The crucial issue is that there is no good or service produced in exchange for the payment. A gift within a family would qualify as a transfer payment. Candidates should understand that transfer payments do not just apply to state benefits.

While the largest group of candidates correctly opted for key **A** in **Question 18**, one third believed that supporters of nationalisation would expect an improvement in service frequency from privatisation. Such supporters are more likely to expect that the profit motive will remove uneconomic services reducing service frequency, hence their opposition to the move.

# ECONOMICS

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

## Key messages

Aspects of international economics provided the main difficulties for candidates. Although improved on last year, numerical questions continued to produce a lower average performance than the text and diagram forms.

## General comments

Five questions proved to be markedly easier than the target facility. These showed widespread understanding of production possibility curves, shifts in demand, shifts in supply, and opportunity cost. While **Question 23** proved to be more difficult than intended, it still discriminated satisfactorily.

### **Comments on specific questions**

In **Question 1** the largest group of candidates opted for **C**. This does not illustrate a change with all other influences held constant, which is the basis of *ceteris paribus*. **D** is the key as it shows the result of a single change on another variable.

The relationship between price changes and total expenditure is the basis of **Question 7**. This is usually less well known than the relationship between price and quantity demanded and often confused with it. 46 per cent of candidates wrongly chose **D**. This is partly correct in identifying curve 3 as the price elastic demand as total expenditure rises when price falls. It is wrong in selecting curve 2 as unitary price elastic as revenue rises when price rises. The key is **C** with the selection of curve 3 and curve 1. The latter illustrates unitary elastic demand as total expenditure is unchanged when price changes.

The majority of candidates selected option **B** in **Question 23**. However a depreciation of the currency would be shown as movements of the curves in the opposite direction to those given. A greater demand for cheaper exports and a reduced demand for dearer imports would mean more pounds demanded and fewer pounds supplied. The higher performing candidates went for the key **A**. In this case cheaper foreign goods are likely to reduce the demand for pounds as fewer British goods are bought and increase the supply of pounds as more British citizens buy cheaper foreign goods.

In **Question 29**, those candidates who scored most highly in the test picked key **A**. This gave two standard examples of the two types of policy. A greater number of candidates opted for **B**. While import quotas are a clear example of expenditure-switching policy, the nature of the effects attached to a higher value added tax means it is not employed as a standard expenditure-reducing measure.

# ECONOMICS

**Paper 9708/21**  
**Data Response and Essay**

## Key messages

Candidates need to focus on the particular command 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 are 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 it is better to impose an indirect tax or conduct an awareness campaign to deal with the problem of demerit goods such as alcohol or in **Question 3 (b)**, which was concerned with a system of maximum prices, which required candidates to consider whether this system is likely to be successful.

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.

Candidates should read questions very carefully to avoid making an error in their answer. For example, in **Question 4 (a)**, some candidates wrote about how a rise in an economy's foreign exchange rate could affect inflation, rather than a fall in an economy's foreign exchange rate.

## General Comments

A diagram was explicitly required in two of the questions in Section A, **Questions 1 (a) (i) and (b)**, but some candidates did not draw one in either question.

Some answers suggested that candidates had not looked closely at the command 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 4 (b)**, where candidates were required to discuss the use of supply side policy as a means of solving the problem of inflation and then to consider whether this policy is likely to be effective.

## Comments on specific questions

### *Section A – Data Response*

#### **Question 1**

- (a) (i) Most candidates were able to explain one possible cause of the fall in the price of oil shown in Fig. 1. This could have either been an explanation of a fall in demand, such as through a lowering of incomes, or of a rise in supply, such as through the discovery of additional reserves of oil. It was not enough simply to state that there was a shift in demand or supply; there needed to be an explanation of what had caused a shift. The diagram explicitly instructed candidates to include a diagram, but some did not do so, limiting the number of marks that could be awarded to an answer.
- (ii) Many candidates were able to explain how the fall in the price of oil had resulted in the fall in the value of the peso, emphasising that there was likely to be a fall in export revenues and in the demand for the peso.
- (b) Many candidates were able to explain how the 'peace dividend' might lead to the growth of Colombia's economy by reducing the amount of money that would need to be spent on the military

and increasing the amount of money that could be spent on capital goods. This would lead to a movement of the production possibility curve outwards to the right. Unfortunately, some candidates did not include any diagram to support their explanation, while other candidates included a demand and supply diagram. Some candidates drew the production possibility curve diagram correctly, but then labelled it incorrectly with one axis labelled price and the other axis labelled quantity. A few candidates were confused over the meaning of the term 'peace dividend', thinking it was something like a dividend that is paid out to shareholders.

- (c) There were a number of good answers to this question, with candidates recognising the components of aggregate demand, i.e. consumption, government expenditure, investment and net exports. Each of the four components would fall as a result of the reduction in the price of oil, and although many candidates were able to point this out, the explanations of why the four components of aggregate demand would be affected were not always made very clear.
- (d) Many candidates were able to discuss a number of factors that would determine whether the fall in the value of the peso would reduce Colombia's current account deficit. In particular, candidates offered some useful discussions of the importance of price elasticity of demand, in relation to both exports and imports, and many candidates referred to the importance of the Marshall-Lerner condition. There were also some good answers in relation to the importance of the time period under consideration, especially in relation to the J-curve effect. A number of candidates also stressed the potential importance of the quality of the exports.

