ECONOMICS

Paper 9708/11
Multiple Choice (Core)

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

Key message

Candidates must be prepared to face questions that are presented in a novel way and not just to expect standard formats. The foreign exchange rate questions were a particular issue.

General comments

This year 1206 candidates sat the examination, a reduction of 75 candidates. The mean score fell from 18.0 to 15.2, a score more in line with earlier past performances. While no candidates scored full marks, 3 candidates made only one error. It is, however, disappointing that the number who scored below the guessing level (below 8 marks) rose to almost five per cent, well above last year.

The topics that candidates found most accessible were positive and normative statements, social costs and free trade. The topics that proved difficult for a large number of candidates were subsidies, market clearing, income stabilisation and foreign exchange rates. Three of the four most difficult questions involved interpretation of diagrams.

Comments on specific questions

In **Question 11** the majority of candidates chose option A. This simply reduced the market price by the full amount of the subsidy. Rather the calculation of a new supply curve was required. This would give a new equilibrium at 10 cents per kilogram (option B) to reflect the increased supply at each price.

Question 12 was an unusual approach. Option B was the most popular but incorrect choice. The market clearing price needs to be recognised as $2000 where D=S at 12 clocks. At this price Y only demands the 4 clocks already in his possession, while X wants 2 less than he has and Z wants 2 more than he has. The latter two trade two clocks to achieve their equilibrium, hence the key is D.

The central point to **Question 18** is that a demand curve in the form of a rectangular hyperbole gives constant revenue. Most candidates jumped to the conclusion that a range of government actions would be needed to match the different circumstances (option D). However the operation of the market with this demand curve would guarantee the same income with different levels of supply (option A).

The obvious error in the main choice D in **Question 28** was the confusion as to which currency market was shown. A fall in demand for the currency would apply to the market for Euros (option D). The market shown in the question was for US$s. There would be a reduced supply of US$s to obtain fewer Euros in the given market (option B).

In **Question 29** an appreciation would likely result in an increase in the rate of unemployment as higher prices made exports less competitive and imports became cheaper (option C). The three other options are more likely to be associated with depreciation, so they were a surprising choice.

ECONOMICS

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

Key message

Be prepared to meet questions that pose problems in an unfamiliar form. Candidates would benefit from more detailed understanding of diagrams.

General comments

There were 8271 candidates, an increase of almost 300 candidates. The test performed similarly to that of last year and the mean score rose from 15.4 to 15.8. The large majority of questions discriminated satisfactorily. **Questions 6, 10 and 14** proved to be easier than the intended test design, while **Questions 13, 19 and 26** proved to be more difficult than intended. Six candidates achieved full marks, while 3% of candidates scored below the guessing level (below 8 marks).

The topics that candidates found most accessible were the economic problem, production possibility curves, demand shifts, elasticity of supply and micro-economic terms. Particular difficulties arose with consumer surplus, international exchange and the CPI. All of the latter group were either numerical or diagrammatic. This reflects the continuing greater competence with written questions.

Comments on specific questions

There was an even spread of choice of answer to **Question 13**. Candidates seem to find difficulty when changes in consumer surplus rather than absolute levels are required. Area x is not part of the change as it exists in both situations. Area z represents a negative amount of consumer surplus as the consumer is

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paying more for some goods than the value they bestow. Consequently consumer surplus will rise by that amount when the minimum purchase requirement is removed.

A movement from point X to point Y in **Question 18** requires a shift in both the demand curve and supply curve. The most popular chosen option C involves two supply curve shifts so equilibrium at Y would not be possible. Option A is the key as two shifts in the correct direction are involved.

In **Question 19** more candidates opted for C than the correct response A. In doing this they were establishing the trading possibility curve of country S. They needed to go one step further by identifying a possible consumption point on this curve. Only option A offered this possibility.

A common error in interpreting data resurfaced in **Question 23**. There is insufficient information to conclude that B is correct, although 45% of candidates chose it. The unemployment is given as a percentage rate while the option involves absolute numbers, these do not necessarily give the same outcome. The key is C as the unemployment rate fell in country Y, whereas it rose in X and Z.

Question 26 had the lowest facility on the paper. The largest group of candidates opted for C. A 2% inflation rate was evident between 2008 (the base year) and 2010 but not in 2010 itself. The 2010 rate needs to be compared to the price level in the previous year. Option D is correct as the numerator (3) is the relatively lowest rise in comparison to the denominator (108).

ECONOMICS

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

Key message

International trade topics scored on average lower marks than the rest of the syllabus and would most benefit from more detailed knowledge.

General comments

There were 520 candidates, an increase of 8 on last year's November examination. The mean score rose to 19.6 from 17.9. This is marginally the highest sessional mean score in the five years that the paper has been offered. A surprisingly large number of questions proved to be particularly easy with more than 80% correct answers. These were **Questions 1**, **2**, **11**, **12**, **14** and **23**. These were mainly knowledge-based questions. Only 6 questions recorded a facility below 50%. Three candidates achieved full marks, one more than in the last exam, while seven others scored 29 marks. Three candidates scored below the guessing level (below 8 marks).

As in previous years candidates found microeconomic topics the more accessible. However unlike last year the average mark on diagram-based and numerical questions was higher than the average on sentence-style questions. The small entry makes generalisations about performance less than certain.

Comments on specific questions

In **Question 9** there was some imprecision in the use of terms. The largest number of candidates chose option D, this showed a shift in the supply (curve). The term 'quantity supplied' relates to a movement along the supply curve, usually as the demand curve shifts. Option C shows that only diagram 1 has both a move

along the curve to a greater quantity. The operation of international trade and comparative advantage often causes difficulties for candidates.

While for **Question 20** the largest group recognised that increased specialisation needs mobility of labour (option B), a significant number showed uncertainty over the basis of comparative advantage by choosing C or D.

The concept of index-linking in **Question 26** was accurately known to a majority of candidates. However, the incorrect option C was unexpectedly popular. This suggests that the understanding of the link to money and real values is confused by some candidates.

Question 30 had the lowest facility on the paper. A majority of candidates selected option C. A devaluation will worsen a country's terms of trade not improve them so this is incorrect. The benefit and hence aim of the devaluation is to raise production and employment by increasing export sales and revenue and reducing the purchase of imports.

