

ECONOMICS

Paper 9708/11
Multiple Choice (Core)

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

Key Message

Candidates would benefit from more practice in the application of numerical skills in a variety of economic contexts.

General Comments

The topics that candidates found most accessible were the market economy, factors of production, demand curve shifts, consumer surplus, externalities and absolute and comparative advantage. Difficulties arose for more than half of the candidates on elasticity of supply, marginal social benefit, producer surplus and the real value of money.

Comments on Specific Questions

Question 4: While the majority of candidates chose the correct option A in **Question 4**, 40% picked B. This overlooked the fact that money's value relates to its ability to purchase goods and services.

Question 7: A common misconception about the nature of a straight line demand curve was evident in **Question 7**, where 31% of candidates believed a straight line curve demonstrated constant unit elasticity. This property only belongs to a demand curve in the form of a rectangular hyperbola.

Question 9: 50% of candidates were able to identify the area representing government tax revenue. A surprising proportion (37%) selected instead option D the tax burden paid by the consumer.

Question 15: achieved the lowest facility on the paper. The greatest proportion of candidates, including some of the more able candidates, opted for D (rather than the correct C). This gave the total social benefit rather than the required marginal social benefit.

Question 20: The combination of producer surplus and tariff removal in **Question 20** proved a challenge for the majority of candidates. Although the largest proportion selected the correct option A, the others were split evenly between the remaining options. This can indicate a degree of guessing. Candidates needed to identify the reduction in domestic supply (OQ2 to OQ1) from the increase in world competition and note the loss of the producer surplus that resulted from a lower price and quantity.

Question 25: 45% of candidates chose option B, rather than the correct option D, despite this the question discriminated well. The fall in the index of consumer prices for Japan (option B) indicates a rise rather than a fall in the real value of money, whereas D shows the lowest rate of fall in real value.

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Paper 9708/12
Multiple Choice (Core)

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

Key Message

Candidates would benefit from revision of the more detailed aspects of diagrams.

General Comments

The topics that candidates found most accessible were scarcity, factors of production, external costs, public goods and import influences. Difficulties arose with opportunity cost, production possibility curves and market adjustment.

Comments on Specific Questions

Question 2: proved to be one of the two equally most difficult on the paper. The major issue was the treatment of the original cost of the capital equipment. A large proportion of candidates ignored its relevance in making the calculation.

Question 3: related to the idea that a reduction in capital goods is most likely to reduce production possibilities. The largest group opted for a situation in which consumer goods output increased (option C), this confused short-run actual output with production possibility.

Question 5: was the other most difficult question, although it discriminated perfectly well. It involved a number of calculations. Option B was correct because X's share of the market rose as 24 out of 8 000 units is a greater share than 30 out of 20 000 units. The popularity of option C was surprising given there is no cost information from which profit can be calculated.

Question 11: The nature of the demand curve is the basis of the correct answer option A. The selection of C by 36% of candidates misses the fact that inferior good relates to income not price changes.

Question 15: The greatest number of candidates opted for option B; this identifies the difference between the two equilibriums which is not the question. Option C is correct as with no government intervention 20 units will be produced and $MSB \text{ less } MPB = \4 at that output.

Question 17: most candidates correctly identified G as the new equilibrium. The original quantity supplied was at X, if this is fixed by the government E rather than F then becomes the next relevant quantity.

Question 24: better candidates realised the rise in the price level (inflation) would be expected to reduce real values.

Question 28: 29% of candidates believed that a fall in interest rates would contribute to both cost-push and demand-pull inflation. While cheaper loans might boost consumption (more demand-pull), they are likely to reduce the cost of production (less cost-push).

ECONOMICS

Paper 9708/13
Multiple Choice (Core)

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

Key Message

Candidates might pay greater attention to macro topics including the analysis of quotas in international trade.

General Comments

There were 512 candidates, the same number as in last year's November examination. The mean score fell from 19.30 to 17.92, while the standard deviation widened from 4.90 to 5.10. **Questions 1, 9, 11 and 20** proved to be particularly easy with 80% or more correct answers, while **Questions 17, 23, 24 and 30** proved to be relatively difficult with less than one third correct responses. Two candidates achieved full marks, one less than in the last exam, while two others scored 29 marks. Eight candidates scored below the guessing level. The topics that candidates found most accessible were free goods, supply shifts, elasticity of supply and motives for trade protection. Difficulties arose with subsidies, weights in the RPI, long-run equilibrium and macro policy conflicts. As in the last year, the performance on micro questions was generally stronger than that on macro topics. However unlike last year the average mark on verbal questions was higher than the average on diagram-based and numerical questions. The small entry makes generalisations about performance less than certain.

Comments on Specific Questions

The largest proportion of candidates correctly selected D in **Question 10**, however a third opted for B suggesting that they wrongly equate the elasticity of the curve with its slope. The once common error of confusing external benefit with social benefit reappeared in **Question 14**. This was shown by the 35% who opted for A, the majority did nevertheless select the correct option C. In **Question 17** by far the largest group

chose B, however this is the amount by which supply increases at each price rather than the increase at the new equilibrium. Equilibrium quantity changes from 120 to 140 units, this makes A the correct response. This question did still discriminate well. An increase in a quota allows more to be imported so price will fall. Some may have interpreted increase as impose or introduce. In **Question 23** the even spread of responses may indicate some guessing. The weight attributed to a product reflects its importance within the expenditure pattern. Food commonly becomes relatively less important as income rises, which matches option C. The more able candidates opted for D in **Question 24**, while a larger number chose option B. The diagram illustrates a positive output gap that cannot be sustained in the long run, when for example workers may demand higher wages in recompense for the exceptional demand, so option D causes the shift to the long-run outcome with higher price level but no increase in output. Candidates were fairly equally drawn to options B (correct) and C (incorrect) in **Question 30**. The imposition of a quota (**C**) would help to reduce the deficit but would cause cost-push inflationary pressure as the supply of imported materials would fall and their price would rise. Inflationary pressure would reduce from lower government spending.