### **Section B – Essays**

#### **Question 2**

- (a) The two types of good were clearly distinguished by many candidates in terms of excludability, diminishability and rejectability and there were then some good explanations of why a profit could be made from a merit good, but not a public good, because of the existence of the free-rider problem. A number of candidates pointed out that a merit good was, in fact, an example of a private good. Unfortunately, a few candidates were confused and wrote incorrectly that a profit could only be made through the provision of a public good.
- (b) Most candidates demonstrated a reasonably good understanding of what was meant by demerit goods and they were able to contrast the relative strengths and weaknesses of indirect taxation and awareness campaigns as ways of dealing with them, emphasising that an indirect tax would have an effect on the supply curve and that an awareness campaign would have an effect on the demand curve. Unfortunately, few candidates attempted an evaluation that compared the relative strengths and weaknesses of each approach, although many candidates did attempt to offer a conclusion as to which approach was likely to be the most effective.

#### **Question 3**

- (a) Most candidates were able to explain the effect of a successful advertising campaign for a normal good, stressing that the demand curve would shift to the right, causing an increase in both equilibrium price and equilibrium quantity. A diagram was not required in this question, but many candidates included one to support their answer. Unfortunately, few candidates were able to explain clearly what was meant by an equilibrium position in a market in terms of a situation where there was no tendency for either price or quantity to change.



- (b) Most candidates were able to explain clearly why the maximum price would be established below the equilibrium price, and although a diagram was not explicitly asked for, many candidates included one to good effect. Unfortunately, some candidates appeared confused and believed that a maximum price should be placed above, not below, the equilibrium price. A number of candidates were able to point out that a problem with maximum prices is that shortages could occur and that these would be likely to get worse unless the maximum price was continually increased to take account of the inflation. Unfortunately, few candidates were able to offer a convincing evaluation of how likely this system of maximum prices was likely to be, although a few did comment on the fact that this would depend on whether it would be possible to overcome the difficulties of the system, such as through rationing.

#### Question 4

- (a) Most candidates were able to demonstrate a sound knowledge and understanding of both types of inflation and did make an attempt to explain how each would be affected by a fall in the foreign exchange rate, distinguishing between the effect of an increase in net exports on demand-pull inflation and the effect of a rise in the price of imports on cost-push inflation. Although diagrams were not explicitly asked for in this question, many candidates used them to good effect to support their answers.
- (b) Many candidates were able to consider a range of supply side policies that could cause an increase in aggregate supply and which would therefore help to keep inflation lower than it might have otherwise been without the use of such policies. These included policies in relation to training and education which could help to make labour more productive. Unfortunately, few candidates were able to give a clear evaluation of the relative strengths and weaknesses of the different supply side policies that could be used, although a number of candidates did attempt to provide a conclusion.

# ECONOMICS

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

## Key messages

Candidates should ensure that they are fully able to apply economic concepts through constant practice using past questions and other assessment materials.

It is essential that candidates focus upon the question set and do not stray into irrelevant material.

Candidates need to develop their data handling skills to the required standard through examination and understanding of appropriate data sources.

Candidates need to be aware of the importance of making evaluative comment where appropriate. This can be emphasised through careful examination of the directive words that are contained in questions.

## General comments

Although the overall knowledge and understanding of the key economic concepts assessed on this paper appeared to be of a good standard some candidates displayed weakness in their ability to apply these concepts to answer the question set. In addition, there was considerable variation in the ability of candidates to provide the required analysis to produce a sufficiently developed answer to the question set. Evaluative comments were on the whole disappointing.

## Comments on specific questions

### *Section A – Data Response*

#### **Question 1**

- (a) Figure 1 showed that output had grown in Iceland over the period while in the Republic of Ireland (RoI) output had fallen. One way in which this could be shown would be a shift outward in Iceland's production possibility curve and a shift inwards in the curve in RoI. An alternative approach was to show a movement from a point within the curve towards the frontier in the case of Iceland and a movement away from the frontier to a point further within the curve in the case of RoI. Both approaches were acceptable and both were used by candidates to gain full marks. Unfortunately, a large number of candidates were unable to apply the concept of the production possibility curve and many failed to score as a result. Many provided a confused diagram that had Iceland and RoI on the axes. Others provided a diagram with the correct changes in the curves shown, but left the axes without any labels. Such candidates missed out on a mark as a result.
- (b)(i) It was disappointing that such a large number of candidates did not have the required data handling skills to gain the mark available here. Since there has been inflation in every year in Iceland between 2007 and 2015, it is evident that the price level was higher in 2015 compared to 2007. Many candidates however failed to distinguish between the general price level and the rate of inflation. Many thought that because the rate of inflation was progressively falling it must mean that the prices were falling and that the general price level was lower in 2015 than in 2007. This is clearly incorrect and these candidates failed to score as a result.
- (ii) This question was generally well answered. Many candidates recognised that the fall in the value of the krona would lead to a rise in the price of Iceland's imports and went on to explain that this could cause cost-push inflation through the impact of more expensive imported raw materials on business costs. Many also explained that the fall in the value of the krona would make Iceland's exports more competitive in foreign markets and that this would be likely to increase net exports leading to demand-pull inflation. A number of candidates were only able to explain cost-push

inflation that was generally better understood than the link between the fall in the value of the krona and demand-pull inflation.

- (c) A disappointingly large number of candidates did not answer the question set here and failed to score as a result. The question asked candidates to explain the factors that determine the impact of the devaluation of a currency upon a current account deficit. Many wasted time describing the process through which a lower currency value would affect the current account and failed to identify the factors that influenced the outcome such as the price elasticity of demand for the country's imports and exports, the time period under consideration or the price elasticity of supply of goods and services in that economy. They failed to score. In addition, some candidates missed out on marks because they did not follow the directive word in the question to 'explain' the factors. Many for example were able to quote the Marshall-Lerner condition, but failed to explain how the values of elasticity would influence the current account, missing out on marks as a result.
- (d) Many candidates seemed unsure of the costs and benefits to an economy of managing its exchange rate. As a result there were many hopeful, but often irrelevant answers provided here. The better answers identified and explained the costs, such as the need to hold large quantities of foreign exchange reserves and the opportunity cost that resulted from this. Others explained that priority had to be given to the exchange rate when setting policy objectives, often at the expense of other objectives such as full employment or economic growth. They then went on to explain the benefits such as the confidence that a managed exchange rate could give to those engaged in external trade. The mark scheme made it clear that full marks would not be awarded to those answers that failed to provide a conclusion. As a result, it was essential here that candidates provided a conclusion on whether the costs outweighed the benefits if they wanted to gain full marks.