ECONOMICS

Paper 9708/21
Data Response and Essay (Core)

Key Messages

- Candidates need to ensure that they focus on the particular 'command' or 'directive' word that is being used in a particular question, such as 'explain', 'discuss', 'distinguish' or 'evaluate'.
- It is important that candidates understand that in the second part of the **Section B** questions, a certain number of marks can be awarded for **evaluation**. There is often a clue in the question to guide candidates towards this, such as in **Question 3(b)** which required a discussion of whether the domestic or the external consequences of inflation were **'more damaging'** to an economy.
- Candidates need to ensure that diagrams are correctly drawn and clearly labelled.
- It is important that candidates read questions very carefully. For example, in **Question 1(a)(i)**, some candidates did not calculate the **percentage** change in the price of cereals between 2011 and January 2014.

General Comments

Candidates should make sure that they draw a diagram(s) where they are explicitly required, such as in **Question 1(c)** or in **Question 3 (a)**.

It is very important that candidates look closely at the 'command' or 'directive' word being used in a question, so that they recognise whether they are being asked to **explain** something, as in the case of the first part of the **Section B** questions, or **discuss** or **evaluate** 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 consider which policies, that might be adopted by businesses to maintain sales when incomes are falling, were **'most likely to be successful'**.

Comments on Specific Questions

Section A

Question 1

(a) (i) Many candidates were able to calculate the percentage change in the price of cereals between 2011 and January 2014, a change of 21.8%, although not all of these pointed out that the price **fell** by this amount.

(ii) Many candidates were able to identify **two** possible reasons why the world price of cereals and the world price of dairy products moved in opposite directions between 2012 and January 2014, such as an increase in supply of cereals and a decrease in supply of dairy products, but the explanations of these reasons were sometimes rather limited. A few candidates got the reasoning the wrong way round in terms of the effect of changes in demand and/or supply on prices.

(b) Most candidates were able to explain how an economist would decide whether cereals and dairy products were substitutes through the use of the concept of cross-elasticity of demand. They provided the correct formula for the calculation of the cross-elasticity of demand and pointed out that an increase in the price of one product would lead to an increase in the demand for its substitute. In other words, if cereals and dairy products were substitutes, the cross-elasticity of demand would be positive. A few candidates developed their explanation by stating that the higher the value of the coefficient, the closer the two products would be as substitutes.

(c) The majority of candidates were able to use an appropriate diagram to illustrate how a subsidy would affect the price and quantity of rice produced in India, shifting the supply curve to the right leading to a reduction in price and an increase in quantity. A few candidates, unfortunately, drew the supply curve to the left, leading to an increase in price and a decrease in quantity.

(d) Many candidates were able to explain a likely opportunity cost of the Indian Government's spending on the food subsidy. Examples of the next best alternative foregone as a result of taking this decision included spending on merit goods, such as education or healthcare, spending on public goods, such as defence, or spending on infrastructure.

(e) Candidates made an attempt to discuss whether food subsidies were likely to solve the world's food shortages in the long run, and there were some considerations of what would be meant by the long run in such a situation, but many of the answers needed to be developed more fully, especially in relation to the causes of food shortages, such as population growth, poor harvests and the lack of investment in agriculture. A number of candidates focused on the demand side, without recognising the importance of subsidies to supply. Candidates were able to gain marks for evaluative comment on the likely effectiveness of subsidies as a way of solving the world's food shortages in the long run.

Section B

Question 2

(a) In this part of the question, candidates were required to demonstrate a knowledge and understanding of the concept of income elasticity of demand and then to use the concept to explain how a fall in incomes would affect the demand for inferior goods and necessary goods. Most candidates recognised that in the case of an inferior good, a fall in incomes would lead to an increase in the demand for inferior goods because the income elasticity of demand for an inferior good is negative. Some candidates, however, were less certain about the impact of a fall in incomes on the demand for necessary goods, with a number of them thinking that a necessary good was the same as an inferior good, while others believed that a necessary good was the same as a luxury good. The better candidates recognised, however, that a fall in incomes would lead to a decrease in the demand for necessary goods, although they recognised that there would not be much of an impact because although the income elasticity of demand for necessary goods is positive, it is relatively inelastic.

(b) In this second part of the question, candidates were required to discuss the policies that a business might adopt to maintain sales when incomes were falling and then to go on to consider which of these policies were most likely to be successful. Many candidates recognised that when incomes were falling, there would be a decrease in the demand for normal and necessary goods and so businesses would need to think of ways to increase the demand for such goods, such as through an advertising campaign which would have the effect of shifting the demand curve for such products to the right. Many candidates referred to price reductions as a way of attempting to increase sales. A number pointed out that some businesses might switch to the production of inferior goods, the demand for which would increase when incomes were falling.

Marks could be awarded in terms of the evaluation of which policies would be most likely to be successful, but many candidates did not really offer a convincing evaluation. Some candidates, however, did make an attempt to offer an evaluation, recognising that the success of policies would depend upon a number of factors, such as price elasticity of demand in relation to the possible success of any price reduction.

Question 3

(a) In this part of the question, candidates were required to explain, with the help of diagrams, how cost-push and demand-pull inflation could be caused by a falling exchange rate. Many candidates were able to demonstrate a knowledge and understanding of each type of inflation, clearly distinguishing between them, and were able to apply each to a situation of a falling exchange rate. Unfortunately, some candidates did not include any diagrams, despite the explicit reference to them in the question. It should also be pointed out that in such a question as this, the diagrams need to show aggregate demand and aggregate supply.

(b) In this second part of the question, candidates were required to distinguish between the domestic and external consequences of inflation and then go on to discuss which was the more damaging to an economy. Many candidates were able to offer a useful distinction between the two types of effect, such as in relation to the impact on the level of savings, the extent of investment, the redistribution of income, especially affecting fixed income earners, shoe leather and menu costs domestically, and the external effects on trade. A few candidates, however, seemed to be unsure as to what was meant by 'domestic' and 'external'. Marks could be awarded in terms of the evaluation of which was likely to be the more damaging to an economy, but in the majority of answers there was relatively little such evaluation.

