ECONOMICS

Paper 9708/11

Multiple Choice (Core)

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

General Comments

There were 4022 candidates with a mean score on this paper of 15.58. This was a fall from the corresponding exam last year in 2008 when the mean was 18.00. 11 candidates gained full marks. Three questions proved relatively easy i.e. more than 80% of the candidates chose the correct answer, and one proved relatively difficult i.e. less than 25% of the candidates chose the correct answer.

Comments on specific questions

There were four questions where more candidates selected the same incorrect option than picked the correct answer.

In **Question 10**, the topic was consumer surplus and 39% (as against 37%) opted for B (as against the correct key A). The reasoning for A is that if the consumer buys the fourth drink the payment exactly matches the value placed on that good so consumer surplus will neither rise nor fall.

The correct placing of a maximum price has often proved to be a difficult issue for some candidates. In **Question 18**, the common mistake of believing it will be effective if placed above the market equilibrium was made by 48% of candidates. These believed there would be a surplus in the market (option B). Only 31% realised that such a placing does not disturb the market equilibrium (option A). There is clearly a need for candidates to be able to distinguish between the analysis of maximum and minimum prices.

In **Question 21**, 24% selected the correct key (C) and these were from among the stronger candidates. The selection of B by a greater percentage suggests the often seen confusion between the terms of trade and the balance of trade. A fall in the exchange rate would be expected to worsen the terms of trade (relatively lower

export prices and relatively higher import prices). On the other hand it would be expected, given the appropriate elasticities, to improve the balance of trade.

The largest proportion of candidates opted for B in **Question 24**; while 1% less selected the correct response C. The latter group performed strongly in the rest of the test. The error with the choice of B is that 2004 shows the lowest rate of price increase not the lowest level of prices. Prices were at their lowest in 2002.

Questions 1, 3 and **20** proved to be the most accessible to candidates with between 80% and 83% correct responses, and **Question 21** proved to be the least accessible with only 24% of correct answers.

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Paper 9708/12
Multiple Choice (Core)

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

General Comments

There were 3523 candidates with a mean score on this paper of 17.77. This was a slight fall from the corresponding exam last year in 2008 when the mean was 18.00. 25 candidates gained full marks, while 68 gained a mark below the guessing level. Five questions proved relatively easy i.e. more than 80% of the candidates chose the correct answer, and none proved too difficult i.e. less than 25% of the candidates choosing the correct answer.

Comments on specific questions

There were three questions where almost as many candidates selected the same incorrect option as picked the correct answer. These generally involved areas of the syllabus where candidates traditionally find difficulties.

In Question 9, the topic was consumer surplus and 39% (as against 42%) opted for B (as against the correct key A). The reasoning for A is that if the consumer buys the fourth drink the payment exactly matches the value placed on that good so consumer surplus will neither rise nor fall.

The error of 39% of candidates in Question 10 was to overlook the fact that the provision of goods by the market reflects effective demand rather than consumer needs. The importance of effective demand was recognised by the 42% who chose the correct option C.

The correct placing of a maximum price has often proved to be a difficult issue for some candidates. In Question 17, the common mistake of believing it will be effective if placed above the market equilibrium was made by 41% of candidates who believed there would be a surplus in the market (option B). The same

percentage choosing option A, the correct answer, realised that such a placing has no effect on the market equilibrium. There is clearly a need for candidates to be able to distinguish between the analysis of maximum and minimum prices.

In Question 20, 32% selected the correct key (C) and these were from among the stronger candidates. The selection of B by a greater percentage suggests the often seen confusion between the terms of trade and the balance of trade. A fall in the exchange rate would be expected to worsen the terms of trade (relatively lower export prices and relatively higher import prices). On the other hand it would be expected, given the appropriate elasticities, to improve the balance of trade.

Questions 2 and 19 proved to be the most accessible to candidates with 85% and 86% correct responses respectively.

ECONOMICS

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Paper 9708/21
Data Response and Essay (Core)
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General Comments

There were in excess of 4000 entries for this variant of the paper. There was a wide range of ability demonstrated with marks ranging from single figures to marks in the thirties. As is usual the marks scored on the essay tended to be higher than scores on the data response. A notable feature of the data response answers was an unwillingness to use technical terms and to move beyond a descriptive approach. Candidates must avoid the trap of believing that because a topic is familiar and well publicised, as in this case of air travel, it can be dealt with on the level of a popular newspaper article.

As mentioned in previous reports high marks require, when appropriate, the use of theory and diagrams. It is a cause of concern that candidates remain satisfied to identify points without offering any clarification of the meaning or the significance of the point. Impressive answers shared the common features of a clear structure and a logical progression through a line of reasoning. Candidates need to be encouraged to plan the use of the ideas that are known by them.

