ECONOMICS

Paper 9708/01
Multiple Choice (Core)

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

General comments

The entry rose from 5334 to 6068 candidates. The mean mark rose from 16.37 to 16.57, while the standard deviation widened to 5.59. 26 candidates gained full marks, a significant improvement on the previous year. **Question 3** proved easier than the test design limit and **Question 10** proved more difficult. Overall there was a slight improvement in performance.

Comments on specific questions

Candidates showed good understanding of the ceteris paribus application in **Question 3.**

The ability to distinguish between a shift in a demand curve and a movement along a demand curve in **Question 5** was evident with most candidates. This is not usually done so well when candidates undertake analysis in essay answers.

Question 10 proved to be the most difficult question. 50% of answers selected an option which included a rise in the price of a good in joint supply when there was an increase in demand for the original good. In fact, more of the original would be produced to meet the increased demand so the extra supply of the good in joint supply would cause a fall in its price.

More candidates selected option C than the correct option B in **Question 14**. External benefits (correct option B) had to exceed $100 m or the project would not have gone ahead because it would not have been socially beneficial. Option C was wrong because external benefits did not have to exceed external costs: it was sufficient that they were more than $100 m.

It was surprising that the majority of candidates selected option B in **Question 20**. Since the country's exports are sold in markets outside the country their competitiveness would not have been directly improved by a price change in the domestic market. On the other hand, foreign suppliers would have tried to keep their prices down after the imposition of the tariff to remain competitive.

Increases in capital are expected to raise productivity. This was the correct option B in **Question 24.** Option C, chosen by 43% of candidates, would reduce the incentive for workers to work harder and produce more.

Candidates overlooked the cumulative effect of annual % increases in price levels in **Question 25**. A 4% increase in the second year would contribute more than 4% of the original price level and this would be repeated in the third year, so resulting in a more than 12% rise over the whole period (option B).

Question 26 produced an unexpected response, with the largest group of candidates opting for D. An increase in taxes on imports would raise inflationary pressure not reduce it. On the other hand, an increase in labour productivity (option C) would increase the supply of goods.

ECONOMICS

Paper 9708/02
Data Response and Essay (Core)

General comments

Given the improvement in performance in some recent years, it was disappointing to see a significant number of candidates who struggled with the paper and that fewer scored very high marks.

Three elements are particularly worth comment:

- Candidates must be sure that they are answering the question set and that they do not lose relevance by diverting into areas of the topic with which they feel more confident.
- They should avoid a 'write all you know' approach.
- Cause and effect must not be confused. Teachers would help candidates by stressing the difference between them when revising past data response and essay questions.

Effective answers are based on a sound and logical structure, which can often be achieved by definitions of key terms, analysis supported by diagrams and the presentation of a case for and against the issue being discussed.

In terms of the questions on the paper for this session, the data response proved difficult, with considerable confusion on the workings of exchange rates. Question 4 attracted relatively few candidates.

Comments on specific questions

Section A

Question 1

The data response examined the two-way relationship between the current account and the exchange rate in the context of US trade. The performance of candidates was less impressive than previous essay answers on these topics might have led us to expect. Candidates are urged to remember the instruction for brief answers only in Section A.

(a) (i) The majority of candidates were well able to produce an acceptable summary of the performance of the US current balance. The typical answer identified the cycle from surplus through to deficit, although few used the term. Long descriptive answers, which have been common in some years, were relatively rare.

(ii) The question referred to the finance available to cover a current account deficit. A significant number of candidates wrote instead about policies to **cure** a deficit, which is a quite different issue. Successful answers started by identifying the deficit and then referred to aspects of the capital or financial accounts which would offset the current deficit. Common answers referred to reserves of foreign currency and borrowing from international financial institutions. The difference in the role of the IMF and World Bank was not always understood. Some candidates made the error of suggesting items which are recorded within the current account and so would not be a source of finance for this purpose. The existence of a deficit was not always identified.