Question 4

(a) In this part of the question, candidates were required to explain how an efficient economy could benefit from specialisation and trade with a less efficient economy. Many candidates were able to demonstrate a knowledge and understanding of the concept of comparative advantage and the importance of different opportunity cost ratios, and were able to apply this to the situation in the question where in a two-country, two-product world, one country is more efficient at producing both products than another.

(b) In the second part of the question, candidates were required to evaluate the economic reasons that the less efficient economy might offer to justify the protection of its industries. There were some good answers in relation to the possible reasons, including the prevention of dumping and the protection of infant and strategic industries. Marks could be awarded in terms of the evaluation of these economic reasons, but the extent of the evaluation in most answers was limited. The evaluation could have covered, for example, how genuine the economic reasons were or were they just being used to protect inefficient declining industries in a country.

ECONOMICS

General Comments

Many candidates have the required knowledge of the key concepts to score well, but they were not always able to apply this to gain a high mark. In addition, many did not develop their analyses to a sufficient depth and candidates lost marks because of a lack of evaluative comment in their essays. Others scored poorly on some questions because they did not read the instructions sufficiently carefully. Two of the questions, for example, specifically required the use of a diagram and marks were reserved for these in the mark scheme, but some provided answers to these questions that did not include a diagram, and hence failed to score all the marks that they could have done.

Key Messages

- Candidates need to develop the required skills to interpret data with accuracy.

- It is essential that the questions are considered carefully so that the full requirements of it are appreciated.

- Candidates should be aware that knowledge of concepts is in itself not sufficient to score well. The concepts must be understood and applied to a variety of contexts and situations.

- Candidates need to be aware that the second part of essay questions will always require some evaluative comment to gain high marks.

Comments on Specific Questions

Question 1

(a)   This question was poorly answered by many candidates because they failed to think carefully about what the graph showed. The fall in the curve between July 2009 and July 2011 meant that the US dollar could be exchanged for fewer rupiah. This meant that dollar had depreciated and the rupiah had appreciated over this period. After this date the curve rose meaning that the dollar could purchase more rupiah in the foreign exchange market, i.e. the dollar had appreciated and the rupiah had depreciated. Unfortunately, many candidates simply saw the fall in the curve and assumed this meant that the rupiah had fallen over this period. Similarly, when the curve rose it was assumed by many candidates that the rupiah had appreciated. Those candidates who failed to interpret the graph correctly failed to score.

(b)   Candidates needed to recognise that the depreciation of the rupiah meant that the price of Indonesia's imports had risen and the price of Indonesia's exports had fallen. Candidates needed to go on to explain how this would lead to a current account deficit. Many explained that this was because Indonesia's demand for imports was inelastic so that import expenditure would rise leading to a deficit. Some, however, failed to score the second mark available because they did not explain how the change in import and export prices affect overall expenditures, so they failed to explain the impact upon the current account.

(c)   Some good answers were provided here, but disappointingly few candidates gained all four marks available because most failed to provide a key part of the answer. The majority of candidates showed good understanding of the impact of the removal of the subsidy. Accurate diagrams were provided, showing a shift of the supply curve to the left and the consequent rise in price. In their accompanying explanation many candidates gained the mark available for explaining that the shift

of the supply curve to the left would occur because the removal of the subsidy meant that effectively the firm's costs had increased. Few however gained the fourth mark available. This was awarded for some attempt to explain why the rise in price was as high as 44%. This reason for this particularly sharp rise was the price inelasticity of the demand for oil. A small number of candidates provided a confused response. Some for example, had a diagram showing a shift in the demand curve. These approaches also failed to score.

(d)(i) Candidates could approach this question in a number of ways. A rise in interest rates in the US would be likely to lead to a capital outflow from Indonesia as those with funds in Indonesia transferred them to the US where they would get a better return than formerly. This would lead to an outflow from the financial Account of Indonesia's balance of payments. An alternative approach was to explain that the higher interest rates in the US would encourage households in the US to save more and that this would reduce Indonesia's exports and have a negative effect upon Indonesia's current account of the balance of payments. It was also acceptable to take a longer-term view and analyse the effect of the higher US interest rate on the value of the US currency. A higher interest rate would lead to a higher value of the dollar leading to increased US export prices and lower US import prices. This might improve the competitiveness of Indonesia's goods in foreign trade and improve Indonesia's current account. All approaches were acceptable and could gain both marks available. Many candidates scored well here but some became confused and failed to score. A number also explained the impact of the interest rate rise upon US consumers or those with investment funds in Indonesia, but failed to explain how the changes identified would affect the balance of payments. They failed to gain a mark as a result.

(ii) The better responses to this question developed the analysis provided to the previous question. Again a number of approaches were acceptable. Some developed good answers using a diagram of the foreign exchange market showing an increased supply of rupiah as capital flows from Indonesia to the US. Others showed a fall in the demand for the rupiah as the US demand for Indonesian exports fell. An alternative approach was to explain the reasons for an increase in the value of the US$. This approach however needed to make it clear that the appreciation in the value of the US dollar was equivalent to a depreciation in the value of the rupiah. There were many answers provided that scored full marks here. These had accurate diagrams of the foreign exchange market together with good clear accompanying explanations. A number of candidates appeared unsure of the requirements of the question, however, and made no reference to the foreign exchange market. In addition some candidates lost marks as a result of carelessly drawn diagrams. Some, for example, had the demand curves for foreign exchange rising from left to right. Others had diagrams that were left unlabelled and marks were lost as a result.

(e) There was a great deal of variation in the quality of answers provided. There were many changes described in the data that might affect aggregate demand or aggregate supply in Indonesia. These included the fall in the value of the rupiah, the reduction in fuel subsidies and Indonesia's ban on nickel exports. Candidates needed to explain how these changes might affect aggregate demand or supply and how this might impact upon prices and output. A disappointingly large number of candidates seemed unaware of any link between the changes in the data and aggregate demand or supply and the impact upon prices and output. Many made the error of confusing the demand or supply of a single commodity with aggregate values. For example some based their answer upon the supply of nickel to the market rather than aggregate supply, which is a measure of the supply of all goods to the economy. As stated some candidates had a clear idea of the meaning of the central concepts in this question and used this to provide good, clear and sufficiently developed answers to score well. Others did not have a firm grasp and scored poorly.