Comments on specific questions

Section A

Question 1

The data response question concerned the price and income elasticity of air travel and the consequences of increased demand for air travel. It was disappointing that although many candidates were able to give the correct formula to calculate income elasticity; their ability to interpret elasticity data was far less well-founded. The significance of the negative sign in price elasticity values confused a surprisingly large number. It was expected that a central concept such as elasticity would be better understood.

(a) (i)   The majority of candidates were able to supply an accurate formula. Errors included inverting the formula, omitting proportionate/percentage or referring to price rather than income.

  (ii)   Candidates tended to either recognise that demand for air travel was income elastic or that it was a normal good. A disappointingly small number identified both features to gain full marks.

(b) (i)   The better structured answers began by identifying the more inelastic nature of business flights. Explanations usually centred on their greater degree of necessity or urgency compared with leisure flights. Another valid issue raised was on whom the burden of payment would fall. Higher marks went to those who detailed rather than stated the influences. Those who did not clarify the distinction despite understanding the case missed the opportunity to gain full marks. Some wrote at far greater length than the mark allocation justified.

  (ii)   Despite involving the same approach this part was done less well than the previous one. The higher elasticity values of short distance flights were usually attributed to the availability of substitute forms of transport. Again higher marks were scored by those who considered the degree of substitution rather than just recognising it. Some candidates reversed the logic and suggested there were more substitutes for long distance travel. This involved confusion over comparisons within a category and between different categories. Others reverted to contrasting business and leisure flights and lost relevance. The addition of the elasticities of two different market segments is not valid in judging the extent of the elasticity of the pairing.

(c)   In previous exams this has been a straightforward topic which has presented little difficulty to candidates. It involves the impact of fare reductions upon company revenue. Not all candidates

made the link to revenue i.e. the changing price elasticity of a straight line downward sloping demand curve and its impact on the revenue of a business. Many candidates went no further than identifying the cases in which there would be a greater or lesser impact. This approach gained minimal marks. The reference in the question to Fig. 2, that was intended to indicate that the statistics were to be used, was overlooked by a significant number. Again this missed the opportunity to gain marks. Among those who had the correct approach some were careless in suggesting conclusions about profits when only revenue changes can be deduced.

(d)   Candidates had little difficulty in offering a range of costs and benefits. Prominent among these were trade, employment and pollution effects. Unfortunately there were some very descriptive answers which omitted the use of technical terms e.g. externalities, and lacked an economic approach to the question. This was particularly true of the treatment of tourism and pollution. Stronger answers set up a framework of private and external costs and benefits. Answers usually managed to achieve a balance of arguments, although few offered a meaningful conclusion about the relative strength of the two sides. Reasonable marks were usually awarded.

Section B

Question 2

The question considered the process of adjustment to equilibrium in a market following a change in a variable and the effectiveness of intervention in the market by the government. This was the most popular of the essays.

(a)   The diagram was usually drawn accurately. The terms were often defined clearly, although not all candidates attempted definitions. The most frequent omission was detail of the process by which the market adjusted to the change in supply. It was expected that the interim excess of demand over supply and the adjustment by which the higher price would result in a reduction in the quantity demanded would be explained. There were instances of 'write all you know about demand and supply' answers that contained much irrelevance.

(b)   Candidates were aware of the weaknesses of the market. Over- and under-production of different goods, inequality and monopoly were often mentioned. While the latter two issues were not expected as they form part of the Syllabus of Papers 3 and 4 (Supplement), they were given credit. Excessive details of the methods of government action were the norm. The question was concerned with how well rather than how governments deal with market inadequacies. Lists of areas for government attention naturally scored less well than reasoned explanations of the need for intervention. Some chose to answer their own question on different economic systems or to deal with poor macro-economic performance rather than the weaknesses of the market. This approach gained limited marks.

Question 3

The difficulties involved in international trade and the link between factor endowment and trade patterns were the focus of this question.

(a)   Candidates suggested a range of obstacles including trade barriers e.g. tariffs and quotas, different currencies, information problems, different cultures and distance. The best answers clearly explained how these acted as an obstacle, rather than assuming that it was self explanatory. For example different currencies involve exchange costs which may reduce competitiveness and the uncertainty of floating exchange rates that may affect profitability. Those who took the final step of clarifying the nature of the problem scored high marks. Some answers were restricted to the matter of trade protection so were awarded limited credit.

(b)   Most scored the basic marks for an understanding of the various production outcomes from different factor endowments and supported this with examples.