(b) It was disappointing that some candidates believed that a depreciation of the currency would result from a surplus. It is possible that they were confused with the factors that might have caused the surplus in the first place. The influence of increased demand for the currency to buy the country's exports was mentioned more often than the reduction in supply from the low demand for imports. Some supported their reasoning with a diagram. Too many candidates overlooked the need to 'explain', and stopped at an assertion that there would be an appreciation. Those who tried to

answer from the figures were usually unsuccessful. Those answers that showed the later effects of the appreciation went beyond the wording of the question.

(c) (i) This was the highest-scoring section, where candidates worked through price changes to revenue changes to a current balance outcome. Some omitted to consider the import element. A surprising number of answers opted for a deficit without making clear the assumptions underlying such a result. Some imprecise use of the term 'value' made it difficult to be sure of the candidates' intention in using the word. Price or revenue would have been clearer. Stronger answers went beyond the basic process and mentioned Marshall-Lerner conditions or the J-curve effect.

(ii) This proved to be a difficult task for candidates. Errors included misreading the direction of the exchange rate movement (despite the labels on Fig. 2), considering the influence of the current account on the exchange rate rather than vice versa, and generalising the outcome for the whole period rather than parts of it. Weak answers got no further than describing the behaviour of the exchange rate. Better answers referred to particular limited time periods which did or did not reflect the relationship. The strongest answers even considered the possibility of a time lag. For those candidates who had made a mistake in **(c)(i)** an own figure rule was applied, although this rarely earned much additional credit. Some candidates did not attempt this part.

(d) Too many candidates wrote at length about alternative exchange rate systems and the method of fixing an exchange rate rather than about the advantages and drawbacks associated with the adoption of a fixed rate. Thorough answers were quite infrequent, although adequate ones recognised the advantages of exchange rate stability for trade and investment and the problem of an adequate level of foreign currency reserves. Answers that approached from the strengths and weaknesses of floating systems were also acceptable, while combinations of the two approaches were usually more persuasive. There was some confusion between the meaning of investment and speculation. Some mistakenly considered that fixing the exchange rate would automatically solve a trade deficit. Arguments based on managed flexibility rather than totally fixed rates were acceptable. Details of different exchange rate systems were not required, while some candidates did not recognise that 'fix' had a precise technical meaning.

Section B

Question 2

The question concerned the setting of an equilibrium price and the relevance of demand elasticity to the effect of price and income changes on levels of revenue. It was the most popular question.

(a) Candidates were familiar with the condition needed for an equilibrium price to exist and how this was shown in a diagram. They were also able to write correctly about the impact of changes in demand and supply on price, although some did not offer possible reasons behind the changes. There were, as usually happens, candidates who muddled the distinction between a shift in the curve and a movement along the curve. The weakness in some answers was to ignore the process by which the responses of consumers and producers interact to bring about a stable equilibrium. One successful approach was to consider the outcome of disequilibrium in the market and price and the stages which then would re-establish equilibrium. Government action in introducing maximum or minimum prices was not accepted as an influence as it would not result in an equilibrium price.

(b) Most responses started with clear definitions of price and income elasticity of demand. Among those who offered the formula were some who inverted the components. While 'elastic' was usually clarified, few stressed the significance of 'highly elastic' in terms of the more marked degree of responsiveness. The impact on revenue of price and income changes with highly elastic products was dealt with competently. Surprisingly, some candidates omitted the final step of the impact on revenue after correctly analysing the effect on the quantity demanded. Time was sometimes wasted in carrying out the same exercise for inelastic and unit elastic goods. The strongest answers discussed the importance of the nature of the good (normal, superior, inferior, necessity or luxury) for the outcome. Income elasticity was often dealt with in greater detail than price elasticity.

Question 3

Resource allocation in a market economy and the effects of the introduction of an indirect tax were the themes here. The question was slightly less popular than Q.2 but produced the highest-scoring part in **(b)**.

(a) The nature of a market economy was understood, although the motivation of the different agents was not always made explicit. Candidates tended to take the concept of resources for granted rather than clarifying it. Answers often lacked detail on the means by which change in consumer demand transmitted itself to reallocation of resources between alternative forms of production. Some candidates were expecting a somewhat different question and went into great detail on efficiency in allocation and the different classifications of goods without establishing the more basic process of allocation specified in the question. Others saw this as an opportunity to argue the advantages and disadvantages of the market system, but the question did not require this.