Essays

Question 2

(a) On the whole, this question was done well and many candidates gained full marks here. Good answers showed a sound knowledge and understanding of the concept of price elasticity of demand and were able to apply this to explain the impact of price changes upon the total revenue derived from the sale of both types of chocolate. Some candidates provided the formula for the concept and were able to state what represented a relatively elastic and relatively inelastic response to a change in the price of the good, but provided confused responses to the explanation of how total revenue changes. This suggests that knowledge of the concept was present, but their understanding was incomplete.

(b)   Many candidates were able to suggest factors that might cause a fall in demand for chocolate, but there was considerable variation in the extent to which they were able to develop their answers. Similarly, when considering whether chocolate producers have the power to stop the fall in demand, many candidates made valid suggestions, but the extent of the explanation was variable. Inevitably, this affected the marks awarded for evaluation.

Question 3

(a)   Answers to this question were on the whole disappointing. The majority of candidates failed to see the significance of the 'modern economy' aspect of the question. Many mentioned the importance of 'general acceptability' and this often lead to the recognition that cash, or notes and coins, represent money in a modern economy. Few however seemed aware that the transfer of bank deposits is the most generally accepted method of payment in a modern economy. Fewer still recognised that these are transferred electronically to settle debt. Many scored marks for describing the characteristics of money such as durability, divisibility and portability, but they did not go far beyond this to explain what represented money in a modern economy. Many candidates who did recognise that nowadays people hold bank accounts made erroneous comments about cheques and credit cards being 'money', rather than the bank deposits on which cheques are drawn.

(b)   A weakness of many answers here was an overemphasis upon describing the functions of money with only cursory consideration of how inflation might affect each function. This approach made it difficult to score marks for evaluation. With only very limited consideration of the impact of inflation upon the functions of money it was very difficult to make an assessment of whether all of the functions of money could be performed effectively. Some candidates did provide effective evaluation. Some stated, for example, that it depended upon the rate of inflation and illustrated this by explaining that during periods of hyperinflation even the medium of exchange function could not be performed effectively. As stated many candidates scored low marks here because they spent insufficient time considering the requirements of the question and as a result, their efforts were misdirected.

Question 4

(a)   Candidates needed a firm grasp of the theoretical model of reciprocal absolute advantage. Many of those who attempted to construct an appropriate economic model became confused when trying to show the increase in total world production that would result from specialisation. As a result, they were unable to complete their answers with a demonstration of the benefits of trade. Many gave more descriptive answers and explained the generic benefits of specialisation without any theoretical underpinning. This approach gained some credit, but without the theoretical model the answer was incomplete and the marks awarded were lower.

(b)   This question was designed to test understanding of the law of comparative advantage. Candidates needed to explain this with reference to the concept of opportunity cost. They then needed to consider whether this would always result in beneficial trade. Some good answers were provided but as with part **(a)** there was considerable confusion amongst those candidates who attempted to construct an economic model. A significant number of candidates seemed unaware of the significance of opportunity cost and scored poorly as a result. Marks awarded for evaluation were generally poor here because many candidates did not read the question carefully and they failed to recognise that they were required to assess whether trade would always benefit countries.

ECONOMICS

General Comments

Some candidates produced scripts that displayed excellent knowledge and understanding of the required economic concepts, together with the ability to apply this and to develop their analysis to make evaluative judgement. Some high marks were awarded. Some candidates, however, displayed weaknesses in their grasp of economic concepts and in exam technique. Some, for example, had an incomplete grasp of economic concepts and there was carelessness in interpreting question requirements.

Key Messages

- Knowledge and understanding appeared to be incomplete amongst some candidates. It is essential that all areas of the syllabus are fully understood to ensure that concepts can be applied, analyses developed and evaluative judgements made.

- Data handling must be exercised in an economic context and appropriate economic terms used.

- Candidates must read the question carefully to ensure that their answers are appropriate to the question set.

- Candidates need to be aware that the second part of essay questions will always require some evaluative comment. To gain high marks the analysis contained in an answer should provide sufficient content for evaluative comment to be made.

Comments on Specific Questions

Data Response Questions

Question 1

(a) Many candidates were able to manipulate the data to calculate the current account balance in 2008 and they compared this with the balance in 2012. Unfortunately, some lost a mark through carelessness. In order to score both marks available it was necessary to display the necessary accuracy in providing the answer. Some candidates, for example, did not make it clear that the balances were presented in millions of Canadian dollars. Others stated that the balance was 'positive' in 2008 and 'negative' in 2012; the appropriate terms are a surplus in the earlier period that became a deficit in 2012. Those candidates who simply calculated that a surplus of C$1908 million was replaced by a deficit of C$62215 million in 2012 were rewarded with both marks available.

(b) This question was done well by most candidates. Some candidates showed the impact of the removal of the tariff on EU goods arriving into Canada in the context of international trade. Others simply showed the shift of the supply curve to the right that would result as tariffs were removed. Either approach was acceptable and some good marks were scored on this question.

(c) This question was intended to give candidates the opportunity to display an understanding of the arguments in favour of protectionism in the context of trade between Canada and the EU and the impending CETA agreement. Some candidates argued that protection for Canada's cheese makers could be justified on the grounds that one of the disadvantages of imports from the EU would be a large rise in unemployment amongst those employed in the cheese industry. Most candidates adopted this approach and gained a good mark.

(d)   Candidates needed a good understanding of the theory of comparative advantage and to apply this theory in the context of the issues raised in the data. Although a number of candidates gained good marks here, others did not provide a balanced answer. Some for example, displayed only a cursory grasp of the underlying theory with little recognition of the importance of opportunity cost. Others had a good grasp of the theory, but failed to apply it in the context of CETA. Those who showed the ability to apply the theory to the context of the case study scored well.

(e)   This was poorly answered by many candidates because they did not answer the question set. The question was re-interpreted by many who provided an answer that assessed the likely impact of Canada's trade agreement with the EU. In fact the question asked for an evaluation of any further information that would be helpful in assessing this impact. These included factors such as transport costs, the exchange rate and trends in Canada's trade with other trading partners such as the United States. Many provided completely irrelevant answers here and scored no marks as a result. Candidates need to consider the wording of the question carefully to ensure that their answer is fully in line with the question requirements.