## Section B – Essays

### Question 2

- (a) This was the least popular essay of the three options available. It was disappointing that so many candidates had limited knowledge of the role of enterprise in a market economy. There are two aspects to enterprise. One is that enterprise takes the risk of production. This means committing funds in pursuit of profit and accepting that this might mean making a loss. In addition, enterprise is the factor of production that organises the other factors, land, labour and capital, in the production process. As there is an increase in the demand for a good enterprise will commit more factors to the production of that good in the expectation of further profit. This will be represented by a shift to the right of the demand curve leading to a higher price and a movement along the existing supply curve. Many candidates made the mistake of providing a diagram with the correct demand curve shift but they also shifted the supply curve to the right. This gave an unknown impact upon the new equilibrium price. This was not given credit.
- (b) This part of the question was generally answered more successfully. Many candidates recognised that merit goods were under-consumed in a mixed economy because of imperfect knowledge of the benefits of the good. The most popular methods of increasing provision were subsidies, awareness campaigns and direct state provision. These were usually explained well with due reference to the advantages and disadvantages of each. Unfortunately, many candidates did not go on to compare the methods that had been explained in order to assess which was more likely to be effective. As a result, few marks were awarded for evaluation here.

### Question 3

- (a) This was the most popular of the essays available and this part of the question was answered well. There was clear understanding that economists use the concept of cross elasticity of demand to distinguish between substitutes and complementary goods. The formula was used to explain why substitutes have a positive coefficient and complements a negative coefficient. High marks were awarded here.
- (b) Many candidates wasted valuable time here by explaining at great length the full range of values for price elasticity of demand. Inaccurate and largely irrelevant diagrams that were not needed to answer the question set often accompanied these explanations. Some candidates focused upon the usefulness of elasticity concepts in aiding the government when raising revenue through taxes. Again, this approach was irrelevant and failed to score. The better answers focused more closely

upon the requirements of the question and made good use of the concepts of price, income and/or cross elasticity of demand to assess their usefulness to a business when setting the price of a product. As in the previous question many candidates scored poorly for evaluation.

#### Question 4

- (a) This question resulted in many very strong answers that scored well. There was good knowledge and understanding displayed of the distinction between fiscal and monetary policy and there was also successful application to show how both types of policy could be used to increase aggregate demand. Although not essential to score full marks many candidates made good use of aggregate demand and aggregate supply curves to illustrate their answers.
- (b) Although most candidates provided a clear explanation of how fiscal policy could be used to deal with inflation many were unable to provide an equally successful explanation of supply-side policy. There were many examples of the policy instruments that are considered as supply side measures, but it was not always clear how these might be used deal with inflation. The instruments of supply-side policy were often described, but the overall aim of the policy when an economy was faced with inflation was often absent. This weakness in these approaches also undermined the candidates' assessment of which policy was more likely to be successful and low marks were often awarded for evaluation as a result.

# ECONOMICS

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

## General comments

Some candidates produced strong scripts that were awarded with a high mark though many candidates seemed unprepared for an examination at this level. Some clearly had gaps in their knowledge and understanding. In addition, some candidates left analysis incomplete and undeveloped and many had limited examination technique. Marks awarded for evaluation were often disappointing.

## Key messages

- It is essential that all parts of the syllabus be covered in sufficient depth to ensure that knowledge and understanding is complete. Gaps in knowledge and understanding undermine the ability to answer all aspects of the question set and will result in lower marks.
- Candidates need to read each question carefully and consider the directive word to ensure that the requirements are understood and the answer to each question set is appropriate.
- Analysis should be developed and have sufficient depth to provide detailed explanation of the issues raised in each question as required.
- Candidates need to be aware of the importance of making evaluative comment where appropriate. This can be emphasised through careful examination of the directive words that are contained in questions.

## Comments on specific questions

### **Section A – Data Response**

#### **Question 1**

- (a) (i) This question was answered well. Most candidates could see that figure 1 showed that the Kwacha had depreciated over the period. Most gained the single mark available.
- (ii) Candidates were required to explain the link between the slowdown in China and the decline in the value of the Kwacha shown in figure 1. This required candidates to explain the impact of China's slowdown upon their demand for the import of minerals in general and the resulting fall in Zambia's export of copper. They then needed to go on to explain how this would lead to a fall in the demand for the kwacha in the foreign exchange market that would cause downward pressure on the value of the kwacha. Most candidates were able to provide some explanation of this process, but often the explanations were left incomplete. Although most could link the slowdown in China with the fall in the demand for Zambia's export of copper, some did not develop their answers sufficiently to examine the impact upon the demand for the kwacha in the foreign exchange market and missed out on marks as a result.
- (iii) Some good answers were provided here. Given the context of the case study, a fall in the value of the kwacha would be likely to lead to cost-push inflation as the price of Zambia's imports would rise. This would lead to higher business costs and a higher cost of living for households as the price of imported foodstuffs would increase. It was also possible, that the fall in the value of the kwacha would lead to demand-pull inflation as the price of Zambia's exports fell and net exports rose leading to a rise in aggregate demand and demand-pull pressures. Both approaches were given credit. A relatively large number of candidates were unable to link the material in the case study to their understanding of the causes of inflation. They scored poorly as a result.