ECONOMICS

Paper 9708/21

Data Response and Essay (Core)

General Comments

Diagrams were explicitly required in **Section A, Question 1(d)** but some candidates did not draw them. It is important that candidates recognise whether they are being asked to 'explain' something, as in the case of 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, such as in **Question 2 (b)**, where candidates were required to discuss whether minimum price legislation or the imposition of an indirect tax was 'more effective' in improving resource allocation when the consumption of a good causes negative externalities, or in **Question 3 (b)**, where candidates were required to discuss whether it was 'both possible and beneficial' for a business to change the price elasticity of demand for its product, or in **Question 4 (b)**, where candidates were required to discuss whether protectionism disadvantages 'most people' in the protected country.

Comments on Specific Questions

Section A

Question 1

The data response question concerned the coffee market in Columbia and Nepal and, in particular, the overall trend in coffee prices between 2007 and 2012, the classification of coffee using the concept of income elasticity of demand, the effect of changes in demand and supply on the coffee market in the two countries and the concept of specialisation.

- (a) Candidates were required to describe the overall trend in coffee prices between 2007 and 2012 and the majority of them were able to recognise that the overall trend was upward, rising or increasing. Candidates need to recognise that where a question requires them to describe an overall trend, they should not provide a summary of year-on-year changes because it is the overall trend that is important, not the changes from one year to the next. Candidates also needed to identify one year in which supply was likely to have exceeded demand in the market for coffee and some of them did correctly identify either 2009 or 2012.
- (b) The question required candidates to explain how coffee exports and a thriving tourism sector would contribute to Nepal's current account in the balance of payments. Many of them were able to correctly explain that coffee exports would provide a positive contribution to the visible balance of trade in goods, whereas a thriving tourism sector would provide a positive contribution to the invisible balance in services.
- (c) Candidates were required in this question to explain, with reference to Extract 2, how coffee would be classified using the concept of income elasticity of demand. There was one mark available for explaining that coffee was an example of a normal good, i.e. one for which demand increases as income rises, and one mark for explaining that it would have a positive income elasticity of demand.
- (d) This question required candidates to explain how changes in demand and supply have affected the coffee market in Columbia and in Nepal. Some candidates did not draw any diagrams, while others drew diagrams but did not make it clear which diagram related to Columbia and which diagram related to Nepal. In some answers, the written answer did not correspond to the diagrams that were drawn. The diagrams, and the answer, needed to clearly explain how the changes in

demand and supply affected both equilibrium price and equilibrium quantity in the respective markets.

- (e) Candidates were required to discuss the view that Nepal should specialise in the production of coffee and Columbia should specialise in some other product given the changes in costs that have occurred. Some of the answers were rather general, but a number of candidates did base their discussion on the law of comparative advantage and on the differences in opportunity costs, demonstrating a sound understanding of the importance of differences in opportunity cost ratios between different countries.

Section B

Question 2

This question was concerned with the effect on producer surplus of the imposition of a subsidy on a good in and with whether minimum price legislation or the imposition of an indirect tax was likely to be more effective in improving resource allocation when the consumption of a good causes negative externalities in (b).

- (a) Candidates were required to explain how the imposition of a subsidy on a good would affect the surplus enjoyed by the producers of that good. Many responses demonstrated that they had a good understanding of a subsidy, but were less successful in linking the imposition of a subsidy to producer surplus. Candidates were required to use a demand and supply diagram to support their explanation, showing that the supply curve would shift to the right, increasing the producer surplus. Many of the diagrams were poorly drawn and indicated that the concept of producer surplus had not always been clearly understood by some of the candidates.
- (b) In the second part of the question, many candidates were able to discuss whether minimum price legislation or the imposition of an indirect tax would be more effective in improving resource allocation when the consumption of a good causes negative externalities. Many candidates clearly understood how negative externalities could arise from the consumption of a good, but relatively few fully addressed the evaluative part of the question in discussing which approach would be more effective in improving the allocation of resources.

Question 3

This question was concerned with the factors that could determine whether the price elasticity of demand for a product has a high value or a low value in (a), and with whether it was both possible and beneficial for a business to change the price elasticity of demand for its product in (b).

- (a) There were some very good answers to the first part of the question, with many candidates demonstrating a sound knowledge and understanding of the concept of price elasticity of demand and of the factors that would determine whether it had a high value or a low value, i.e. whether the price elasticity of demand for a product was elastic or inelastic. The factors explained included the availability of substitutes and the proportion of income spent on a particular product.
- (b) Many candidates were able to discuss whether it was both possible and beneficial for a business to change the price elasticity of demand for its product, discussing both how it could be changed, such as through advertising, and why it might be changed, such as the idea that if price elasticity of demand for a product was made more inelastic, a business would be better able to increase price in order to raise sales revenue. The evaluation aspect of the question was not addressed very well. For example, candidates could have questioned how effective an advertising campaign was likely to be in changing the price elasticity of demand for a product.

Question 4

This question was concerned with an explanation of how tariffs and an undervalued exchange rate could operate to protect a domestic market from foreign competition in (a), and with whether protectionism disadvantages most people in the protected country in (b).

- (a) There were a number of good answers to this first part of the question, with candidates demonstrating a sound knowledge and understanding of the meaning of tariffs and of an undervalued exchange rate and of how these could operate to protect a domestic market from

foreign competition. Many of the answers emphasised how the two approaches were different, with a tariff operating through taxation on imported goods and with an undervalued exchange rate operating through a change in the prices of imports as a result of changes in the value of a currency on the foreign exchange market.

- (b) Many candidates were able to discuss whether protectionism disadvantages most people in the protected country, offering a useful analysis of the advantages of protectionism, such as the protection of infant industries, and the disadvantages of protectionism, such as reduced consumer choice. However, the quality of the evaluation offered by many candidates was rather limited, although some candidates did address the issue of most people in terms of the potential impact of protectionism.