However, some considered this a complete answer and failed to go onto the underlying trade theory of comparative advantage. Indeed some mentioned the theory but thought it unrelated to factor distribution. The existence of trade groups and economic self sufficiency as well as the limitations of comparative advantage theory were offered as features limiting the influence of factor

endowment by a relatively small number of candidates. This omission of the limitations meant that the full mark range was not available.

Question 4

The question concerned the link between inflation and a floating exchange rate and the desirability of fixed exchange rates. This was not a popular question although some of those who attempted it performed very well.

(a)   Candidates were able to analyse the link between a rapid rate of inflation and a depreciation of a floating exchange rate. Well structured questions moved from reduced price competitiveness, to export and import sales levels, to demand and supply of currency and finally to depreciation. Although not required the use of a diagram helped explanations. A small number considered the link between inflation and international confidence which was an acceptable alternative approach. The best answers considered the significance of a 'rapid' rate of inflation. It was not necessary to consider the effects of the depreciation.

(b)   Although the title specified a fixed exchange rate some candidates concentrated on an adjustable peg system. This was given credit. A good range of arguments was known contrasting certainty, stability and discipline with policy restrictions, deflationary tendencies and inaccurate valuations. By and large the points in favour were presented in more detail than the points against. Most responses included both sides of the discussion. Surprisingly little reference was made to recent Chinese manipulation of their exchange rate.

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General comments

Just less than 3,500 candidates were entered for this variant of the examination.

The overall performance of candidates was somewhat disappointing. Candidates scored less highly on Question 1 than on the essay. The candidates seemed less well prepared and their exam technique weaker than in recent exams and there were a significant number of disappointingly low marks.

In order to improve their performance candidates need a better grasp of central concepts such as social cost in 3(b) and terms of trade in 4(b). They must also improve skills in question interpretation. They need to focus on key words, (such as 'compare' in 1(aii) and 'production' in 3(b)), that will ensure that they answer more appropriately. Similarly candidates should remain focused on the question and not allow certain words to trigger off a digression into a prepared answer to a past question, which happened in many responses to 2(a) and 3(b).

The overall range of marks was 0-39 so the paper did discriminate, but relatively few candidates scored more than 30. Question 4 was noticeably less popular attracting barely 10 per cent of candidates.

Only a small number of candidates misallocated the time available and, almost inevitably, they had given over-long answers to earlier questions and/or had written out the question before answering.

Few rubric infringements were observed or reported by Examiners. These were often by weak candidates who only attempted one question, sometimes with part of a second question.

Comments on specific questions

Section A

Question 1

The data response concerned rising world food prices. Overall, the standard of the responses was weak, with most candidates scoring less than half marks.

(a) (i)   An apparently easy question, yet few scored two marks. Most knew the precise definition of real prices but many chose to define nominal prices as 'prices which have not been adjusted for inflation' rather than giving a positive definition such as 'market prices'.

   (ii)   Many candidates were pre-occupied with the relative level of the indices rather than focusing on the trends. Further, many candidates failed to compare the indices directly as required by the question and so could not be awarded any marks. However, there were a few excellent answers which accurately compared trends.

(b) (i)   There were a lot of descriptive responses which failed to explain the differences in food weights. Typically, candidates scored one mark for identifying the contrast between rich and poor countries.

   (ii)   Most candidates failed to focus on the effect on the rate of inflation, but wrote in general terms about people in Kenya being worse off as a result of the rise in food prices. Only a very small minority used the figures to calculate the precise increase in inflation rates.

(c)   This surprisingly proved very difficult for candidates and some failed to gain any credit. Many chose to explain why supply increases with an increase in prices but failed to deal with the concept

of price elasticity of supply, let alone explain the reasons for inelastic supply. Some candidates dealt with the reasons why demand was inelastic. There were, however, a small number of excellent answers.

(d)   This was the best answered part with a significant number of candidates scoring four marks or more. Many offered common sense points such as 'higher earnings for farmers' but better candidates elaborated by showing how inelastic demand contributed to this. A significant number of candidates wrote that higher food prices would lead to a fall in disposable income, when they meant discretionary income.

Section B

Question 2

The question concentrated on the impact of subsidies and changes in the market for air travel. This was the second most popular essay question with a lot of moderate answers, but very few outstanding responses on the essay overall.

(a)   There were a few impressive answers, but five was a typical mark. Many scored three on the commentary, most often omitting a reference to 'revenue'. Most scored two on the diagram for the shift in supply and the new equilibrium, but only a few were able to show the subsidy and the revenue or government expenditure. Candidates need to have a more detailed knowledge of relevant diagrams. A significant number of candidates lost relevance and offered an evaluation of subsidies which seemed to be a prepared answer to a past question on this paper.