(b) There were some excellent responses to this part, supported by accurate diagrams. The impact on consumers and producers can be analysed both in terms of changed consumption and production behaviour and of the distribution of the tax incidence. Good answers tackled both elements. In the diagram some neglected to indicate the tax itself, while others failed to show it as a vertical distance. A continuing error for some is to show a shift in demand rather than a move along the demand curve. When doing this it is usual for the candidate to overlook the price fall which would then have resulted from the introduction of the tax. Those who used a tariff approach were able to gain credit, although they often missed the consumer/producer contrast. Errors in the analysis of the tax burden included reversing the elasticity influence, inverting the share of the tax burden and muddling the distribution with the deadweight welfare losses. The first two of the errors result from trying to learn ideas and diagrams without understanding the reasoning behind them.

Question 4

This essay concerned differences in international labour productivity and the reliability of different methods of measuring unemployment. This was the least popular of the essays. While there were a very small number of outstanding answers the majority were weak because of the poor performance on the second part.

(a) Candidates did not always define productivity and some confused it with total production. Most were able to identify influences on productivity. Education, capital equipment and technology were often mentioned. International comparisons were made either on an individual country basis or by contrasting developed and developing economies. A weakness was to assert the difference with reference to one of the already identified influences rather than explaining why the difference was found. There were some interesting contrasts suggested, which showed good knowledge of economic conditions in different countries.

(b) Candidates who tackled this question did not always have correct knowledge of the two systems of measuring unemployment. While most understood that the labour force survey is generally considered more reliable, few were able to construct an argument based on detail of the operation of the two methods. The strongest element of the answers was the awareness that the claimant method included some who were not really unemployed while excluding others who were. Given the limitations of the answers, it is possible that candidates based their selection of this question on their ability to tackle the productivity part, without considering their limitations in this part.

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Paper 9708/03
Multiple Choice (Supplement)

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

General comments

The overall percentage score on this paper was 48.69%. This is over 5 percentage points higher than the score recorded on the corresponding paper in 2006 and slightly above the scores recorded in previous years. 24 of the 30 items had facility and discrimination scores within the test design limits. One item, **Question 24**, turned out to be too easy, and there were two items, **Questions 17** and **27**, which proved to be too difficult. A further three items, **Questions 3, 16** and **20** had low discrimination scores. There were also a couple of items, **Questions 10** and **23**, where more candidates opted for one of the distractors than for the key, and one item, **Question 14**, where most candidates seem to have resorted to guesswork.

Comments on Individual Items

As a general rule, item writers are asked to try to avoid negative stems. Where this is not possible then the word '**not**' is invariably highlighted, and candidates should take extra care when they come across these items. There were two such items on the paper, **Questions 3** and **14**, both of which seem to have caused considerable confusion amongst the majority of candidates. Only 25% answered **Question 3** correctly while 28% incorrectly opted for **D**. With regard to **Question 14**, there can be no question that the concept of 'market failure' relates to economic efficiency rather than equity. However, inequality in the distribution of income and wealth is generally regarded as one of the principal defects of most market economies, and it is perhaps not entirely surprising, therefore, that only 28% correctly opted for **A.**

It would seem that 'satisficing' is a concept that is not very well understood by candidates. Only 27% of candidates recognised that the decision by the firm to choose output OQ in the diagram in **Question 10** would indicate that it was seeking not to maximise profits, but to achieve a certain minimum or critical level of profits.

As there have not been many items on the regulation of privatised firms on past papers it is possible that not very much attention has been devoted to this topic. However, it could well be that the main problem encountered by candidates on **Question 16** was that most candidates do not seem to understand that an improvement in productive efficiency implies producing whatever level of output is produced at a lower cost.

It is clear that hardly any of the candidates had the faintest idea about what **Question 17** was getting at. A congestion charge is clearly an example of a policy designed to correct a market failure [***Section 3*** supp (d)], A significant reduction in traffic congestion would mean faster car and bus journeys. Hence, some of those who continue to drive and those who switch to bus travel might be net gainers. However, those who abandon their journeys altogether must end up as net losers since the alternative goods and services they now choose are ones they previously rejected.