Essays

Question 2

(a)   Many candidates chose to answer this question despite apparently lacking a firm grasp of the functions of price, enterprise and profit. Many had little awareness of the allocative and rationing function of price. Also, many did not explain that the function of enterprise was to organise the other factors and take the risk associated with production in a free market economy. Although some excellent, high-scoring answers were produced, many answers lacked a grasp of the basic concepts and scored a low mark as a result.

(b)   An outward shift in a production possibility curve will occur for a number of reasons. It could occur because of technological advance or because of the addition of an increased number of factors of production. This question was concerned with the issue of whether these changes were more likely to occur in a free market economy or a centrally planned economy. Some argued that a centrally planned economy was more likely to generate growth because the planning authorities could direct resources to the production of capital goods and research and development that would shift the curve outwards. Others argued that in a free market economy enterprise would be stimulated to invest in capital goods and would devote funds into research and development because of the incentive provided by the pursuit of profit. Some good discussion was developed along these lines. Unfortunately, some candidates seemed unsure of the causes of an outward shift in the production possibility curve and scored poorly as a result.

Question 3

(a)   This question was poorly answered by many candidates. It was disappointing to see candidates state incorrectly that education and defence were both public goods. A large number of candidates also stated that they were both merit goods. Many candidates seemed aware of the criteria that are used to classify goods such as whether consumption of goods was excludable and diminishable, but were unable to apply these criteria correctly to the services in question. Some high marks were awarded to those answers that had a firm grasp of the nature of these two services, but many candidates provided confused answers and scored low marks as a result.

(b)   The confusion that many candidates showed in their answers to part **(a)** of this question undermined many responses to the second part. Revenue raised from taxation could be used to provide the necessary funding for both defence and education. Subsidies are more targeted and can reduce price and increase quantity of a product in the market. They can be used to improve the provision of merit goods, but are inappropriate for improving the provision of public goods, such as defence, because no price can be charged in a market. Answers needed to be developed that grasped these essential points, but since many candidates did not fully grasp the essential difference between these two types of product low marks were often awarded.

Question 4

(a)   This was the least popular essay question, but there were some good answers provided by those who attempted it and some high marks awarded. Most of those who attempted the question were

aware of the way in which an increase in the money supply could cause demand-pull inflation and most answers contained sufficient depth in their explanation. In dealing with a decline in an economy's exchange rate most candidates explained how this could cause cost-push inflation, but others provided good explanations of how an increase in net exports that would result from a decline in the exchange rate could cause demand-pull inflation. Either approach was acceptable and sufficient to gain maximum marks for this aspect of the question. Some good marks were awarded here.

(b) This question also resulted in some good answers with many candidates displaying the ability to explain the impact of a high rate of inflation on an economy. On the whole the impact of a deficit on the current account of the balance of payments seemed less well understood and this undermined the answers of a small number of candidates to this part of the question. Inevitably, those candidates who did not address this aspect of the question here found it difficult to complete the answer. Without a consideration of the ill effects of both high inflation and a current account deficit it was difficult to make an evaluative judgement on where the government's priority should be placed. Candidates should be advised that it is difficult to reach a conclusion and gain marks for evaluation unless all aspects of a question are considered.

ECONOMICS

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

General comments

615 candidates sat this paper. The mean mark was 13.7 which is slightly lower than the mean of 14.8 last year.

The questions for which most candidates selected the correct answer were 8, 13, 14, 18, 23, 25, and 29. These questions were answered correctly by 60% 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 5, 9, 15 and 17. 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 5 was answered correctly by 17% of the candidates who chose option A. 31% chose option B, 22% chose option C and 30% chose option D. When a worker chooses to work fewer hours with a rise in real wages it would mean that the worker would prefer to have more leisure. She believes that she can achieve the standard of living required with either the same money income or slightly higher money income without working as long. The substitution effect would cause her to work longer hours but this would be outweighed by the income effect which reduces the hours worked.

Question 9 involved the use of a curve representing constant amounts of capital. In determining the grade boundaries for the paper, this question was discounted as it was too challenging for the level it was intended and it did not suitably discriminate between candidates.

Question 15 was answered correctly by 20% of the candidates who chose option B. 52% of candidates chose option A, 14% chose option C and 14% chose option D. Journeys from X to Z (option A), journeys from Y to Z (option C) and Z to Y (option D) incurred a congestion charge before the change so the new charges would not affect them. Journeys from Y to X (option B) would now incur a congestion charge when they were non-chargeable before. The perceived cost of the journey would rise and the number of journeys made would decrease.

Question 17 was answered correctly by 19% of the candidates who chose option D. 11% of candidates chose option A, 9% chose option B and 62% chose option C. The equation MV=PT suggests that money multiplied by the velocity equals the value of transactions. Many economists employ GDP instead of PT. If M increases and V remains constant the money value of national income will increase; this may be from a rise in prices but it may also be from an increase in transactions and thus option C is not necessarily correct.

ECONOMICS

Paper 9708/32

Multiple Choice (Supplement)

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

General comments

5086 candidates sat this paper. The mean mark was 13.6 which was slightly lower than the mean of 14.7 last year.

The questions for which most candidates selected the correct answer were 1, 9, 14, 15, 18, and 29. 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, 11, 12, 16 and 28. 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 10% of the candidates who chose option C. 4% of candidates chose option A, 5% chose option B and 78% chose option D. This question proved to be very challenging for candidates. Those candidates who answered with 'D' omitted to recognise that the question stated that employees were working to the best of their ability and could not work any harder, thus their strengthened incentive to increase their earnings could not result in a significant improvement in labour productivity.

Question 11 was answered correctly by 28% of the candidates who chose option C. 43% of candidates chose option A, 12% chose option B and 17% chose option D. In imperfect competition the price elasticity of demand changes from elastic (greater than 1) to inelastic (lower than 1) depending on the price charged. The point on the demand curve where the price elasticity is unity corresponds to the output level where marginal revenue is zero. This is also the point of maximum total revenue.

Question 12 was answered correctly by 25% of the candidates who chose option B. 13% of candidates chose option A, 48% chose option C and 15% chose option D. The ratios are for the five largest firms. It cannot necessarily be concluded that the tobacco industry is a monopoly market as no information is given as to the sales of each of the five firms. Only the total percentage for all five is given. However, it can be concluded that the percentage of total sales of the five largest firms in the printing industry is smaller than the percentage of total sales of the five largest firms in the tobacco industry and that, therefore, it is more competitive.