(b)   There were a small number of excellent answers that dealt with the three aspects required by the mark scheme and used appropriate supply and demand analysis to illustrate the market effects. However, most candidates scored in the range five to seven marks because they omitted one of the aspects, most often the effects on rivals and/or gave only a superficial analysis of market effects.

Question 3

Public goods and the relationship between private and social costs were the focus of the question. This was the most popular essay, but once again there were few outstanding responses.

(a)   Almost all candidates were able to name at least two characteristics of public goods, and to explain at least one, though many then digressed into reasons for government provision. Application was less impressive, especially in the case of lighthouses where many virtually repeated the earlier definitions rather than giving a precise explanation. Candidates were a little more successful in explaining why light bulbs were private goods, but only a minority scored two marks for that particular aspect.

(b)   Most candidates made some progress with this question but too often responses were superficial and seemed to be answers prepared for a different question. Many scored two or more for the definitions, but a very large number of candidates thought that social cost equates to external cost. This error obviously impeded their ability to explain circumstances in which social cost would be identical to private cost. Candidates were able to give an explanation of externalities and give some examples of external cost. However, such examples were often little more than identifications and few went on to show how the costs impacted on third parties. Also many candidates earned limited marks because they used examples from consumption, especially of cigarettes, whereas the question was about costs of production. There were a few excellent answers with candidates showing how the two types of costs could be identical as a result of government intervention.

Question 4

This question concerned two aspects of international economics in trading arrangements and the terms of trade. The question attracted only a small number of candidates, but with a wide range of performance. This ranged from the very competent to weak candidates who had little real understanding of the question.

(a)   There were some excellent answers but far too many candidates made little or no attempt to compare directly as required by the question. In addition, some candidates digressed into trade diversion and trade creation and other evaluative points related to free trade.

(b)   A few very good answers demonstrated a sound grasp of key concepts and made appropriate use of price elasticity of demand to explain benefits and drawbacks of the change. However, many candidates got little further than the definitions and often associated an improvement in terms of trade with inevitable improvements in the domestic economy and trade. They asserted that improvements in terms of trade would lead to improvements in the balance of trade (with no reference to price elasticity of demand), greater employment, economic growth etc. A surprising number of candidates confused terms of trade and balance of trade and so scored very low marks.

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Paper 9708/31

Multiple Choice (Supplement)

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

General Comments

There were 3279 candidates with a mean score on this paper of 13.17. This was a fall from the corresponding exam last year in 2008 when the mean was 15.1. While none of the questions turned out to be too easy i.e. no questions had more than 80% of the candidates choosing the correct answer, 3 of the questions proved to be difficult i.e. less than 25% of the candidates chose the correct answer.

Comments on specific questions

Candidates were expected to recognise that at any given weekly wage a reduction in the working week would make employment more attractive to workers (i.e. shifting the S curve to the right) but less profitable for employers (i.e. shifting the D curve to the left), but in Question 8 most candidates failed to work out the implications of this for the demand and supply of labour.

Candidates invariably associate consumer surplus with a triangular area which is probably why more candidates opted for A than for the key in Question 10.

The performance of candidates on Question 12 would suggest that most are not familiar with the idea that to deter potential entrants, and thereby protect their profits in the long run, firms may need to charge a price below (and to produce a level of output above) short-run profit maximising levels.

Most candidates probably know that if a firm's total revenue exceeds its total variable costs, but is less than its total costs, it should continue in production in the short run but close down in the long run. However, very few were able to make use of this knowledge to work out the correct answer to Question 13.

The 40% of candidates who incorrectly opted for B in Question 15 failed to recognise that while inequalities in the distribution of income and wealth may well be considered socially undesirable they do not pose a threat to allocative efficiency.

It was pointed out in the report on the 2008 paper that the candidates' grasp of the basic principles of Keynesian and monetarist theories is somewhat unsure. The fact that more candidates chose D rather than the correct response in Question 18 provides further confirmation of this.

Question 21 was another item where more candidates opted for one of the distracters than for the key. Those who opted for C failed to spot not only that a reduction in government spending would cause the AE curve to shift downwards but also that the income tax reduction would increase its slope.

Loanable funds theory i.e. the theory that the rate of interest rates is determined by the demand and supply of loanable funds, is a topic that lends itself to multiple choice testing. Most items on this topic in past papers have made use of diagrams and these have worked quite well. However, candidates clearly found Question 24 on this paper difficult, possibly because of a failure to distinguish between loanable funds theory and liquidity preference theory.

Those who opted for A in Question 26 (over 40% of the total) were clearly unaware of the components that make up the UN Human Development Index.

Finally, a majority of candidates in Question 27 failed to recognise that an inflow of migrant labour from developing economies helps to keep down the rate of wage inflation and so the rate of overall inflation in developed economies.