Question 20 had a low discrimination score and the numbers choosing **A** and **C** were very similar. One can only assume that those who chose **C** did so because they thought incorrectly that a budget surplus would tend to boost the money supply.

85% of the candidates answered **Question 24** correctly. Not only was this a very easy item but one that can be answered with very little knowledge of economics.

Unemployment is likely to increase if the growth of actual output falls short of the growth of potential output. The fact that very few candidates managed to tackle **Question 27** successfully would suggest that this is not very well understood. What is puzzling, however, is that over half of the candidates seemed to think that an increase in the government's budget deficit would be likely in the short run to cause an increase in the country's unemployment rate.

ECONOMICS

Paper 9708/04

Data Response and Essay (Supplement)

Question 1

(a) Candidates could draw upon the information to give the evidence that there is subsistence agriculture, that over half the population live on less than one US dollar a day, that the Gambia is ranked 160 out of 173 on HDI. They could also mention the role of multi-national companies in the Gambia. Most candidates were able to score at least three marks for this section.

(b) Surprisingly not as many candidates as expected were able to explain that the increase in tourism created an increase in employment in companies which supply the tourist trade but which are not classified as tourist businesses themselves. Many stated that companies that are within the tourist business increased their employment, citing tour guides as an example.

(c) This question was answered with greater relevance than section (b), with candidates stating some of all of the facts that the workers might be unskilled, that there might be a large supply of workers, that the dominant employer might enforce minimum wages, that the tourism might be a seasonal demand which resulted in short-term contracts and that the employers prevented the activities of trade unions.

(d) For a good answer it was expected that candidates would draw upon both extracts. The former is more positive and suggests benefits. The latter is written by a union leader and is more from the point of view of the worker. Candidates could preface their answer by stating that any conclusion would depend upon who is being asked their opinion. Tourists would give a different opinion to those working in the industry. Employers might give a different answer to the employees. Those without work in the rural areas might think that if there was a job in the tourist sector it would be much better than no job in the rural area. Better candidates made some judgement about the meaning of the word exploitation and presented a conclusion to their argument.

Question 2

(a) Candidates who chose this question were nearly always able to explain some aspects of utility theory. For the higher marks it was necessary not only to distinguish between total utility and marginal utility but to show how these concepts were used in the theory to derive an equilibrium position for the consumer, and to show how that equilibrium might change as a result of a price change. A considerable number of candidates did not explain this equilibrium position.

(b) It was refreshing to read some very reasoned answers on this section of the question. It was expected that candidates would distinguish between the two types of sovereignty and suggest which they thought would be the stronger influence. Candidates usually presented their answer in terms of different market structures, contrasting monopoly, or oligopolistic, markets with perfectly competitive markets. What mattered was that the candidates were able to give reasons for their beliefs or opinions. The standard answer suggested that consumer sovereignty was more significant in perfectly competitive markets than in imperfectly competitive markets. However, some were able to suggest that even in markets which might be thought to be more competitive – such as street fruit and vegetable markets – it is not always possible for a consumer to obtain an article that the stall-holder, and every other stall-holder, was not supplying. They then questioned the existence of consumer sovereignty even in these relatively competitive markets.

Question 3

(a) It was thought that this would be a popular question and that candidates would explain the different types of cost and distinguish between total and average cost. Many did not do this. They did not distinguish between the total and the average cost and were, thus, unable to explain how an increase in investment might reduce cost. Tortuous attempts were made to suggest how this expensive investment might lower cost. Some, however, were able to relate the answer to economies of scale, to the difference between the short run and the long run and to the lowering of unit cost as production levels increased.

(b) This question required a theoretical analysis of the comparison of monopoly pricing and output with competitive price and output. The question was not solely related to perfect competition and better candidates compared the changing price and output comparisons as markets become more competitive, mentioning oligopoly and monopolistic competition as well as perfect competition.