Question 16 was answered correctly by 23% of the candidates who chose option D. 25% of candidates chose option A, 39% chose option B and 13% chose option C. The examples given in options A, B and C involve situations where there are either externalities and/or inefficient production. Subsidies for agricultural production are not usually introduced for reasons of inefficiency. They may be introduced to support domestic agriculture or to provide basic foodstuffs at a lower cost to the consumer. Neither necessarily implies an original inefficient production level.

Question 28 was answered correctly by 20% of the candidates who chose option D. 26% of candidates chose option A, 25% chose option B and 28% chose option C. There will be no change in the money supply if the securities are purchased by the non-bank private sector. The change in the money supply depends on the sale to the central bank and the reserve ratio.

ECONOMICS

Paper 9708/33
Multiple Choice (Supplement)

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

General comments

188 candidates sat this paper. The mean mark was 20.8 which was almost the same as the mean mark last year of 20.5.

The questions for which most candidates selected the correct answer were 1, 3, 5, 6, 7, 9, 10, 14, 16, 18, 25 and 28. 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 50% of the candidates. The two questions that were answered correctly by the fewest candidates were 11 and 19. 52% of the candidates gave the correct answer which is still a commendable performance.

Comments on specific questions

Question 11 was answered correctly by 52% of the candidates who chose option D. 15% of candidates chose option A, 4% chose option B and 29% chose option C. This question concerned the characteristics of a downward sloping demand (average revenue) curve. Marginal revenue, if drawn on the diagram, will cross the horizontal axis half way between the origin and the point where the average revenue curve meets the horizontal axis. Total revenue will increase up to that point as the marginal revenue is positive. Beyond that point, total revenue will decrease as the marginal revenue is negative.

Question 19 was answered correctly by 52% of the candidates who chose option C. 13% of candidates chose option A, 24% chose option B and 11% chose option D. If national income were increased by $3 million to the full-employment level of income, the inflationary gap would have been eliminated by an injection of $1 million. The multiplier is 3, the marginal propensity to save is 1/3 and the marginal propensity to consume is 2/3.

ECONOMICS

General Comments

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

Candidates did not always achieve as high a mark as their knowledge could have allowed them because they did not read the question carefully and did not direct their knowledge to the particular phrase and question asked. This omission was particularly evident in **Questions 3(b)**, **4**, **6(b)** and **7**. Comments on these questions are given below.

Candidates are also reminded that evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes. Such a statement can be a preface to the answer rather than an addition but it needs to be made somewhere. Quite often candidates merely presented material and left the reader to decide what the candidate believed.

Comments on Specific Questions

Section A

Question 1

(a)   Candidates were expected to understand that increases in growth cause higher incomes and that these higher incomes were reported to increase consumer welfare and thus increase happiness. The article suggested that there is no limit to the possibility that increases in income increase well-being.

(b)   It was hoped that candidates would use a demand and supply diagram and show that an indirect tax would shift the supply curve to the left and cause a change in the equilibrium with a rise in price. This would then result in a decrease in total utility. Many candidates used a demand and supply diagram but shifted the demand curve to the left with the supply curve remaining unaltered. Others did not make any mention of the change in total utility or confused the change in total utility with the change in marginal utility.

(c)   It was expected that candidates would briefly draw attention to the opinion in the article that suggests that wage differentials are more important than absolute wage levels in determining well-being. Candidates did discuss the effect of a rise in tax rates that would result in lower incomes. They recognised that there may be a disincentive effect on work if tax rates rise too far. Better candidates mentioned that it is important to consider how the revenue from the tax increases is used. Governments could use the revenue to re-distribute income. Candidates were expected to give a conclusion to their reasoning.

(d)   Candidates were able to discuss both aspects of growth. There are some advantages to growth. Research states that economic growth increases incomes and welfare increases as incomes increase. Candidates also made general comments of the effect of growth, for example, in terms of employment and international competitiveness.

Candidates also usually mentioned that there are disadvantages to increased growth. They stated that calculations do not take account of all the costs and used the airport proposal as an example of wider (external) costs. Some also made further general points, for example, possible pressure on price increases, resource depletion, changes in employment as machines replace labour. This question was well answered by most candidates.

Section B

Question 2

(a) There were some good, clear explanations of productive and allocative efficiency. Many were supported by accurate diagrams. A common uncertainty, however, was for candidates to say that productive efficiency was production at the lowest cost. They did not mention whether it was lowest total cost or lowest average cost or lowest marginal cost. As this statement was often accompanied by a diagram, to which no further reference was made, which included a marginal cost curve, the intention of the narrative was unclear.

(b) There were equally good answers in this section of the question. Candidates explained how privatisation could increase competition and this might well lead to reductions in prices for the consumer. Good candidates suggested that whether such competition led to productive efficiency, once possible opportunities for economies of scale were removed, was debateable. Even better candidates considered that it was also debateable whether competition, unless it is perfect, allowed allocative efficiency as no account need be taken of externalities so social allocative efficiency might not be attained.

Question 3

(a) This question was not as well answered as **Question 2**. Candidates did not always present the analysis which states that in perfect competition there is a link between the marginal cost of the firm and the supply of the firm, and further that the sum of all the firms' supply curves forms the industry supply curve. Instead they considered a supply and demand diagram. There was little mention of the lack of a similar relationship in imperfect competition.

(b) There were two parts to this answer. First, candidates should have discussed whether average costs always fall with increased output and analysed the possibility of economies of scale or diseconomies of scale. Secondly, they should have debated, granted the existence of economies of scale for large production, whether there was any place in an economy for a small firm. It was quite often the case that candidates concentrated on the first part of the question and either omitted the second part altogether or added a very brief descriptive couple of lines at the end of the answer.

Question 4

For this question the candidates needed to consider whether the theory does presume that there is only a perfect market and that an exact equilibrium will be achieved. They could have commented that the theory allows for imperfections and does not prescribe an exact equilibrium in the imperfect market with trade unions. Candidates then needed to consider whether the conclusion in the statement was accurate. Although some candidates did do this, the weakness of many answers was that they presented the analysis of the theory of wages both in perfect and imperfect competition but without any reference to the specific direction of the question. Further, the uncertainty of the final outcome within the range of possibilities of wage rates in imperfect competition was not stressed.