Overall Questions 13, 15, and 24 proved to be the least accessible questions to candidates with only 18%, 20% and 21% respectively of correct answers from candidates.

ECONOMICS

> Paper 9708/32
> Multiple Choice (Supplement)

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

General Comments

There were 1332 candidates with a mean score on this paper of 14.37, which is somewhat below the 15.12 mean score candidates achieved on the paper in Nov 2008. None of the questions turned out to be too easy i.e. no questions had more than 80% of the candidates choosing the correct answer, but 2 of the questions proved to be difficult i.e. less than 25% of the candidates chose the correct answer.

Comments on specific questions

Candidates were expected to recognise that at any given weekly wage a reduction in the working week would make employment more attractive to workers (i.e. shifting the S curve to the right) but less profitable for employers (i.e. shifting the D curve to the left), but in Question 7 most candidates failed to work out the implications of this for the demand and supply of labour.

Candidates invariably associate consumer surplus with a triangular area which is probably why more candidates opted for A than for the key in Question 9.

The performance of candidates on Question 11 would suggest that most are not familiar with the idea that to deter potential entrants, and thereby protect their profits in the long run, firms may need to charge a price below (and to produce a level of output above) short-run profit maximising levels.

Most candidates probably know that if a firm's total revenue exceeds its total variable costs, but is less than its total costs, it should continue in production in the short run but close down in the long run. However, very few were able to make use of this knowledge to work out the correct answer to Question 12.

In Question 14, it would seem that 40% of the candidates who opted for A failed to recognise that while agreement among consumers over resource allocation is socially beneficial, it is not essential to achieve allocative efficiency in a market economy, and that the 31% of the candidates who opted for B failed to recognise that while inequalities in the distribution of income and wealth may well be considered socially undesirable they do not pose a threat to allocative efficiency. Clearly, this is a topic which requires more attention.

Those who opted for A in Question 25 (42% of the total) were clearly unaware of the components that make up the UN Human Development Index.

Finally, no less than half of the candidates in Question 26 failed to recognise that an inflow of migrant labour from developing economies helps to keep down the rate of wage inflation in developed economies and so the rate of overall inflation in developed economies.

Overall Questions 12 and 14 proved to be the least accessible questions to candidates with only 23% and 24% respectively of correct answers from candidates.

ECONOMICS

Section A

Question 1

(a)   Most candidates were able to give an explanation of industrialisation in terms of an increase in production and a reduction in the significance of agriculture with an explanation of the consequent changes in employment and GDP.

(b)   Candidates could have used the information to explain some of the factors mentioned which include the statements that the forests will be lost, people will lose their existing homes, the wildlife will suffer, the rivers will be contaminated, there will be air pollution and acid-rain, not everyone will be employed in the factory but the farm land will be destroyed, i.e. general issues of sustainability and externalities. It might be possible to give these changes a monetary value and the effect on the whole economy given an economic cost. Some, if not all, of these factors were mentioned by most candidates.

(c)   Candidates could have mentioned that the workers of Orissa would not be so dependent on rain and there will be constant work; that the workers are likely to become more skilled – there is college training; that the product produced is worth more so it is likely that if the worker is in employment their income is likely to be higher. However, the workers would have been displaced from their home and their community; the factory is not labour intensive and not everyone who has been displaced will be employed; the supply of labour is high which will could depress wages. Candidates could have mentioned that the result is uncertain and that the overall balance of the change will vary according to the individual worker concerned.

(d)   Many candidates appeared to find this section difficult and did not direct their answers to the text. One of the objectives of the syllabus is to encourage candidates to be able to distinguish between evidence and opinion. To do this, they need to be presented with some information. Candidates could have mentioned that, in the information in the article, the evidence supporting the view that the standard of living continues to be low includes statements that there are still 48% below the poverty line, there are low literacy rates, high debts, disease and hunger. Against this there is alternative evidence that there has been some industrialisation, improved employment, a use of natural resources, an increase in steel production and increased incomes.

For a fuller assessment more information would have been needed. For example, better figures of comparative living standards before and after development in the area, comparisons with other states, or other information which is usually included in standard of living comparisons involving social and economic indicators.

Candidates tended to write in general about the factors which improve living standards and did not draw upon the evidence given in the question to support their answer. The candidates understood the principles of measuring living standards but did not use the material given in a effective manner.

Section B

Question 2

This question was answered by a considerable number of candidates. Many understood the principles involved in the efficient allocation of resources. They explained the differences between productive and allocative efficiency and used supporting diagrams to illustrate their answer. Candidates also recognised

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that they needed to discuss the issue of market failure which might occur in a pure market and they explained elements of market failure which included monopoly, externalities and public goods. The better candidates then considered whether it was inevitable that such market failures would occur and whether, if they did, they could be corrected by government intervention. Some recognised that the existence of government intervention did not guarantee that all imperfections would be eliminated and that efficiency in production and allocation of resources was not necessarily, therefore, achieved simply because governments were involved.