- (b) Most candidates had the required knowledge and understanding of aggregate demand and were aware of the impact of a fall in China's demand for copper on each component. The directive word in the question however was, 'explain' and many candidates missed out on marks because although they identified the impact, they did not go on to explain it. Many for example stated that the fall in the demand for copper would lead to a fall in investment expenditure, but they failed to explain why this would happen. Only a brief explanation was required. If the candidate had explained for example, that a fall in the demand for copper had resulted in a lower price and as the prospects for profit were now lower entrepreneurs would be less willing to invest, this was sufficient explanation for the mark available.
- (c) This was answered poorly by a large number of candidates many of whom failed to grasp the requirements of the question. This was because they failed to identify any economic theory that might be relevant to the question and as a result they failed to progress to develop their answers fully. The theory of comparative advantage explains the benefits of specialisation to an economy. It was expected that candidates would use this theory to consider whether specialisation or diversification was more likely to be effective in tackling Zambia's problems. The lack of reference to economic theory undermined candidates' attempts here and marks were generally disappointing as most candidates gained only a few marks for points of incidental relevance.

### **Section B – Essays**

#### **Question 2**

- (a) This was the most popular of the three essay choices available and the first part of the question was answered well by many candidates. Many displayed confusion in their understanding of the central economic concept and missed out on marks as a result. Some for example, confused the income elasticity coefficient of an inferior good with that of a price inelastic good. They stated that an inferior good had a coefficient of less than one rather than below zero. Such confusion and other similar errors displayed a lack of thorough understanding.
- (b) A number of policies are available to businesses to increase sales when incomes are falling. If they are producing normal goods they could for example, increase advertising of their products to shift the demand curve to the right and offset the impact of the fall in incomes. Alternatively, they could shift production from normal goods to inferior goods. These goods would be experiencing an increase in demand and so sales would increase. They could also cut prices to increase sales. Whether these policies are likely to be successful depends upon a number of factors specific to each policy. These factors needed to be assessed and compared to reach a conclusion over which policy was most likely to be successful. This was necessary to score marks for evaluation. Many candidates failed to do this however and only limited marks were awarded for this higher-order skill.

#### **Question 3**

- (a) Only a small number of candidates attempted this question and responses were generally weak. Many of those who attempted the question failed to recognise that profit was the reward to enterprise for allocating resources to production. The two functions of enterprise are to bear the risk of production and to organise and manage the other factors, land, labour and capital and profit is the reward for this. Very few candidates explained the role of profit and the price mechanism with sufficient clarity. Marks were on the whole poor here.
- (b) Many candidates answered this part of the question more successfully. Some good analysis was provided to explain the way in which resources are allocated in each type of economy with due reference to the strengths and weaknesses of each approach. It was then necessary to assess and compare the two types of economy to reach a conclusion concerning which type of economy allocated resources more effectively. Unfortunately, as with the previous question the marks awarded for evaluation were generally quite poor.

#### **Question 4**

- (a) There was good knowledge and understanding of the functions of money displayed here, although some candidates provided lengthy and descriptive accounts that were not necessary. Some went on to explain very successfully how all four of the functions of money would be affected when there is a high rate of inflation. Some responses were a little uneven however and ignored the impact of

high inflation upon some of the functions of money that had been explained, missing out on marks as a result.

- (b)** Although most candidates displayed good knowledge of the instruments of monetary policy and provided excellent analysis of the way in which it can be used to correct inflation, explanations of the way in which monetary policy might correct deflation were less thorough. Some candidates explained that in order to solve the problem of deflation interest rates and the foreign exchange rate should be reduced and the money supply increased, but there was only limited development of the analysis to explain how these measures might operate to offset deflation. It was clearly necessary to consider whether monetary policy would be successful in the case of both rising and falling prices. Once again evaluative comment was generally absent however and few provided a conclusion. Low marks were awarded for evaluation as a result.

# ECONOMICS

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

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>B</b>	16	<b>A</b>
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13	<b>D</b>	28	<b>A</b>
14	<b>D</b>	29	<b>B</b>
15	<b>D</b>	30	<b>C</b>

## Key messages

Candidates should ensure they have understood the details of the question before choosing their answer.

## General comments

The questions for which most candidates selected the correct answer were **Questions 2, 3, 5, 9, 12, 14, 16, 23, 25, 27 and 28**. 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 **Questions 10, 18, and 24**. These questions were answered correctly by fewer than 33 per cent of the candidates.



**Comments on specific questions**

**Question 10** was answered correctly by 30 per cent of the candidates, who chose the key **A**. 22 per cent chose option **B**, 31 per cent chose option **C** and 17 per cent chose option **D**. The shape of the average variable cost depends upon the shape of the average product curve. When average product ceases to rise and begins to fall (its maximum point), then the average variable cost will cease to fall and begin to rise (its minimum point).

**Question 18** was answered correctly by 19 per cent of the candidates, who chose the key **A**. 29 per cent chose option **B**, 35 per cent chose option **C** and 17 per cent chose option **D**. It is not possible to know how many voyages were made (option **B**), nor whether the ships were used and thus calculate the productivity (option **C**). The total capacity of the ships (option **D**) did not fall continuously; it rose between 2011 and 2012.

**Question 24** was answered correctly by 20 per cent of the candidates, who chose the key **B**. 21 per cent chose option **A**, 30 per cent chose option **C**, 29 per cent chose option **D**. A recession can be represented by a fall in GDP for at least two consecutive quarters. Any positive growth in GDP would mean that GDP was rising, even if that growth was not as rising as fast as in the previous quarter. There were three occasions when the change in GDP was negative for at least two consecutive quarters.

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

# ECONOMICS

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Paper 9708/32  
Multiple Choice

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

## General comments

The questions for which most candidates selected the correct answer were **Questions 1, 3, 6, 8, 11, 14, 17, 18, 19, 20, 23, 24, 25, and 26**. 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.