ECONOMICS

Paper 9708/22
Data Response and
Essay (Core)

General comments

The number of candidates taking this paper continues to grow. The marks awarded covered a very wide range. The high-scoring scripts were excellent. They showed good understanding together with the ability to apply concepts as necessary. Analysis was strong and there was a willingness to provide evaluative comment, where appropriate, based upon the analysis provided. At the other extreme, a significant number of scripts had very limited content. Answers provided were often superficial and contained errors. These scripts scored very poorly.

Key messages

- Candidates must always tailor their responses to the directive words together with the marks available for each question to ensure that their answers are appropriate for the question set.
- Candidates must have the required knowledge and understanding of all areas of the syllabus. Gaps in knowledge and understanding often prevent thorough comprehension of the data provided for the case study question and result in errors in analysis in essays.
- Analysis should always be properly developed and have sufficient content to cover all elements of the analytical framework at the core of the questions.
- Candidates need to be aware of the assessment objectives tested and ensure that their responses cover the range of skills necessary for a good mark. In particular, they should always provide evaluative judgement where this is clearly required.

Comments on specific questions

Section A – Data Response

Question 1

- (a) It was disappointing to see the large number of candidates who did not understand the significance of index numbers in calculating the rate of inflation. This is clearly referenced in the syllabus so it was surprising that so many candidates lacked the basic data-handling skills to enable them to calculate the rate of inflation from the data provided. Many candidates thought that because the consumer price index increased by the same number of index points over the period, it must mean that the rate of inflation was unchanged over the period. This lack of understanding of the basis of index numbers resulted in many candidates scoring no marks on this question.
- (b) In response to this question candidates needed to show understanding that in a free market the forces of supply and demand determine the foreign exchange value of a currency. Answers that only did this gained limited credit. The directive word in this question was 'explain', so for a good mark it was necessary to go further. The supply and demand for foreign currencies in a free market derives from a number of sources, such as the purchase of imports and exports of goods and services during the process of foreign trade and international investment flows. If the demand for the foreign currency exceeds the supply then the currency will appreciate. If supply exceeds demand then the currency will depreciate. The instruction was to 'explain briefly', so it was not necessary to provide an answer containing great detail, but it was insufficient to simply state that the value of the currency depended upon its supply and demand.

- (c) Responses to this question were generally quite weak. Many candidates did not grasp the significance of the US Treasury's report that the rising stock of China's foreign exchange reserves provided evidence that China was manipulating the external value of the yuan. In order to do well on this question, candidates needed a good understanding of the causes and consequences of an appreciation and a depreciation of the exchange rate and the impact upon the balance of payments and the level of exchange reserves. Few candidates had the required grasp of these concepts.
- (d) In order to do well here it was necessary to examine the extent to which the data matched economic theory. The rise in the yuan together with the rise in prices in China would be expected to increase the price of China's exports relative to the price of China's imports. As a result it might be expected that China's surplus would reduce or even become a deficit. Candidates needed to explain why this might not happen as shown in the data. A number of valid reasons were offered. Some, for example, explained that the yuan might still be undervalued despite its recent rise, so that China's goods were still cheaper than other countries'. Others explained that what mattered was China's rate of inflation compared with that of its competitors. Some candidates suggested that China's industries might have become more productive, whilst others applied the concept of price elasticity of demand to import and export expenditure to explain why the surplus might have been expected to grow. There were some good responses to this question and these were rewarded with full marks. Some candidates, however, provided answers that were superficial and which explained only one point. Such answers scored poorly.
- (e) An appreciating currency has potential costs and benefits for the Chinese economy. The costs include a decline in the competitiveness of China's goods and services that might lead to falling national income, a deficit in the current account of the balance of payments and unemployment. The benefits include cheaper imports that might improve the standard of living and control cost-push inflation. Candidates were expected to explain a number of potential costs and benefits and then make a judgement on the impact and whether it was of overall benefit. Some excellent responses were provided that explained a range of costs and benefits. Some made good use of the concept of price elasticity of demand to assess the overall impact. These responses scored well. As with **Question 1(d)**, however, many responses were superficial and the valid material introduced was left undeveloped. Many candidates also did not provide a conclusion or make any comment on whether they agreed with the view of the US Treasury. The wording of the question made it clear that this was essential and those candidates who did not provide this lost marks as a result.

Section B – Essays

Question 2

- (a) In order to score well here candidates needed to show good knowledge and understanding of the features of a market economy. They then had to go on to explain how prices allocate scarce resources in such an economy. Most candidates were aware that a market economy features consumer sovereignty, entrepreneurs motivated by profit and has very limited government intervention. In addition, many were able to provide a good explanation of the way in which prices operate to allocate scarce resources in a market economy. There was often good use of diagrams to show how a shift in demand or supply results in price changes and the deployment of resources to increase or decrease the quantity of output at equilibrium. A significant number of candidates provided very brief answers, however, and scored a low mark as a result. In addition it was disappointing to see the large number of candidates who provided inaccurately drawn and incorrectly labelled diagrams that weakened the quality of their answer. More care is recommended to ensure that diagrams, where appropriate, provide good support for explanations.
- (b) In response to this question, it was expected that candidates would display good knowledge and understanding of the way in which mixed economies differ from market economies and how price operates in this type of economic system. Candidates needed to use this to analyse how governments intervene in the market in a mixed economy through, for example, the imposition of indirect taxes, maximum and minimum price legislation and the provision of subsidies. This could lead to a discussion of, for example, merit and demerit goods and policy regarding their price in the two types of economy. This would allow candidates to arrive at a conclusion as required by the wording of the question. Some excellent answers were provided that scored well for analysis and evaluation. Unfortunately, some candidates saw this as an opportunity to answer a different

question. Many explained the advantages and disadvantages of each type of economy and as a result scored only a few marks for an answer with only incidental relevance.