Question 3

(a)   The first part of the question was answered reasonably well by the majority of candidates who were able to explain why economies of scale might be significant in an industry such as gas supply. Many of the candidates demonstrated a good knowledge and understanding of the various economies of scale, such as technical, managerial and risk-bearing. A diagram was not required, but a number of candidates included one and used the diagram to assist in their explanation of what was meant by economies of scale instancing the fall in the average cost of production in the long run as output increases. The better answers explained the significance of the various possible economies in relation to an industry such as gas supply, recognising that some economies, such as technical and distribution economies, would be particularly relevant. The weaker answers, however, offered very little relevant application.

(b)   The second part of the question proved to be more of a challenge to many of the candidates, a number of whom did not appear to have a very good understanding of what was meant by contestable markets, apart from the fact that while supernormal profits might be made in the short run, only normal profits would be made in the long run. Some candidates, however, did show that they understood the key features of a contestable market, such as the fact that the number of firms in the market was not as significant as the potential threat of the entry of new firms into the market. They offered a useful discussion of why companies that supplied energy were more likely to operate in monopolistic or oligopolistic markets with significant barriers to entry, rather than in contestable markets.

Question 4

In this question, candidates were required to discuss why wage rates differed. The quality of the answers varied a great deal. Some candidates offered a very useful discussion in relation to both the theory of marginal revenue product and demand and supply and went on to consider a wide range of possible factors, such as in relation to the potential influence of trade unions and governments. A number of candidates made very good use of diagrams to support their explanation. Other candidates, unfortunately, offered only very general answers that considered such influences as skills, qualifications and experience but did not really relate the discussion to the theory of demand and supply. A few candidates digressed from the actual question being asked and wrote in great depth about the differences between the public and private sectors, with very little reference to wage differences.

Question 5

(a)   The better candidates who answered this question recognised that the link between interest rates and economic growth which was mentioned in the stem of the question might be considered unusual because it was the opposite of the traditional relationship of interest rates and growth. The usual relationship between interest rates and economic growth is that a lower, rather than a higher, rate of interest would be more likely to increase investment in an economy. This increase in investment would lead to an increase in the national income through the multiplier effect. Some candidates incorporated appropriate diagrams in their answers to aid the explanation.

(b)   The performance of candidates was generally better in *section b)* than in *section a)*. Here candidates were required to discuss whether economic growth was good for an economy. The majority of candidates were able to offer a balanced discussion, contrasting the potential advantages of economic growth, such as increased employment, income and standards of living, with the possible disadvantages, such as externalities (e.g. pollution), the depletion of resources and the distribution of income. A number of candidates made very good use of the concept of opportunity cost in relation to this discussion. A few candidates, unfortunately, offered a one-sided answer, dealing with either the advantages or disadvantages of economic growth.

Question 6

In this question, candidates were required to consider whether they agreed with the argument that there was no point in calculating figures for GNP because they were never an accurate estimate of welfare, and that people were more concerned about such things as crime, pollution and health than GNP. The standard of many of the answers offered was reasonably good, with candidates demonstrating a sound knowledge and understanding of some of the weaknesses in relation to the collection of GNP figures, such as the existence of an informal or hidden economy and the question of the composition of GNP, such as the production of military weapons. The better answers also discussed crime, pollution and health and the degree to which these would be included in GNP figures. A number of candidates also mentioned that GNP was only one way to try and measure welfare and that there were other possible approaches which could be employed, such as the Human Development Index or the Measure of Economic Welfare. A number of candidates made a good attempt to link GNP to policy formation.

Question 7

(a)   In the first part of the question, candidates were required to explain what distinguished a developing country from a developed country. The quality of the answers to this section was good. Candidates were able to offer a useful consideration of the characteristics and features of each and explain how they differed, such as the level of real GDP per capita, inflation, employment and the extent of poverty i.e. a good range of indicators both economic and social were given.

(b)   In the second part, candidates were required to question whether the achievement of a 'developed' status by a country necessarily means that the country has solved all of its economic problems. There were some very good answers. Candidates stated that although the achievement of 'developed' status will undoubtedly have some advantages, there are still likely to be a number of economic problems. For example, some developed countries have recently been experiencing a recession and a deficit in terms of both the budget and the balance of payments. A few candidates, unfortunately, took a rather more simple view and argued that the achievement of developed status meant that all economic problems had been solved.