There were only two questions which were answered correctly by fewer than 50 per cent of the candidates. These were **Questions 9 and 29**.

**Comments on specific questions.**

**Question 9** was answered correctly by 33 per cent of the candidates, who chose the key **A**. 35 per cent chose option **B**, 15 per cent chose option **C** and 18 per cent chose option **D**. The most relevant option is **A**. A low minimum efficient scale of production would enable a small firm to operate. Division of labour (option **B**) is more likely to require a larger firm, as is diversification to reduce risk (option **C**). Separation of ownership and managers or decision makers would be less likely to apply to smaller firms.

**Question 29** was answered correctly by 47 per cent of the candidates, who chose the key **C**. 12 per cent chose option **A**, 32 per cent chose option **B** and 10 per cent chose option **D**. An increase in indirect tax would be likely to cause a rise in the price of goods sold on the market, including imported goods. This would tend to reduce demand, including that for imports, but may increase the overall rate of inflation.

# ECONOMICS

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

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

## General comments

The questions for which most candidates selected the correct answer were **Questions 2, 5, 8, 11, 13, 14, 15, 18, 20, 23** and **25**. 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 **Questions 6, 12, 24, 28** and **30**. These questions were answered correctly by fewer than 30 per cent of the candidates.

**Questions 13, 15** and **22** were also answered incorrectly by some, but not all, of the candidates who did well on the test overall.

## Comments on specific questions

**Question 6** was answered correctly by 26 per cent of the candidates, who chose the key **C**. 3 per cent chose option **A**, 50 per cent chose option **B** and 21 per cent chose option **D**. If there is unit price elasticity, then the total revenue from the sale of the product remains the same. Marginal revenue must, therefore, be zero.

**Question 12** was answered correctly by 29 per cent of the candidates, who chose the key **D**. 29 per cent chose option **A**, 18 per cent chose option **B** and 24 per cent chose option **C**. The kink in the demand curve occurs because firms are reluctant to raise the price lest other firms do not do the same, and are reluctant to lower the price because they fear a price war will start and their revenue will not necessarily increase. This is what was expressed in option **D**.

**Question 24** was answered correctly by 24 per cent of the candidates, who chose the key **D**. 66 per cent chose option **A**, 3 per cent chose option **B** and 8 per cent chose option **C**. The question asks which is most likely to lead to economic development. It is likely that a developing country will have a labour force which is not all employed. An expansion of labour-intensive industries would increase the level of employment and thus increase economic development. Migration from rural to urban areas (option **A**) does not necessarily guarantee employment, nor economic development.

**Question 28** was answered correctly by 24 per cent of the candidates, who chose the key **C**. 26 per cent chose option **A**, 24 per cent chose option **B** and 26 per cent chose option **C**. Such a distribution of choices would indicate that candidates were guessing the answer. Maybe this was because the question is at the end of the paper and they were short of time. Option **C** indicates that there were unused resources which would mean a policy of expansion would not necessarily lead to inflation or the economy to become destabilised.

**Question 30** was answered correctly by only 3 per cent of the candidates. 63 per cent chose option **A**, 16 per cent chose option **B** and 18 per cent chose option **D**. Recently, in many economies, there has been a move away from centralised planning and government control towards a more market orientated system. The question asked which option had been least associated with growth in economies in recent years. The key, **C**, represented the opposite of what has happened and so was least likely to have occurred.

# ECONOMICS

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

Essay questions test all four of the Assessment Objectives, so candidates will achieve better marks through relevant analysis, examples and application to the specific situation, as well as evaluation – and not by simply showing further points of knowledge and understanding from the syllabus.

Careful reading of the details will help candidates apply their analysis to the specific situation in a question, rather than writing at a tangent to the question.

Evaluative and discussion questions always need a ‘conclusion’ or a statement indicating what the candidate believes.

All diagrams, if used, require a narrative explanation.

## General comments

There were some clearly reasoned and well-structured answers to this paper.

Candidates were able to develop their answers with relevant examples either from their own locality or from their knowledge of the general media.

Unfortunately, some candidates did not direct their answers precisely enough to the question asked. For example, in **Question 7**, they gave an answer that explained what efficiency meant but did not consider whether the lack of efficiency was due to government intervention. Thus they did not always achieve as high a mark as their knowledge could have allowed because their emphasis on the question was misdirected.

In **Question 4**, candidates sometimes explained the theory of wage determination but did not present a conclusion about whether the theory was only applicable to an idealised market situation. Questions asking candidates to discuss a proposition usually require a judgement or 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.

Most candidates, when using diagrams, presented them in a clear manner. As in the past, there were some candidates whose diagram appeared rushed and was placed a corner of the page, or it was so small that the intersection of the lines was not possible to determine accurately. Some did not label the diagram properly. Some were presented with little comment on their meaning or without labels on the curves. This is a pity as candidates require no further knowledge to increase their mark but only a better presentation.

## Comments on specific questions

### **Section A – Data Response**

#### **Question 1**

- (a) This question did not present a problem for most candidates who were able to state that a cartel is a group of companies/countries acting together who sell the same product to fix output and prices.
- (b) Similarly, this section was also well answered with reference to the market leader, the percentage of the world supply and the evidence that output was kept constant from Figure 1, and the aim of fixing prices.

- (c) The weakness in the answers to this question was that candidates either did not refer to the figures at all, or referred to Fig. 1 and commented on the fall in demand for oil in 2008 – 2011. Better responses explained that the text said that output has increased in 2013/14 and that Fig. 2 related to this period. On a demand and supply diagram this would be shown as a shift of the supply curve to the right and a fall in price. This was consistent with the information in Fig. 2. Many omitted to state whether the text was consistent with the figure.
- (d) Candidates could have commented that in the short run the US has reduced its dependence on OPEC's oil supplies. This reduced its imports and enabled the US to begin to export oil resulting in an improved balance of trade. The increased earnings in the US led to increased consumption with a multiplier effect on the economy.