Question 5

(a) This question was usually well done and candidates gave an explanation of the use of a budget to determine revenue and changes in government expenditure. The role of fiscal policy in achieving government macro aims was presented. Better candidates made reference to the achievement of micro aims.

(b)   This question required an explanation of the transactions, precautionary and speculative demand and discussion of the link to rate of interest. The answers usually gave a good description of the three motives and then debated the relevance of interest rates concluding that the interest rate link is relevant to the speculative demand.

Question 6

(a)   A majority of the answers provided a clear explanation of the link between investment, the rate of interest, the cost and efficiency of capital equipment, changes in consumer demand and expectations which resulted in a clearly structured answer. Some candidates lacked analysis in this question.

(b)   It was expected that candidates would discuss the link between investment and output via the multiplier and subsequent effect on further investment via the accelerator. The explanation of the multiplier was quite often lacking in development which resulted in a poor structure to the answer. A conclusion regarding the truth of the statement was often missing, the answer remaining as an analytical presentation of the theory, which could have been the preamble to different questions about the generation of output.

Question 7

Questions on this topic are usually well done and this examination session was no exception to that. Candidates commented on the relevance of the general descriptions of each type of country and suggested whether the criteria given were limited to only the type of country mentioned. They referred to the meaning of living standards and general influences on the standard of living, with an observation on the value of different indicators, for example, GDP, GDP per capita, HDI. The weaker answers gave a general account of the difficulties of comparing different countries and did not stress the particular indicators mentioned in the preamble to the question. Very small changes of presentation in these answers with a specific recognition of the assertion in the stem of the question would have resulted in a higher mark.

ECONOMICS

Key Messages

- Candidates generally demonstrated that they understood the relevant theory. They could have improved on fully developing the analytical aspects of the question and applying it to the context of the question.
- Many questions contained the trigger word 'Discuss' or 'Consider'. Both these terms require at least a two-sided argument or debate within the answer and the drawing of a conclusion to access the higher levels in the mark scheme. Many answers were one sided or left the examiner free to draw his/her own conclusions.
- Candidates are reminded to thoroughly read the question to pick out the full breadth of what is being asked. This is especially true of the questions without sub-divisions.

General Comments

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

Candidates should be reminded to pay careful attention when labelling diagrams to ensure this is done accurately. Some candidates offered perfectly presented diagrams but without a word of reference to them in the essay itself. Others presented pre-learned answers that did not match the question asked. Candidates need to read each question carefully, paying particular attention to the command words.

Comments on Specific Questions

Section A

Question 1

(a) Most candidates managed to identify correctly one aspect of China's growth rate. However, many talked only about growth and not the rate of growth. Many defined GPD.

(b) Candidates should have considered the fact that the graph in Figure 1 contained scales on both the vertical axes, one referring to the growth percentage per year and the other to the nominal value of the GDP in China. This led to confusion. This question required the candidate to identify trends in the data rather than for them to read data values from the graph.

(c) This element of the question allowed the better candidates to provide fully developed answers clearly defining inefficiency, and supporting this using diagrams and examples. Many candidates correctly defined efficiency but did not explain fully or in part inefficiency. The text could be drawn upon to provide examples on inefficiency.

(d) Many candidates were able to identify two examples from the text of market failure and the measures associated with their reduction. However, some confusion existed between **part (c)** and **part (d)** of the question with some discussing inefficiency in depth, but not responding to the question which was set. A minority went on to comment on the adequacy of the policies they had proposed. Some answered the question entirely in the abstract with no reference to the market failures experienced by China.

Section B

Question 2

(a) It was pleasing to see the better candidates recognised that the question required an examination of the consumer demand theory and the derivation of the downwards sloping demand curve. Some limited themselves to the point of equilibrium of price and marginal utility. Others offered a discussion of supply and demand affecting price rather than how price affected demand.

(b) Many wrote answers which related forms of market structure to the balance of domination between producers and consumers and made the correct links to producers and consumers. Many recognised that producers and consumers are inter-linked and do not exist without each other. Few directly discussed sovereignty. Many discussed only one side of the argument or identified a limited range of market structure(s).

Question 3

(a) The best answers produced a clear definition of each term together with either a diagram which showed the relation of diminishing return and/or total output related to factor inputs and marginal cost related to output. Many produced good definitions of one or two of the terms. Some attempted to use a single diagram to illustrate the three terms.

(b) Candidates demonstrated their considerable knowledge of economies of scale and drew the appropriate diagrams correctly and linked them to the different forms of integration. They were also able to identify the need for the continued existence of the small firm. Many candidates gave the correct equal balance to both elements of this part of the question.

Question 4

(a) Candidates clearly hold a good understanding of the transaction and precautionary demands for money. More candidates are developing a firm understanding of the inverse relationship between the speculative demand for money and the rate of interest. Most were able to correctly illustrate the relationship between the three demands and the rate of interest.

(b) This was an application of the theory explained in **part (a)**. Better candidates used the theory as the basis for their answer, and correctly related the three elements of the question, these being higher pay, longer interval between pay dates and falling interest rates as the three motives for holding money. Other candidates abandoned the theory of **part (a)** and discussed the effects in general terms.

Question 5

This question was very popular with candidates and many candidates read the question and made a comprehensive response which identified the better statistics to use, their reliability and the alternative measures which can be used in addition. Other candidates saw it as an opportunity to discuss elements of relative development or to list economic indicators. Again, candidates need to read the question thoroughly in order to provide a reasoned and comprehensive response.

Question 6

This was a question which was popular with those who had chosen **Question 4**. The better candidates developed an analysis which explained why high interest rates would limit investment and also why that might not be the case. They then went on to consider the other aspect of the question as to why there might be circumstances in which governments might raise interest rates. Weaker answers concentrated on only one or other of the statements and failed to develop an analytical framework for their answers.

Question 7

(a)   Candidates were most familiar with supernormal profit and related it to monopoly and perfect competition in the long and short run. The illustrations were well drawn and referred to at length in their answers. They then went on to define and illustrate the concept of economic rent and transfer payment. The better candidates saw that there was some equivalence between the two concepts. Some candidates concentrated on the supernormal profits aspect of the question and only in the context of monopoly.