ECONOMICS

Section A

Question 1

(a) (i)   This question required candidates to explain the relationship between the marginal utility obtained from purchasing a good or service and the price of the good or service. To obtain four marks candidates needed to show the equi-marginal relationship between marginal utility and price for more than one good.

   (ii)   There were some interesting answers to this section and candidates were credited with giving a reasoned response. It could be deduced from the article that consumers believe they should buy bottled water because it is fashionable and a current necessity. This would not make such a purchase an irrational one. They are following their beliefs. Consumers may believe bottled water is better and gives them more satisfaction. However, there is no evidence in the article of maximising satisfaction as there is no real comparison with the value (satisfaction) of tap water against bottled water and no comparison with the relative prices.

(b)   Candidates were able to suggest a number of effects that the restriction of sales could have. These included the potential that it could lead to decreased employment, decreased incomes, that the trade balance could be improved by decreased imports. There may also be fewer external costs and less spent on dealing with the empty bottles.

(c)   Candidates did not always focus their answer on the question asked. Part of the objective of the curriculum is to encourage candidates to be able to distinguish between evidence and opinion, between facts and emotive statements. Some candidates were able to use the article in this way but many wrote about the general need for government regulation in an economy without any reference to the information that was given in the article. If they had looked back at the article they could have stated that some of the article is emotive rather than factual – for example, statements about vanity, the implication that fashionable goods are necessarily wasteful, the statement about free money, the notion that the money saved would all go to developing countries, and the apparent emphasis on current environmental issues.   Other examples are the 'morally unacceptable' phrase, the comment that 'environmentalists believe...bottled water… creates unnecessary... emissions' and that 'it would be 'better for everyone and a better use of resources….'

However, there are less emotive and more factual are the statements about the relative costs of water, the level of imports, the long distance water is carried for import, excessive profits, and the lack of any positive statement about the value of the water industry by the minister.

Section A

Question 2

(a)   This question required an explanation of the possible effect of growth in size on output and costs – with a clear explanation of the difference between the changes in total and the changes in average cost. It was expected that candidates would give an explanation of economies of scale and possible diseconomies of scale and possible resulting effect on profits. Many candidates did write such an answer and presented it in a reasoned manner with a conclusion. The extent of the explanation and the detail of the different types of economies of scale that could be achieved varied between the candidates of course, and some did not present their work in an ordered manner and did not finish with any conclusion.

(b)   Most candidates were able to discuss and comment on the market power of monopolies. They mentioned the possible effect monopolies can have on price. They also commented on the exploitation of resources by a large company which could create barriers to entry in order to increase and safeguard potential profits. Some candidates also discussed the government's concern about the lack of provision for conservation, the exploitation of consumers, and the health and safety issues. The question was answered well by most of the candidates who attempted it.

Question 3

This question required an ability to understand the Marginal Revenue Product theory of wage determination and also to apply this understanding to analyse what might happen when a labour market becomes less competitive. It was also necessary to examine the impact that a large investment might have on this market.

Some candidates focused entirely upon supply and demand for labour to the exclusion of MRP analysis. The question specifically referred to the use of MRP analysis to predict possible changes; therefore many candidates could not access the full range of marks available. Also many candidates outlined how wages might be determined in a perfect market but failed to proceed to discuss what might happen when a labour market becomes less competitive. The effects of a large investment were frequently referred to but not in any depth. Most suggested that employment of labour would fall due to capital substitution effects.

Good answers recognised the need to examine the transition towards a less competitive market and provided some good supporting examples such as the role of single buyers of labour (a monopsony), e.g. when there might be only one major employer in a town; and how government intervention through the use of minimum wage legislation, might lead to market imperfections. The potential role of trade unions was also considered and supported by some accurate, clearly labelled diagrams. Very good responses also identified the potential effect of a large increase in investment on the MRP curve and the associated positive effects on wages and employment.

Question 4

(a)   A basic explanation of each of the three Keynesian elements of the demand for money was required in conjunction with a clear understanding of the meaning of each term. A significant number of candidates were able to provide clear explanations of the meaning of both the transactions and the precautionary demand for money, as well as the relationship between each type of demand and the level of the individual's income. Therefore many gained at least a Level 2 mark of 4/10.

The concept of speculative demand for money was dealt with less effectively. Many failed to make the link between the future rate of interest on government securities, the price of these securities, potential capital gains/losses and the subsequent decision to hold money for speculative purposes. Thus few marks were gained for this part of the question.

(b)   This part was also dealt with less than satisfactorily. It was clear that the understanding of the meaning of transactions and precautionary demand for money demonstrated in part (a) helped to address part of the question in b). Marks were gained therefore for recognizing that an increase in income would be expected to lead to an increase in both the transactions and precautionary demand for money. Good answers provided diagrams to show this relationship and the minimal effect of changes in the rate of interest on these two types of demand for money. Less frequent payments were also identified as having a positive effect on the demand to hold money. On this basis, many candidates were able to gain at least Level 2 mark of 6/15.