In the long run, however, the cost of oil production through fracking was said to become higher (with very expensive equipment) so costs may well be higher than the world oil price. This was why Saudi Arabia wanted to allow the price of oil to fall. There was also internal opposition to fracking (it was said to cause negative externalities) and the environmental lobby was keen to reduce supplies.

## Section B – Essays

### Question 2

- (a) This question required candidates to discuss the derivation of a demand curve using both the utility theory and indifference curve theory. Candidates who attempted this question were more able to show the link between demand and utility than between demand and indifference curves. In the explanation of utility candidates sometimes described marginal utility and the idea of diminishing satisfaction but did not relate that to price or to the equi-marginal principle of consumer equilibrium.

The indifference curve diagram does not plot price against demand. It shows the demand for two products. There needs to be a separate diagram linked to the indifference curve diagram which has price on the vertical axis and demand on the horizontal axis.

- (b) Inferior goods would result in a different outcome when prices change from the outcome occurring for a normal good, but this outcome does not invalidate the underlying assumptions of the theory of maximising satisfaction. Indifference curve theory can show more precisely why the different outcomes occur using income and substitution effects. Candidates sometimes thought that the only type of inferior good was a Giffen good that results in a fall in demand when the price falls. Inferior goods have a fall in demand caused by the income effect but, unless they are also a Giffen good, the resulting change in demand for a price fall will still be an increase. It would not be as large an increase as a normal good.

Advertising does not necessarily invalidate the theory either. It could be that persuasive advertising results in more being purchased at a higher price. This could still be explained using the theory. Utility could be perceived as changing which might be shown on an indifference curve as a change in the shape of the curve. The underlying assumptions are still valid.

### Question 3

- (a) This question required a description of the transactions, precautionary and speculative with a suggestion as to the most important. Candidates were usually able to explain the three motives but many omitted to state which of the three they considered to be the most important.
- (b) This question required a discussion of the theory that low interest rates encourages borrowing and spending. This in turn enables an increase in production and employment. Higher interest rates deter borrowing, Higher than expected inflation could result in a rise in interest rates to stop prices rising further because of pressure from demand. The links between interest rates, borrowing, spending and investment were presented well by the majority of the candidates who attempted this question.

### Question 4

This question was mentioned in the general remarks above. It was hoped that candidates would comment on the fact that in the factor market there may be a precise outcome in perfect competition but that wages are

not solely determined by supply and demand when there is imperfect competition. The alternative influences on wages should then have been discussed. These would involve an analysis of how the outcome may be changed in the imperfectly competitive model to accommodate trade unions and the government. The crucial element of the question was whether there could still be a precise outcome when trade unions and the government are included in the theory.

#### Question 5

- (a) This section had two elements. First, candidates were required to explain the characteristics of developing countries. They could do this by commenting on GDP, industrial/agricultural structures, infrastructure, distribution of income, trading position, role of exports/imports or social indicators such as housing, health and education. The second part of the question required candidates to suggest how an increase in population might have an effect on these indicators and on the country's resources. Some candidates omitted this latter part, others made only very brief mention of population.
- (b) There were some good answers to this section with a discussion of government initiatives that involved health programmes, education programmes, income re-distribution or structural change. These could be achieved through government spending, borrowing, taxation, supply-side policies, the encouragement of multinational investment or foreign aid.

#### Question 6

- (a) This was a very popular question which was well answered. Candidates gave clear explanations of macroeconomic aims with relation to price stability, balance of payments, exchange rates, employment and income distribution.
- (b) It was expected that candidates would discuss the link between investment and national income via the multiplier, but also between income, demand and investment by the accelerator. They could have commented on the possible differences in outcome due to differing injections or leakages. They could also have mentioned the possible effect on prices rather than output of changes in investment.

#### Question 7

This question required candidates first to give an explanation of the meaning of efficient allocation with an analysis of how an efficient optimum may be reached. The distinction between productive and allocative efficiency should have been included. There should then have been a discussion of the reasons for market failure and necessity/desirability of government intervention to achieve efficiency. This could be by enforcement, by taxation, by subsidy but also by persuasion (nudge theory) rather than by enforcement. Candidates were usually able to give clear explanations of efficiency and a discussion of market failure. The discussion included comments on merit goods, demerit goods, public goods, externalities and lack of information. Many candidates did not consider the aspect of the question that stated that the lack of efficiency is not due to market failure but to government intervention. They tended to presume that once a government was involved in resource allocation then all the inefficiencies would be eliminated.



# ECONOMICS

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**Paper 9708/42**  
**Data Response and Essays**

## Key messages

Candidates generally demonstrated that they understood the relevant theory but failed to fully develop the analytical aspects of the question or to apply it to the context of the question. The best answers were able to articulate the analytical aspects within the context of the question.

Many questions contained the command word 'discuss' or 'consider'. These 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 before they begin to answer the question. This will enable them to identify the full breadth of the question and respond appropriately. This is especially true of the questions without sub-divisions.

## General comments

Many answers were again of a high standard in response to the questions. The common shortcomings were the same as in previous examinations, but they are worth repeating.

There were badly drawn, inaccurately labelled diagrams, and even some perfectly presented diagrams without any reference to them written in the essay.

Some candidates also presented rehearsed answers that did not match the question which they were attempting to answer.

A number of candidates wrote at great length. In many examples these responses were poorly directed towards the question set. These remarks, however, should not detract from the impression that the standard of response was high. Candidates who can produce a relevant, concise and well directed answer will always be fully rewarded.