Question 3

- (a) There were some very good, high-scoring answers to this question. Many candidates showed sound knowledge and understanding of the concepts of price and income elasticity of demand and they were usually able to apply their understanding to explain why goods could have a positive, negative and zero coefficient of income elasticity and why the value of price elasticity of demand was most likely to be negative. Unfortunately, a number of candidates demonstrated an incomplete understanding of the core concepts. Some, for example, provided the incorrect formula. Others lacked the essential understanding and were unable to apply the concepts with the necessary confidence. They often became confused about the meaning of inferior and normal goods and were unable to explain why the price elasticity of demand was most likely to be negative. Other candidates wasted time on long explanations of the distinction between elastic and inelastic goods.
- (b) In order to score well here candidates needed to have a good grasp of the link between elasticity and sales revenue as prices change. This, together with a good knowledge and understanding of the significance of income elasticity for firms wishing to increase sales revenue, was necessary for successful analysis of the question set. Most candidates knew the link between price elasticity and sales revenue but many explanations became confused. Many candidates seemed less certain of the significance of income elasticity, so their analysis was incomplete and this also prevented them from gaining marks for evaluative comment on which type of elasticity was more useful. A large number provided sound analysis and gained a good mark for this assessment objective, but did not attempt to make a judgement concerning which type of elasticity was more useful and gained no evaluation marks as a result.

Question 4

- (a) Candidates needed good knowledge and understanding of the meaning of 'aggregate demand' and its components. They then had to go on to explain how a rise in the rate of interest would impact upon an economy's aggregate demand curve through its likely effects on these components. Many candidates gave good explanations of how the rise in the rate of interest would affect consumption expenditure, but some simply said that consumption would fall without any attempt to explain why. Some answers also displayed the same weakness when considering the impact of the interest rate rise upon investment. Few considered how net exports would react to a rate rise. Those who did usually supplied excellent answers and scored well. Some candidates provided only superficial answers that gave insufficient consideration to the various elements of the question.
- (b) There were some good answers to this question with many candidates providing good explanations of demand-pull and cost-push causes of inflation. The main weakness here was a lack of evaluative judgement. This question clearly required candidates to reach a conclusion. Marks will always be awarded for this assessment objective in the essays and candidates need to be aware of this in their preparation of answers. Some answers containing very sound analysis gained a mark well below the maximum because the candidates did not reach a conclusion.

ECONOMICS

Paper 9708/23
Data Response and
Essay (Core)

General comments

There was considerable variation in the quality of the scripts. Some answers were excellent and scored very highly, but a small but significant number of scripts had only superficial or confused content.

Most candidates had a good knowledge and understanding of the core concepts, although some areas of the syllabus continue to be poorly understood and this affects the marks of a number of candidates. There was good evidence that candidates had developed the ability to analyse economic issues, but there was considerable variation in the extent to which analysis was sufficiently developed to score well. Evaluative comment was absent from a large number of scripts and many received no marks for this assessment objective.

Key messages

- Some elements of the syllabus remain poorly understood by some candidates. To gain a good mark, candidates are advised to attempt to understand all parts of the syllabus.
- Candidates must always tailor their responses to the directive words together with the marks available for each question to ensure that their answers are appropriate for the question set.
- Analysis should always be sufficiently developed and have sufficient content to cover all elements of the analytical framework at the core of the questions.
- Candidates need to be aware of the assessment objectives tested and ensure that their responses cover the range of skills necessary for a good mark. In particular, they should always provide evaluative judgement where this is clearly required.

Comments on specific questions

Section A – Data Response

Question 1

- (a) (i) This question was well answered by most candidates who gained credit for correctly stating that the overall trend in alcohol purchased in shops over the time period was downward. A small number of candidates wasted time describing the changes on a year-by-year basis and did not identify the overall trend.
- (ii) The directive word here was 'explain' so it was not enough for candidates to simply identify one factor that might cause a decrease in the demand for alcohol. They needed to go on to provide a brief explanation of how this factor influenced the demand. For example, some candidates gained credit for stating that incomes might have fallen over the period and then going on to explain that this meant that consumers could no longer afford to spend their income on alcohol because they needed to spend on more necessary goods such as food. This simple explanation developed the point sufficiently for additional credit to be given.
- (b) (i) This question was designed to test simple data handling skills and it was pleasing to see that most candidates gained full credit for their answers.

- (ii) This question was answered less well. A large number of candidates did not answer the question set. Many explained why the 16 to 24 age group might consume less alcohol than other groups rather than explaining why this group had shown the greatest change in alcohol consumption. For example, some explained that this age group might consume less alcohol because typically they have less income than other age groups. This is not a valid explanation of the change in spending because this could equally be the case at the beginning of the period as at the end of the period. A valid explanation might be that the change in alcohol consumption was greatest amongst this group perhaps because they had suffered the greatest fall in income. This might be as a result of youth unemployment. It was not necessary for the candidate to have knowledge of the reasons for the fall and why it might be the greatest amongst the age groups. It was sufficient to explain one possible reason for this.
- (c) Most candidates appeared to be aware of the concept of consumer surplus, but there was considerable variation in the extent to which it was fully understood. Some excellent answers were provided, but many made mistakes in their explanation and this was often emphasised by inaccurately drawn and unclear diagrams. In addition, a significant number confused consumer surplus with the surplus that arises when a minimum price above equilibrium price is imposed in a market. Such candidates usually stated that the surplus would be greater at 50 pence rather than 45 pence. The confusion amongst these candidates resulted in them receiving very few marks for this question.
- (d) This question was answered well by most candidates who had a clear idea of the meaning of the term 'social costs' and how crime and hospital admissions contribute to these costs. Some high marks were awarded. A number of candidates, however, still assume that social costs are the same as negative externalities. Their answers lacked accuracy and scored poorly as a result.
- (e) To gain a good mark here candidates needed to have a good understanding of the ways in which minimum prices and an education campaign are each designed to reduce alcohol consumption. They also needed to be aware of some advantages and disadvantages of each policy. This would allow them to make some evaluative judgement on which policy would better deal with excessive alcohol consumption. The marks awarded showed considerable variation. Some answers were very descriptive and made little use of economic concepts. Better answers applied economic concepts to make an assessment of each policy. For example, some candidates explained that a minimum price for alcohol would see a contraction of demand along the demand curve as price rose, but the effectiveness of this policy might be reduced if the demand for alcohol was price inelastic. Weaker answers did not include any attempt to conclude which policy was likely to be better in dealing with the problem, despite the fact that the wording of the question clearly required this.