Attempts to link changes in interest rates to the speculative demand for money were very limited and often demonstrated much confusion regarding the nature of the relationship between speculation and the decision to hold money in an 'idle' bank account. Many came to the erroneous conclusion that an increase in interest rates would lead to an increase in the demand for money because individual's would be 'willing to save more' at higher rates of interest. This clearly illustrated a fundamental misunderstanding of the Keynesian definition of what it means to 'demand money' i.e. hold money in idle bank accounts. As a result a significant number of responses failed to gain a mark beyond that associated with Level 3.

Question 5

(a)   There were some very good responses to this part of the question. It was clear that many candidates had been well prepared for a question of this nature and this was frequently reflected by the high quality responses. Candidates were able to provide clear definitions of the meaning of GDP and then proceed to explain why there are a number of limitations associated with relying upon this as an indicator of living standards. Most candidates were able to refer to the need to calculate GDP per capita and also the need to distinguish between money GDP and real GDP. In addition many were able to locate a whole range of additional factors which simple GDP figures do not account for, including income/wealth distribution, types of expenditure for example munitions, work/leisure split and effects of negative externalities etc.

A significant number were also able to identify alternative measures such as the Human Development Index and/or the Measure of Economic Welfare, and explain why they might be more effective. As a result a high Level 4 grade was frequently attained.

(b)   This part worked well as an effective mark discriminator. Weaker candidates focused almost entirely on the question as to whether the main aim of a government should be to have a policy on population. Some did this very effectively and in some detail and provided a developed discussion revolving around the links between population growth, output and subsequent demands upon scarce resources. Better candidates also proceeded to distinguish between the short run and the long run outcomes associated with population growth and gained marks accordingly. However, it was assumed that candidates would discuss alternative policies in some detail and use these as comparators to decide what the main aim of a government should be. Marks were awarded for reference to the traditional key economic performance indicators such as growth of GDP, rate of inflation, level of employment and exchange rates. In addition, good candidates referred to the need to have policies relating to health care, education and sustainable use of scarce resources.

Question 6

(a)   This was a very topical question which produced some well informed responses which gained high marks. Candidates frequently produced clear definitions of the term 'economic recession' and provided a number of relevant characteristics that one generally associates with the idea of an economic recession.

Key variables such as the level of employment, price level and level of output were outlined. Some responses confused the immediate pre-recession period which is often consistent with a boom and rising price levels i.e. the stage of the business cycle prior to recession, with an actual recession. Hence some answers mistakenly referred to rising prices as a characteristic of recession. Most candidates however provided a sound explanation as well as a clear understanding of the term, therefore gained high Level 4 marks.

(b)   This part enabled candidates to demonstrate a detailed understanding of a range of suitable macro-economic policies which could be used to bring an economic recession to an end. There were some very well thought-out, well argued responses which introduced both breadth and depth to the candidates's discussion.

Less effective answers had a tendency to list separate policies without sufficient development and discussion or simply focused on one alternative policy option. Well prepared candidates were able to cover a range of policy options, including, fiscal, monetary and direct controls, and, and more importantly, were able to evaluate the respective strengths and weaknesses of each policy option. Additional marks were gained for the provision of clearly labelled supporting diagrams. Overall, candidates who attempted this question frequently gained Level 3/4 marks for this question.

Question 7

It was imperative that answers to this question attempted to comment upon a specific argument. The three main elements of this argument were clearly set out in the supporting text. The most effective answers ensured that each of the three elements was discussed in turn and some kind of assessment of the strength of each point was also made. On this basis, it became very important for candidates to produce a carefully thought-out structured response combined with a relevant conclusion.

Generally this question was not dealt with effectively. The main reason for the overall poor performance related to weak structure and a failure to address each of the key issues in the argument. A significant number recognised that there many causes of inflation, and demand pull as outlined by the Governor in the article was only one possibility. Good candidates referred to cost push and changes in the money supply as alternative explanations for inflation and gained marks accordingly. Many responses however failed to refer at all to the second part of the statement that 'inflation does not lead to job creation'. Although better candidates were able to use short run Phillips curve analysis to discuss this part of the argument. Many gained marks for recognising that interest rates are not the only tool available to control inflation but unfortunately failed to link their discussion to the overall question by producing a relevant, concise conclusion.

This question did prove to be a good discriminator because it required some detailed knowledge of the appropriate subject matter and an ability to use this knowledge and understanding to structure an answer to a specific question. Many candidates could provide the first element but not the second.