## Comments on specific questions

### *Section A – Data Response*

#### **Question 1**

- (a) Many candidates were able to explain the linkage between increases in the money supply, the effect on US inflation, demand for exports/imports and the exchange rate or through the effect on relative interest rates and capital flows. Some candidates reversed the logic of the question.
- (b) Candidates were required to identify a supply-side policy and explain the link between supply-side policy and increases in aggregate supply and to identify how quantitative easing increases the money supply and the impact of this on aggregate demand. Candidates were usually able to identify the relevant policies and correctly link them to aggregate supply and aggregate demand.
- (c) This element of **Question 1** was generally answered well. Candidates described the changes in population, the oil price and GDP (without merely repeating the data) and explained how that might impact on the investors' decision making.

- (d) The best answers recognised that this required an examination of the points of view of both the Finance Minister and Companies and Pension Funds and produced a balanced response. This allowed them to access the full range of marks. Many candidates produced answers which identified with only one side of the argument or failed to refer to the information presented in the response material.

### Question 2

This question was one of the least popular choices on the paper. It required a candidate to explain the meaning of an indifference curve and the budget line and how the two link together to form the level of demand for a good or service. Most candidates completed this part of the question successfully. To construct a consumer demand curve candidates were required to show the effect of a change in price of one good, and through the indifference curve analysis to produce a downwards falling demand curve. Few candidates completed this element of the question. The candidates which went on to discuss the changes in choice did so with greater success in the change in choice associated with price reductions and luxury goods showing income and substitution effects. In the case of advertising candidates failed to explain that the rate of substitution between goods changes and therefore the slopes of the indifference curves change. Few candidates managed to show the effect of this.

### Question 3

- (a) Many candidates wrote good answers on the theory of price discrimination, identifying the, differing elasticities and the separation of markets as key requisites and identified its relationship with a monopoly supplier. Only the best candidates were able to apply the same level of theoretical understanding to price leadership and thus the higher marks on this part were rarely achieved.
- (b) The better answers explained how the profit maximising output was achieved and the reason for pursuing such an objective. They then went on to explain a range of limitations to this objective. Those who went on to explore alternative objectives of the firm, for example, sales revenue maximisation, satisficing or survival within a relevant context were amply rewarded.

### Question 4

This was the second most popular question.

- (a) All candidates were able to distinguish between the transaction, precautionary and speculative demands for money. How successful candidates were depended on their depth of understanding. Transaction and precautionary demand were explained in some detail by almost all candidates. It is the speculative demand which differentiates between the better and best candidates. Candidates need to be able to identify and explain the inverse relationship between the rate of interest, the price of assets and the demand for money to gain the highest marks.
- (b) Candidates produced a range of responses which at their very best included an examination of the marginal revenue product (MRP) of workers, the strength of the trade union and the nature of market competition in the industry to produce a comprehensive answer. Weaker responses omitted one or more of these three elements. Candidates' responses to this type of question are improving. However, many candidates do not offer an explanation of the MRP of wages and merely state wages are determined by MRP. A full explanation of MRP requires an understanding of diminishing returns and its effect on marginal physical product (MPP). The combination of MPP and the average revenue or marginal revenue from the sale of the output is needed for completeness.

### Question 5

This was the least popular question on the paper. Candidates who did answer it fell into two categories. Some candidates had clearly understood the question correctly and proceeded to explain the theory which linked a fall in interest rates to a change in GDP through the money transmission mechanism, its effect on investment and consumption and the relevance of the multiplier effect. Better answers explained how the liquidity trap could impair the logic. Only a few candidates then looked at their response in terms of its practical relevance. The weakest answers provided very descriptive accounts of parts of the links.

### Question 6

- (a) Better responses recognised that the policies employed reflected the nature of the underlying economic structure of developing and developed economies. Where the economy and population was largely rural this was where development was needed and vice –versa for developed economies. Candidates support their answers with descriptions of the developing-developed divide. In the case of the weaker responses, these did not develop much further than a description of developing and developed economies.
- (b) Most candidates provided an explanation on quantitative GDP data with allowances made for inflation and population change. It was the nature and extent of their criticism of this measure that determined the overall quality of their answers. Some went on to suggest alternative measures to GDP and in this case answers needed to explain why, for example, Human Development Index was a better measure and how it was qualitative rather than quantitative. Other explained qualitative aspects of life which were not captured by GDP such as freedom or pollution. Answers which comprised of all three approaches gained the highest marks.

### Question 7

This was the most popular question.

- (a) The central element of the question was that any form of competitive market may bring benefits that a monopolised market did not. Good answers recognised this and concentrated on a wide range of benefits which flow from differing forms of competition. Weaker answers discussed the equilibrium positions of perfect competition and monopoly and thus provided a restricted response.
- (b) Candidates who recognised the broad nature of this question gained the higher marks. They saw that not only was an explanation of allocative and productive efficiency required but the answer also needed to develop to include a wide discussion of the ways in which market failure does occur. Once again the distinguishing feature between good and poor responses was the sustained depth of the answer combined with breadth of understanding shown.

# ECONOMICS

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**Paper 9708/43**  
**Data Response and Essays**

## **Key messages**

Candidates should not spend more time than is necessary, given the number of marks available, answering the Data Response question as this will limit the time available for Section B.

The use of local examples or illustrations is to be welcomed. These need, however, to be supported by theoretical analysis which shows that the candidate is directing their answer to the question asked.

All curves on a diagram should be labelled and candidates should make sure that any changes in the curves are clearly drawn and carefully explained in the narrative accompanying the diagram.

## **General comments**

The responses from the candidates this summer were similar to the responses that were received last summer. As last summer, the answers to Section A were better than the answers to Section B. Candidates were able to direct their attention to the material given in the introduction to the question paper.

There were some good answers to Section B but most of them were very brief. Quite often they were anecdotal and contained general descriptions with little analysis.