Question 4

(a) This question required some explanation of the extensive nature of the project, a mention of the fact that there is a large capital outlay, that there are benefits for the whole economy, that externalities exist, that the value is under-estimated if the project is left to the market, that an incorrect account taken of the effect on other transport providers and on the effect on distribution trade and levels of income generally. Sadly, many candidates suggested that road building was a public good. They then elaborated on the criteria of non-excludability and non-rivalry. Roads, however, are not non-excludable (as tolls and congestion charging indicate), and there is rivalry over their use. Those candidates who concentrated solely on an explanation of public goods were credited with some marks but did not score well.

(b) This question required candidates to discuss the effects of a large road-building programme on the economy in terms of the demands made on production and the distribution of production, on employment and on incomes. An explanation of the multiplier process was expected. The multiplier process would be caused through the increase in injections in government spending. This section was answered with more relevance than section a). Candidates gave illustrative comments about the effect on rural areas of the building of new roads, the effect on the relationship between the rural area and the urban areas and on the changes in living styles and social inter-action. Better candidates were also able to give a clear analysis of the multiplier.

Question 5

The purpose of the question was to get candidates to demonstrate knowledge and understanding of the possible different forms of data which could be used to assess the economic health of a nation. In particular, candidates needed to show that they recognised what was meant by qualitative and quantitative data and they also needed to discuss how useful such data was likely to be.

The majority of candidates did consider a range of data which might be used and this included Gross Domestic Product, the Human Development Index, inflation and unemployment rates, trends in the balance of payments, wage differences, changes in property prices and rates of economic growth. Unfortunately, many of them did not then discuss how useful such data might be, although the better answers did go further and consider the advantages and disadvantages of such data. There were some particularly good answers on the use of the Human Development Index and other alternatives to GDP.

Question 6

(a) In the first part of the question, candidates were required to explain why there might be rapid economic growth in a country. The majority of candidates did show that they clearly understood what was meant by economic growth and many explained it, not only through a description, but also through a diagram illustrating an outward shift of the production possibility curve or frontier which showed the increase in potential productive capacity. There were some good answers on the importance of changes in the quantity and/or quality of resources and how this could have an impact upon economic growth. The problem with a number of answers, however, was that they focused on how economic growth occurs rather than on why there might be rapid economic growth in one country compared with another. It was the concept of rapidity that was often overlooked. Some candidates, however, did focus on this aspect, offering very good examples of how modern technology could be used to improve the exploitation of natural resources.

An alternative approach adopted by some candidates was to focus on different government policies to encourage growth and why some policies might bring about more rapid rates of growth than others.

(b) In the second part of the question, candidates were required to discuss whether it would be best to use all factors of production as fully as possible. The majority demonstrated a sound knowledge and understanding of the different factors of production, commenting on the potential contribution of land, labour, capital and enterprise. However, many of them then assumed that it would always be the case that it would be best to use the resources as fully as possible. The better answers recognised that this might not always be so. These candidates clearly distinguished between the concepts of conservation and exploitation and discussed the importance of long-term, rather than just short-term, considerations. There was some very intelligent and well-informed discussion of the concept of sustainability with candidates making a plea for the need to take into account the resources that would be available for future generations.

Question 7

The purpose of this question was to get candidates to analyse why the aims of government policy might conflict with each other and then, given the existence of this potential conflict, to discuss which of the aims ought to be given priority.

In terms of the first objective, the majority of candidates were able to outline the various aims of government policy such as a low rate of inflation, low unemployment, economic growth and balance of payments equilibrium over a period of time. Some also considered the redistribution of income and wealth and the need to have an awareness of environmental issues. There was some good discussion of the issue of potential conflict, especially in terms of the trade-off between inflation and unemployment; a large number of candidates made good use of the Phillips Curve to illustrate this. Candidates generally recognised that it would, in most situations, be difficult to achieve success in all of these various aims simultaneously.

In terms of the second objective, many candidates failed to focus sufficiently on the issue of which of the aims ought to be given priority. A number simply said that governments ought to give them all priority, contradicting what they had already said about the potential conflict involved in trying to achieve success in all of them. Some candidates, however, did state a preference for one particular aim and discussed why this aim should be given priority over the others. This presentation, with its reasoned conclusion, was a better style of answer.