Section B – Essays

Question 2

- (a) This was a popular question. Most candidates who attempted this had a sound knowledge and understanding of the economic problem and the production possibility curve. Most could draw a production possibility curve, which was usually produced with increasing opportunity costs. A few candidates did not label the diagram correctly. The marks awarded for this part of the question were very pleasing. Candidates varied, however, in their ability to apply these concepts as required. The production possibility curve can be used to illustrate a number of aspects of the economic problem. A movement along the curve illustrates choice and opportunity cost while the curve also represents the frontier of what can be produced with limited resources.
- (b) Most candidates were aware of the causes of an outward shift in a production possibility curve and the significance of an outward shift for the welfare of the citizens of a country. The analysis provided varied and this affected the marks awarded for this assessment objective. The award of marks for evaluation relied upon candidates commenting upon whether the outward shift would always improve welfare. Many candidates gained credit for evaluation by explaining the potential impact of negative externalities. Others suggested that increases in population might outweigh the extra goods and services that would become available as a result of the outward shift. Some candidates scored poorly on this question, however, because they provided only superficial analysis that did not fully examine the range of issues suggested by the question. This superficial analysis also meant that candidates were unable to assess fully whether economic welfare would **always** be improved and as a result evaluative comment was limited amongst such answers.

Question 3

- (a) Most candidates who attempted this question were able to explain that inflation caused by an increase in the money supply would be categorised as demand-pull inflation and that rising world energy prices would cause cost-push inflation. Some high marks were awarded here, but a small number of candidates did not follow the directive word 'explain'. They simply identified an increase in the money supply as demand-pull inflation and rising world energy prices as cost-push inflation with no explanation of the processes underlying each and so could only gain limited credit.
- (b) To provide the required analysis for this question, candidates needed to show how a floating exchange rate affects the rate of inflation. Most were able to do this, but as with part (a) of this question, the development provided by candidates varied considerably. Some did little more than explain how a depreciation and an appreciation of the exchange rate would affect import and export prices. They did not go on to look at the full significance of these changes for the rate of inflation. Similarly, there was considerable variation in the extent to which candidates made some judgement on whether a floating exchange rate was consistent with the policy objective of a low and stable rate of inflation.

Question 4

- (a) This was the least popular of the essay questions. Those who did attempt the question were familiar with the law of comparative advantage and were able to explain that it is based upon opportunity cost. Application of the concept to show how specialisation and international trade could improve the welfare of consumers was not done well by many of those who attempted the question. The models provided to demonstrate that there would be an increase in goods and services available for consumption with specialisation and international trade were often confused and scored poorly. This suggested that candidates often try to learn this element of the syllabus but often do not understand it.
- (b) Answers to this question were generally weak. The central concept of the terms of trade remains poorly understood by many candidates. Many confuse the terms of trade with the balance of trade. Inevitably, with limited understanding, analysis was confused and evaluation absent.

ECONOMICS

Paper 9708/31
Multiple Choice (Supplement)

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

General Comments

The questions for which most candidates selected the correct answer were **1, 3, 7, 10, 13, 16, 25, 27** and **30**. These questions were answered correctly by 70% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **4, 9, 15, 17, 23** and **29**. These questions were answered correctly by 30% or fewer candidates. The rest of the questions gave results which were well within the levels expected.

Comments on Specific Questions

Question 4 was answered correctly by 27% of the candidates who chose option D. 13% chose option A, 23% chose option B and 37% chose option C. The short run when related to the production function is the period when at least one factor of production is fixed. The diagram shows labour hours as variable. The only other factor of production that is mentioned apart from labour is capital (**D**).

Question 9 was answered correctly by 30% of the candidates who chose option A, 23% chose option B, 24% chose option C and 23% chose option D. These proportions may well indicate that candidates were guessing the answer. They may well have not considered that the question stated that the total costs of production are fixed. The only diagram where the marginal cost, and therefore the variable cost, is also constant as users increase is A.

Question 15 was answered correctly by 25% of the candidates who chose option A, 31% chose option B, 20% chose option C and 24% chose option D. As with **Question 9**, these proportions may indicate that the

candidates were guessing. B, C and D all involve some change for those other than the people immediately affected. Minimum wage may increase costs of employers, free bus travel may reduce revenue of bus companies or involve the abandonment of other public service projects, longer supermarket hours will mean longer working days for employees. Milk quotas are already determined but they are traded among those who already have quotas if they think they would benefit.

Question 17 was answered correctly by 27% of the candidates who chose option C, 17% chose option B, 28% chose option C and 28% chose option D. The wages of the partner would already have been counted in the GDP. The increase would be the wages of the woman who started work and the wages of the childminder she then had to employ.

Question 23 was answered correctly by 27% of the candidates who chose option C. 9% chose option A, 43% chose option B and 21% chose option D. The liquidity preference curve shifted towards the origin so the question was asking about a shift and not a movement along the curve. Option C would be a possible cause of that. Sometimes unemployment can be challenging as it is a negative indicator.

Question 29 was answered correctly by 18% of the candidates who chose option A. 24% chose option B, 44% chose option C and 14% chose option D. If the actual growth in output was above the long-term trend then it would be likely that there would be less pressure on the inflation rate. There would be more opportunities for employment which would decrease if the current level of unemployment were above the natural rate of unemployment.

ECONOMICS

Paper 9708/32
Multiple Choice (Supplement)

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

General Comments

The questions for which most candidates selected the correct answer were **3, 9, 14, 19, 22, and 24**. These questions were answered correctly by 60% or more of the candidates. They covered a range of topics from different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **6, 16, 26, and 30**. These questions were answered correctly by 35% or fewer candidates. The rest of the questions gave results which were well within the levels expected.

Comments on Specific Questions

Question 6 was answered correctly by 21% of the candidates who chose option A. 49% chose option B, 18% chose option C and 13% chose option D. If the worker were allowed to choose the number of hours worked it would be indicated by the supply curve in relation to the wage offered. The economic rent of Z would still occur which would not happen with option B.