Sometimes the candidate could have gained more marks by using the diagrams drawn to greater advantage. Quite often the diagram was not explained at all, or poorly labelled or drawn so small on the edge of the page that it was difficult to interpret.

There were fewer candidates this year who answered only one section of the question where two sections were asked, and fewer who did not answer the required number of questions.

## ***Section A – Data Response***

### **Question 1**

This question concerned the level of pay and the rate of inflation.

- (a) Most candidates were able to answer this question and saw that the reasons given for the differential in the increase in pay were that there were no bonuses in public sector while the private sector had bonuses which increased the differential. They also saw that it was government policy to control the rise in pay in the public sector as part of the policy of controlling the economy.
- (b) Most candidates misunderstood the information on the chart in Fig. 1. The chart shows percentage changes. As long as the percentage change is positive there would be an increase in the indicator in question. If the percentage is falling then the indicator, (pay or inflation), would be increasing at a slower rate than previously but it would still be increasing. Some candidates understood this and gave succinct and clear explanations.
- (c) The evidence that the company could use to oppose the demand for a wage increase included the fact that wages were always rising, that in 2015 wage growth was higher than inflation, that the rate of inflation was often falling, that productivity was down while employment had increased. Also oil sales were down. About half of the candidates were able to find these points in the information.

- (d) It was hoped that candidates would comment on the effect of inflation and the rate of growth of total pay on aggregate demand, on consumer expenditure and thus on GDP. Candidates could also have mentioned the effect of domestic inflation and pay rates on international competitiveness.

## Section B – Essays

### Question 2

Very few candidates answered this question. It was hoped that candidates would give an explanation of the meaning of efficient allocation and an explanation of the analysis which ensures an efficient optimum may be reached. They should have drawn a distinction between productive and allocative efficiency. The discussion could have involved comments on the idea that individual actions are not always best for society as a whole. There could have been an elaboration of the reasons for market failure and the necessity/desirability of government intervention to achieve efficiency. This could be by persuasion (nudge theory) rather than by enforcement. It could also be by demand side or supply side measures.

### Question 3

- (a) This section involved an explanation of utility with a comment on the assumption of given tastes and income. The answer should have then related demand to price, determined the consumer's equilibrium point and the quantity purchased. Lastly the answer should have shown how that equilibrium point might have changed as a result of changes in price, and thus how a demand curve is formed. Those candidates who attempted this question were able to explain most of this and thus show the construction of a demand curve.
- (b) Sadly, this part of the question was not well answered. A decrease in sales tax lowers price. On an indifference curve diagram it will be represented by a shift in the budget line. As the tax reduction applies to all goods the budget line will shift outwards. Both goods will have their prices reduced and consumers would be able to buy more of both goods. The budget line would not pivot from one point on the axis for one of the goods. What then happens to demand for an inferior and a normal good would depend on the strength of the income effect.

### Question 4

- (a) This question required an explanation of the terms diminishing returns and economies of scale with a clear mention of the short run for diminishing returns and the long run for economies of scale. It also required a comment on the link between diminishing returns/marginal cost and marginal revenue. The explanation could have commented on the possible increases in profit in the long run if there are economies of scale from expansion. Most candidates who attempted this question did not distinguish between the short run and the long run and confused the two terms.
- (b) This question required an analysis of perfect competition and of monopoly and a discussion of the theory of price/output decisions by firms in these markets. It is likely that price would be higher, output lower and profit higher in monopoly than perfect competition – unless economies of scale allow a reduced price in long-run monopoly. Candidates were able to give general descriptions in answer to this question but the diagrams presented were, unfortunately, often inaccurate or poorly labelled. They detracted, rather than added to, the narrative in the answer.

### Question 5

This question required an analysis of the difference between perfectly competitive factor markets and imperfectly competitive factor markets. Wages may be increased by unions in imperfect markets without decreasing unemployment as long as the increase in wage rate does not cause the wage to rise above the point where the marginal cost of an extra worker is equal to the marginal revenue obtained from that worker. Beyond this point, higher wages will result in a decrease in employment. This question was not popular and those who answered it were not necessarily able to explain that an increase in wages might sometimes occur with no reduction in employment but that sometimes an increase might indeed lead to a fall in employment as postulated in the question.

### Question 6

- (a) This was a popular question and candidates were able to explain the meaning of economic growth in terms of an increase in output or a shift in the production possibility curve in a given time period.

They were also able to comment on the nature of a developed country using some of the following indicators; employment structure, average income level, relatively few poorer people, advanced technology, good infrastructure, high level of skill in the workforce, good social structure, trading position, role of exports/imports and population structure.

- (b) Most candidates who answered this question concentrated on the beneficial nature of economic growth with reference to employment, incomes, increases in aggregate demand or international competitiveness. They did not often mention the possible pressure on price increases, or the detrimental environmental effects of economic growth in terms of externalities or resource depletion.

#### Question 7

- (a) Candidates could have commented on the relative worth of using GDP as an indication of the standard of living. It is not a reliable indicator and has weaknesses. The weakness of using GDP can be partly overcome by using real GDP per capita (which accounts for changes in prices and population) but this still omits social issues – education, health, sanitation, working hours. Neither does it include unpaid work, the informal economy, the quality of goods, the range and types of goods available, the long run versus short run, environmental issues, the distribution of income and sustainability. These qualitative factors are considered with other indicators. Candidates gave brief comments about the problems of using GDP mainly in terms of changes in prices and population but with little reference to qualitative factors.
- (b) This question required a distinction between monetary and fiscal policies and a comment on how changes in taxes and expenditure may affect income and the provision of facilities and how those changes might influence the standard of living. Some candidates muddled fiscal and monetary policy and few were able to develop the link from such policies to changes in the standard of living.