ECONOMICS

Paper 0987/11
Multiple Choice 11

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

Key messages

Candidates should possess a thorough knowledge and understanding of all topics in the syllabus. This is especially the case when applying economic analysis to numerical, diagrammatic and graphical data.

To have a clear understanding of what is required, it is important for candidates to read through each item very carefully before selecting an option on the answer sheet.

General comments

1750 candidates sat this paper. The mean mark was 21.0 which was slightly lower than the mean of 22.6 last year.

The questions for which most candidates selected the correct answer were **1**, **2**, **3**, **10**, **17**, **19**, **24** and **25**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **5**, **8**, **9**, **15**, **16**, **18** and **20**. These were answered correctly by fewer than 60 per cent of the candidates.

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Comments on specific questions

Question 5

Question 5 was answered correctly by 50 per cent of the candidates who chose option **C**. 12 per cent chose option **A**, 10 per cent chose option **B** and 27 per cent chose option **D**. Those candidates who chose option **D** confused a movement along a demand curve with a shift of demand. When the demand curve shifts, it is referred to as an increase in demand. A movement along a demand curve is referred to as an extension of demand.

Question 9

Question 9 was answered correctly by 38 per cent of the candidates who chose option **C**. 10 per cent chose option **A**, 11 per cent chose option **B** and 41 per cent chose option **D**. An increase in consumers' incomes would cause an increase in demand and this would result in an outward shift of the demand curve and a movement along the supply curve (option **C**). An increase in farm workers' wages (option **D**) would cause an increase in the costs of production and result in a shift of the supply curve, not a movement along the supply curve.

Question 15

Question 15 was answered correctly by 45 per cent of the candidates who chose option **A**. 25 per cent chose option **B**, 20 per cent chose option **C** and 9 per cent chose option **D**. This question showed a total cost curve. At 10 units of output the total cost was shown as $50. At zero units of output there was still a cost of $10 so this must represent the fixed cost. Variable cost is the total cost minus the fixed cost, so the total variable cost is $40. For each of the 10 units produced the average variable cost would, therefore, be $4 (option **A**). Option **B** was the average total cost and option **C** was the total variable cost.

Question 16

Question 16 was answered correctly by 53 per cent of the candidates who chose option **B**. 11 per cent chose option **A**, 15 per cent chose option **C** and 21 per cent chose option **D**. This question gave a table of factors of production and a level of output. Each of the factors of production doubled. This must, therefore, relate to the long run as all the factors have changed. The output, however, did not double which represents diseconomies of scale.

Question 18

Question 18 was answered correctly by 55 per cent of the candidates who chose option **B**. 18 per cent chose option **A**, 10 per cent chose option **C** and 18 per cent chose option **D**. The question asked which pair of monetary policy measures would be likely to increase employment. Candidates had to distinguish monetary policy measures from fiscal policy measures. Only option **B** has two examples of monetary policy. Those candidates who did not choose option **B** may well have omitted to notice that the question referred only to monetary policy.

Question 20

Question 20 was answered correctly by 55 per cent of the candidates who chose option **B**. 19 per cent chose option **A**, 21 per cent chose option **C** and 6 per cent chose option **D**. The question asked about the likelihood of a low inflation in the short run and in the long run if there is increased spending on education when there is already full employment in the economy. Extra spending is likely to increase demand which, in turn, will be likely to cause prices to rise as the economy is at full employment. Thus, lower inflation is not likely to occur in the short run. As the spending is on education and training, in the long run there may well be more skilled labour or a more productive workforce and that will reduce the likelihood of price rises and make lower inflation more likely (option **B**). Those candidates who chose option **C** may well have misread the question and thought it asked about the likelihood of increased inflation rather than lower inflation.

ECONOMICS

Paper 0987/12
Multiple Choice 12

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

Key messages

Candidates should possess a thorough knowledge and understanding of all topics in the syllabus. This is especially the case when applying economic analysis to numerical, diagrammatic and graphical data.

To have a clear understanding of what is required, it is important for candidates to read through each item very carefully before selecting an option on the answer sheet.

General comments

65 candidates sat this paper. The mean mark was 22.5 which was almost identical to the mean of 22.2 in 2022.