Question 16 was answered correctly by 33% of the candidates who chose option B. 23% chose option A, 35% chose option C and 9% chose option D. A new minimum wage is introduced which increases the wage of those over 21. Those under 21 are not affected. If a firm can employ workers under 21 at a wage below the new minimum wage they would be likely to do so. Unemployment in that age group would be likely to fall, the hours worked would be likely to increase and the average wage would be likely to rise.

Question 26 was answered correctly by 34% of the candidates who chose option B. 35% chose option A, 14% chose option C and 18% chose option D. With fewer people working and a growing economy it is likely that the productivity for each worker would increase. If the population of the working age had fallen (**C**) then the level of employment would have been likely to have increased, not decreased if the economy was growing. Conclusions about A and D cannot be deduced with certainty from the information given.

Question 30 was answered correctly by 27% of the candidates who chose option A. 22% chose option B, 32% chose option C and 18% chose option D. It is likely that with an increased target rate of inflation the government could allow a fall in interest rates as any resulting expansion of demand or borrowing could be accommodated within the new target inflation rate. Lower interest rates would be likely to cause the exchange rate to fall.

ECONOMICS

Paper 9708/33
Multiple Choice (Supplement)

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

General Comments

The questions for which most candidates selected the correct answer were **1, 2, 3, 4, 6, 7, 10, 11, 16, 19, 24, 26, 29** and **30**. These questions were answered correctly by 70% or more of the candidates. They covered a range of topics from different parts of the syllabus and were set to test different skills.

No questions were answered correctly by fewer than 30% of the candidates. The only question answered correctly by fewer than 35% of the candidates was **Question 21**. The rest of the questions gave results which were well within the levels expected.

Comments on Specific Questions

Question 21 was answered correctly by 32% of the candidates who chose option C. 63% chose option A, 2% chose option B and 3% chose option D. When the government reduced the deficit it reduced its expenditure. Aggregate expenditure would, therefore, decrease. The choice of options was, therefore, either A or C. The government, however, still had a deficit which it needed to finance by borrowing from the central bank. The money supply would thus still increase although it would increase at a slower rate than it did when the government was borrowing a larger amount.

ECONOMICS

Paper 9708/41

Data Response and Essay (Supplement)

General Comments

Candidates presented well-balanced and clearly structured answers, accurately directed to the question and enhanced by relevant examples and applications where appropriate.

In **Question 3**, candidate answers could be improved by explanation of how a firm might arrive at the position of profit maximisation. In **Questions 6** and **7** candidates would do well to draw a conclusion to their argument and relate their answer precisely to the question. Evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes – such a statement can be a preface to the answer rather than an addition but it needs to be made somewhere.

Comments on Specific Questions

Question 1

- (a) The reasons mentioned that temporary workers were paid lower than permanent workers, receive few extra benefits, do not have a permanent contracts and that the minimum wage is not applicable were noticed by most of the candidates.
- (b) Good responses to this question observed that although the number of firms with fewer than 10 workers represented a high proportion, this was a proportion not an absolute number of firms and it related only to the permanent staff and not to total employees. Candidates also mentioned that there were other indicators that could be used to establish whether most manufacturing firms are small such as output, turnover, capital investment, and therefore, they concluded that the information was not sufficient.
- (c) The majority of the candidates distinguished between fixed and variable costs related to output and gave a correct classification of the examples given.
- (d) Many candidates stated reasons why low wages could be good for the economy, for example, there may be more demand from firms for workers, including foreign firms, which would increase employment and spending and enable global competitiveness to be improved; fewer candidates presented situations when low wages might be bad for the economy. For example, low wages mean lower income, lower spending, lower demand and lower growth.

Question 2

- (a) This question required an explanation of what is meant by a budget line and how an increase in price of one good causes the budget line to pivot. Some responses to this question confused a pivot of the budget line with a shift of the budget line in a parallel manner. Better responses were able to explain the use of marginal utility in allocating consumer expenditure.
- (b) In perfect competition a firm takes the price as given by the market demand and supply. Monopoly does not need to do this and can fix price. In monopoly the price is likely to be higher and market quantity is likely to be lower than in perfect competition. Better responses suggested that this need not be so if there are economies of scale.

Question 3

- (a) For this question candidates were expected to give an explanation of maximum profit analysis. This would not just specify the output which derives maximum profits are but what a firm should do to achieve this. Such action would depend upon the assumed starting point and what the market structure was in which the firm operated.
- (b) Those who attempted this question usually presented a good analysis of alternative objectives and included discussions of how a firm might influence in the market, behavioural theories, and/or managerial theories. Some mentioned how a firm might balance the aims of different parts of the company or adopt a pricing policy which reflected what other firms in the market were doing rather than one which follows the rules of profit maximisation.

Question 4

- (a) Candidates were expected to consider the demand for and supply of labour. In the factor market the supply curve shows what would be supplied at a given wage. From the workers perspective a fall in wages results in workers being less willing to supply labour – and from their viewpoint the first statement is true. A rise in wages would result in workers being more willing to supply labour (until the backward supply is reached) – from their viewpoint the second statement is untrue. (Both situations are movements along the supply curve).

However, where the equilibrium occurs depends on demand as well as supply. If wages rise, employers are likely to demand less labour and employment is likely to decrease. This may be because a wage has been fixed by legislation. The second statement could thus be true if the factor market and not the individual worker is considered.

- (b) Candidates gave a clear analysis of the difference between perfect and imperfect factor markets, considering monopsony, government intervention and the activities of trades unions.

Question 5

- (a) Candidates gave good explanations of the extent to which growth would either increase income, standards of living and economic development. They balanced this with comments on how economic growth might destroy existing environments and cause overcrowding, congestion, pollution or negative externalities. Better responses gave a consideration of the short-run/long-run position and/or a comment on the differences in developed/developing countries.
- (b) This question required a discussion of the negative multiplier effect of reducing government spending and increasing taxes with the consequent effect on national income. It was surprising how many candidates gave general descriptions without mentioning the secondary effects and repercussions of such policies by using the multiplier or aggregate demand and supply analysis.