(b)   Some candidates were able to distinguish between and analyse the impact of a trade union on wages and employment and the role the marginal revenue product curve plays in the analysis. This gave access to the full range of marks. Other candidates, however, made no reference to marginal revenue, nor the effects of a monopsony industrial structure on the outcome.

ECONOMICS

General Comments

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

Candidates did not always achieve as high a mark as their knowledge could have allowed them because they did not read the question carefully and did not direct their knowledge to the particular phrase and question asked. This omission was particularly evident in **Questions 3(a)**, **4**, and **7**. Comments on these questions are given below.

Candidates are also reminded that evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes – such a statement can be a preface to the answer rather than an addition, but it needs to be made somewhere. Quite often candidates merely presented material and left the reader to decide what the candidate believed.

Comments on Specific Questions

Section A

Question 1

(a) It was expected that candidates would give a brief explanation of productive efficiency, referring either to a production possibility curve or to the lowest cost of production in terms of the average cost of a given output. This question did not present any difficulty for most candidates.

(b) Most candidates recognised that the first idea was that the economy was thought of as a machine that was best left without regulation. However, this was stated as not working effectively and the second idea of a garden, in which there was some government involvement, was given. Candidates gave observations on the article as illustration and, as with **(a)**, this question did not present any problem for most candidates.

(c) It was expected that candidates would give a brief description of the meaning of 'a weak economy' and explain how spending is an injection which, through the multiplier process, would lead to an increase in income and growth. Candidates understood the meaning of a 'weak economy'; occasionally the analysis of how spending could revive the economy was not convincing.

(d) Candidates needed to consider the article and draw a conclusion. There could be thought to be a conflict. The last sentence says consumer spending is main job creator. Previously the article said government and regulation was necessary. It also said that consumers were not always rational and things were not always efficient. Some candidates elaborated the idea that while government involvement might be necessary it may have been brought about by the actions of consumers and so there need not be a conflict in the statements. What was important in the answer was that candidates formed an opinion and justified it.

Section B

Question 2

(a)   This question required an explanation of marginal utility, a comparison of marginal change in utility and marginal change in price, and the link between consumer equilibrium and demand. Candidates explained the concept of marginal utility, and although some restricted themselves to one product they understood the analysis. What was sometimes lacking was a connection between the equilibrium point of a consumer, a change in price and a derivation of a consumer's demand curve. There were many candidates who did explain these connections but sadly the link from that to the market demand curve was often missing. The sum of individual demand curves forms the market demand curve. Whether individual utilities can actually be added is debateable.

(b)   This section was well answered. Candidates gave a discussion of the relevance of marginal revenue and marginal cost for a profit maximising firm. They then considered the relevance of marginal change for alternative aims, a firm might mention its relevance, for example, with revenue maximising and contrasting that with an aim of satisficing.

Question 3

(a)   This question required an analysis of long-run average cost, a discussion of economies and diseconomies of scale and a consideration of whether economies occur in smaller firms. This question also required a diagram. The earlier part of the question presented no problems for candidates who were well aware of the idea of a long-run average cost curve. The comment on the relevance of such a curve to small firms was sometimes omitted from the answer and, thus, the answer appeared as a repetition of a pre-learned explanation of economies of scale. Candidates did not use their knowledge in a manner that is directly related to the question. The diagram of the long-run average cost was often incorrectly drawn with the minimum points of the short-run average cost curves all tangential to the long-run curve.

(b)   This section was well answered. Candidates gave a discussion of an imperfect market where collusion occurs, usually this was oligopoly. They compared this with a theoretical monopoly and/or a perfect market in terms of size of firms, freedom of entry, output determination, types of product, information sharing.

Question 4

Candidates usually began this answer in an informed manner. They dealt with the causes of unemployment and gave examples of each cause. They then discussed wage determination; the better candidates used the analysis of marginal revenue productivity. Most candidates then considered how trade unions or government policy might alter the wage rate. The last part of the answer which required a link between the two sections was often omitted so there was no comment on how wage rate changes by unions or governments might affect unemployment. The omission of this concluding section, which was required by the question, was unfortunate.

Question 5

(a)   This question necessitated an explanation of the meaning of fiscal policy and its effect on small retailers. The question specified that the effect was detrimental so the relevant fiscal policy would most likely be from increased taxes, either indirect on sales (the outcome would depend on demand elasticity) or direct on company profits/consumer incomes. It is unlikely that the policy would be a subsidy as they were badly affected.

(b)   This question appeared not to present any difficulties for those who attempted it. The competition in the statement was from large businesses so it was really an imperfectly competitive market. Candidates gave illustrative comments on the outcome of competition, for example in terms of choice or reduced prices, but the better answers also commented on possible detrimental outcomes in terms of price fluctuations, excess profits, inequality in the distribution of incomes and possible market failure.

Question 6

(a)   Candidates were able to explain the effect of interest rate changes on savers, borrowers, business investment and speculators. Higher rates mean a greater likely return on saving but an increased cost of borrowing in order to finance expenditure. The reverse is true for lower rates. Better answers mentioned that these general effects might vary as different reactions to rate changes might also depend on factors such as income, age of person, career situation, employment

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prospects, need for single large expenditure in future. Some candidates mentioned that the proportion of income that is spent or saved may vary depending on the level of income.

(b) Answers to this question varied. First there were those who gave clear comments on government macroeconomic aims but avoided a link between those aims and low interest rates, or only gave a brief link to one or two of the government aims. Second there were those who made such a link to all the aims very explicit by stating, for example, that low rates might stimulate borrowing (unless banks are unwilling to lend) and investment. This might increase employment, encourage economic growth, might lower the exchange rate as there would be less demand for currency and increase exports or reduce imports. This could help the balance of payments but may have inflationary pressures.

Question 7

It was hoped that the answers would present an explanation of the characteristics of developing/developed economies with specific reference to the indicators mentioned in the stem of the question. Candidates could have recognised that not all these indicators happen in the way they were presented and that, even if they do, they may not always be extensive, and that the statement is one-sided. A comment could have been made on the positive side of development and a conclusion presented. Many candidates presented a general answer on the difficulties of comparing developed and developing economies and the problems of using such measurements as GDP. Such an answer, although containing relevant material, was not explicitly related to the question asked.