Question 6

There were many answers which presented a well-structured account of government economic policy aims and considered whether the achievement of these aims may be reached by using the methods mentioned in the question. Candidates often recognised that the two groups of variables stated in the stem of the question were not necessarily alternatives but may be interlinked.

Question 7

This question required an explanation of efficiency and a discussion of the relative merits of the private market and public sector. The private sector may be competitive and possibly more productively efficient but there may be problems of market failures, lack of information, externalities, demerit goods and no public goods. The quote does specify 'some functions'. It would have been appropriate for candidates to consider which functions might be appropriate for a transfer.

ECONOMICS

Paper 9708/42
Data Response and
Essays (Supplement)

Key messages

- Many candidates' responses contained enough material to show that they had understood the relevant theory. However, there was often insufficient development of that theory or an inability to relate it to the context of the question. The best candidates were able to do this.
- Candidates who responded to the trigger word 'Discuss' by providing a conclusion were able to access the higher levels of attainment. Those responses which only contained one side of an argument, or two sides of the argument but left the reader to reach his/her own conclusion, limited their mark, however detailed the analysis. It is safe to assume that candidates will not be penalised for providing a conclusion to all questions.
- Candidates are reminded that a thorough reading of the question is necessary to pick out the breadth of the question. This is particularly true of the questions without sub-divisions.

General comments

- Candidates should take care with the presentation and labelling of diagrams. Where diagrams are used, candidates should then make reference to them in the essay.
- Candidates should avoid the use of pre-learned answers that do not match the question which has been set.
- Care should be taken in assembling the completed script with all the pages in the correct order.

Comments on specific questions

Question 1

- (a) Most candidates successfully identified the relevant type of integration and applied it correctly to the two examples. Some were able to describe the processes but not recall their names. A few recalled the names but reversed the application.
- (b) Candidates were able to use the case material to identify the likely changes in employment in both the short run and the long run, hypothesising different scenarios to extend their analysis.
- (c) Most candidates traced the logic from falling profits to reduced innovation. However, a significant number were unsure exactly what was meant by 'food security', describing this in terms of export reliance rather than import reliance.
- (d) This element of the question allowed the best candidates to combine theoretical knowledge of the benefits and drawbacks of integration with the evidence presented in the article. They considered the issue from the corporate, employee's and consumer's point of view, and gave a conclusion, even if that was uncertain in the circumstances. Other candidates offered answers which were partial in one way or another, for example, from only the corporate point of view and based only on the article.

Question 2

Most candidates showed a good knowledge of the theory of diminishing marginal utility and were able to link it to the equi-marginal equation. Fewer explained how this linked to the inverse price–quantity relationship. The better candidates understood that an analysis of the derivation of the supply curve in perfect competition, based upon the summation of the individual firm’s marginal costs curves, was required. This, together with the demand curve, allowed for the determination of a market equilibrium as the statement suggested. A conclusion concerning the truth of the statement was required. This was addressed by only a very few candidates.

Question 3

Nearly all candidates demonstrated an extensive knowledge and understanding of the possible short-run and long-run equilibrium output and pricing positions in perfect competition and the variety of possible output and pricing decisions in oligopoly. Only a few went on to write explicitly about the similarities and differences of the outcomes as required by the question. This was disappointing given the strong opening to many essays.

Question 4

- (a) The best answers described factors affecting the supply of and the demand for labour, which extended to an exploration of the law of diminishing marginal revenue and the application of these to supply and demand analysis to account for wage inequality. Some then went on to explore the contribution of market imperfections in promoting wage inequality. Some answers only described the factors affecting supply of and demand for labour, whilst weaker candidates addressed only supply of or demand for labour, one half of the determinants of the price of labour (wages). This was similar to the one-sided approach taken in **Question 2**.
- (b) Those who had explored the role of trade unions as a source of wage inequality in part (a) were well placed to develop the theme further. The stronger candidates also saw the role of the trade union in promoting a fairer wage when monopsony existed and drew a reasoned conclusion.

Question 5

- (a) Descriptions of two macroeconomic aims of government and the definition of a boom were well covered by candidates. The stronger answers considered both advantages and disadvantages of a boom from the consumers’ and producers’ standpoints. The weaker responses concentrated on some lesser combination of the consumer, producer, advantage or disadvantage but did not cover them all.
- (b) Candidates were able to define a slump and to argue why it was wrong to cut government spending. Those who went on to discuss the effects of such cuts, using a full analysis of the multiplier process together with a comment on why this might not always be the best solution, were able to access the full range of marks.

Question 6

- (a) Most candidates showed knowledge of the three demands for money and commented upon the interest elasticity of demand for each of them, giving illustrations of either individual liquidity preference schedules and/or a combined liquidity preference with a comment on the liquidity trap.
- (b) Some candidates took the question at face value and discussed the reasons for a more equal income distribution and the policies which might be pursued to achieve that outcome. Others, after an initial exploration of those ideas, went on to explore a range of alternative policies and how the implementation of those might also impact upon equal income distribution.

Question 7

- (a) Many candidates provided a stock answer to this question, either on how economic growth might be achieved or on measuring GDP. Others provided a critique of the measurement of economic growth as a measure of the standard of living before exploring the links between it and GDP per head within a country and between countries. The best candidates introduced measures of standards of living other than GDP per head, such as MEW and HDI, into their discussion.
- (b) The most successful candidates took one of two approaches. (i) They argued that developing countries operate within the boundary of the production possibility curve (PPC). They linked this to inefficiency and demonstrated how economic growth could move such countries towards the PPC. (ii) Others saw that current policies within developing countries, such as subsidies or monopolies, might reduce efficiency and showed how eradication of these policies moved the country towards productive and allocative efficiency through an analysis based on perfect competition.

ECONOMICS

Paper 9708/43

Data Response and Essay (Supplement)

General Comments

Candidate responses to **Question 3** would do better to specifically apply the concept of price discrimination to the examples given in the question. In **Question 7** some candidates wrote about the characteristics of a developing country without considering whether the statement in the question was true. On occasions candidates included inaccurate diagrams, or diagrams that were very difficult to understand because they were too small and the intersections of the lines were imprecise. Diagrams are useful and welcome in the answer to a number of questions but unless the question specifies that they are necessary it is not a requirement. If a candidate chooses to use a diagram, it does not enhance the answer if it cannot be read clearly.

Evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes – such a statement can be a preface to the answer rather than an addendum but it needs to be included in the response. The higher marks are not given in such questions if candidates only present material and leave the reader to decide what the candidate believes.

Comments on Specific Questions

Question 1

- (a) Nearly all candidates were able to present a definition of economic growth.
- (b) Most candidates were able to comment that economic growth can be achieved by lowering barriers for people to produce (supply) goods and services and that lower tax rates may encourage such extra work and production (supply). Lower taxes may also affect profits of firms and willingness of businesses to expand and increase investment.
- (c) Many candidates used a diagram to explain the supply curve of labour. They mentioned that hours worked may well increase as wage increases until the wage reaches a certain level. Diagrammatically the supply curve would then curve backwards. The diagram required labels and a clear presentation – this was not always found. Changes in the tax rate at each level would change the curve.
- (d) Candidates were able to use the information in the article to explain that the result is similar to how a firm's revenue changes. The article stated that the change is similar to an elasticity for the firm that is greater than 1. There is a marked response in hours worked and thus a reduction in tax causes revenue to rise not fall.
- (e) Candidates were able to discuss the points mentioned in the article - the difference between the short run and long run; the lack of consistency in the outcome using US figures; the measurement of the sensitivity to tax changes; the difficulty of proving cause and effect. Candidates would do well to provide an overall conclusion in their response.

Question 2

It was expected that candidates would be able to give an explanation of equilibrium for the firm in terms of marginal cost and marginal revenue, and of the equilibrium of the consumer in terms of marginal utility and price. Most candidates who attempted this question were able to achieve this. While the consumer relates marginal utility and price, the firm relates marginal cost and marginal revenue. In perfect competition, however, marginal revenue is identical to price. Here, there may be a similarity in the

equilibrium. The significance mentioned in the statement is not correct in other market structures. The consideration of the link, or lack of it, was not so well done as the initial explanation of the analysis.

Question 3

- (a) The question required an explanation of the criteria for price discrimination. It is possible if there are separate markets, and it is profitable if there are different price elasticities of demand in the different markets. Some candidates presented applications of the concept that were quite distinct from the ones in the question. Those that used the examples in the question usually stated that the different size cabins were different products and, therefore, the price difference was not discrimination. They also argued that charging different prices for the same product depending on the address of booking was discrimination. Reasonable discussions were given to suggest how price discrimination might sometimes be justified – for example, if it allows production, employment or further investment to continue.
- (b) There were some good answers to this question but the most common failing was the omission of a clear explanation of the meaning and analysis of efficiency in favour of a general description about the characteristics and market operations of the two market structures.

Question 4

- (a) The question required candidates to explain the difference between the two market structures and the different representation each market would have in terms of the wage lines and the wage level. An explanation of monopsony and a comment on the existence of unions was appropriate. Candidates were able to present their analysis in a well-structured manner and show the distinction between the two markets.
- (b) There were two parts to this question and it was expected that candidates should deal with both aspects. First, the idea of failure. Candidates were asked to consider whether imperfect could be thought of as synonymous with faulty or failure. Second, they were asked to consider whether an imperfect market necessarily necessitated government intervention. Candidates were able to argue that a market may be considered 'faulty' if exploitation of the workforce occurs and wages are forced down and employment reduced. Some argued, correctly, that any correction to this 'fault' could perhaps be achieved by collective bargaining as well as by legislation or intervention.

Question 5

This question required a discussion of whether economic growth has disadvantages. Candidates could have considered for example, the exploitation of resources, the short term vs. long term, the creation of negative externalities. They then needed to discuss if it were possible that economic growth could cause a conflict with other government objectives. There were some good answers that outlined government objectives and clearly analysed possible conflicts that might result from economic growth – there might be pressure on prices, likely inflation; the effect on distribution of income, possible greater inequality; the extra demand may increase imports with consequent effects on the balance of payments. It would be unlikely to find a conflict with the objective of increased employment.

Question 6

- (a) The purpose of this question was to ask the candidates to explain the three reasons why, according to liquidity preference theory, people demand money. The explanation of the transactions, precautionary and speculative demand had then to be related to the use of credit cards. Candidates suggested that credit cards are not necessarily related to transactions demand as that demand is related to income but money spent on credit cards is sometimes spent without being received as income. Credit cards may reduce the precautionary demand because a future expense may be made, not through money saved, but through the credit card. The amount left for speculative demand may increase if less money from current income is used for transactions and precautionary demands because the repayment is postponed by using the credit card.
- (b) The possible effect of an increase in money supply on the rate of interest was well presented by the candidates. They discussed the elasticity of the liquidity preference schedule and the possible effect of changes in interest on investment. Better answers also commented on the elasticity of the investment schedule and extent of the marginal propensity to save. Some candidates mentioned the possible effect on the international situation with changes in imports, exports, speculation and

exchange rates which might lead to potential inflationary results. These could lead to changes in government policy.

Question 7

- (a) Most candidates who answered this question were able to write with some certainty about the characteristics of developing countries. Some candidate responses would do better to give a conclusion as to whether they agreed with the statement in the question. A comment relating the information that was provided in the answer to the service sector and international trade would have changed the emphasis of the answer considerably without the need for any further information.
- (b) As with part (a) of this question, some candidates gave a general answer about the difficulties of using GDP as a means of measuring economic performance. Although this information is relevant, candidates were asked a more specific question. Candidates would do better to include their opinion, first what 'performed well' meant and second whether GDP was a valid means of comparison between countries not just within a country.