The questions for which most candidates selected the correct answer were **1**, **3**, **4**, **5**, **7**, **12**, **13**, **15**, **18**, **20**, **25** and **27**. These questions were answered correctly by 85 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **17**, **19** and **30**. These questions were answered correctly by fewer than 50 per cent of the candidates.

Comments on specific questions

Question 17

Question 17 was answered correctly by 28 per cent of the candidates who chose option **C**. 3 per cent chose option **A**, 31 per cent chose option **B** and 38 per cent chose option **D**. The question asked about a government policy of increasing indirect taxes while leaving direct taxes unchanged. Increasing indirect taxes would result in increased revenue for the government and help to reduce any budget deficit (option **C**). More candidates chose option **D** than option **C**. Increasing indirect taxes would be likely to cause price rises which would not reduce the rate of inflation.

Question 19

Question 19 was answered correctly by 40 per cent of the candidates who chose option **D**. 35 per cent chose option **A**, 22 per cent chose option **B** and 3 per cent chose option **C**. The question asked who would be most likely to gain at the time of inflation. During inflation the real value of money decreases so it benefits those who owe money as debts (option **D**).

Question 30

Question 30 was answered correctly by 31 per cent of the candidates who chose option **A**. 38 per cent chose option **B**, 9 per cent chose option **C** and 22 per cent chose option **D**. The question asked what policy would improve a deficit on the balance of payments. Changes in import quotas sometimes cause confusion. Reducing a quota means that fewer goods or services would be allowed into the country. This would decrease the expenditure on imports and thus help to reduce any deficit on the balance of payments.

ECONOMICS

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│   ▨   Paper 0987/21         │
│       Structured Questions  │
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Key messages

It is important to remember that all the questions in **Section A** are written in such a way for candidates to draw upon the information in the source material to form the basis of their answer. For this particular exam, many candidates did not do this for **Questions 1f** and **1g** and therefore received low marks or, in some cases, no marks. The guidance before **Question 1** makes very clear that candidates should 'refer to the source material in [their] answers'. This is different guidance to **Section B,** where each question is introduced by stimulus material but where the answer may 'refer to this material and/or to other examples that you have studied'.

General comments

One of the major reasons why some candidates scored fewer marks than others is that while they correctly identified a relevant factor, they did not develop their answer and therefore didn't gain additional marks. For example, on **Question 5b** most candidates stated that a point inside a PPC meant there was an inefficient use of resources. However, they did not develop it by stating that this meant that output was lower than what was potentially achievable. A second example is **Question 1d** where many candidates did identify two influences in the source material on the price elasticity of supply of coal but then did not state what that influence would be e.g. making supply more elastic or more inelastic. Not making these development comments can have a significant impact on total marks and grade achieved.

Most candidates set out their answers well and in a logical manner which made it straightforward for the examiner to follow their written answers. However, a few candidates did jump about between questions. This is understandable if they are attempting to answer the questions which they think they know best. However, this can, and often does, lead to candidates missing out on answering a question or adding to an answer at the end of the answer booklet, in some cases, without stating which question they are answering.

Additionally, as examiners are required to mark all questions attempted by a candidate, candidates should not cross out work unless they are having a second attempt at their answer. Sometimes candidates cross out their answer to a whole question believing they will score more highly on a later question, but this is not always the case. Severe crossing out may prevent an examiner from being able to read what was written and could result in an incorrect mark being awarded for the original answer. Finally, some candidates write on every line without leaving a gap between questions. Given the size of the answer book, there is no need to do this. If gaps are left it makes it easier for the examiner to see where one answer ends and the next begins, especially where in some cases, a candidate forgets to number each question.

Comments on specific questions

Section A

Question 1

(a)   Slightly fewer than half the candidates calculated the right answer. The unemployment rate is a percentage calculated by taking the total number unemployed (0.62 m) and dividing it by the total working population (14 m) and then multiplying by a hundred which gives 4 per cent. The most common error was to divide by the total population (25.8 m) giving an answer of 2.17 per cent. A few chose the right figures but gave wrong answers of 0.04 e.g. not multiplying the division by 100 or 4 million.

(b)   The source material contained three substitutes for coal, namely gas, offshore wind and solar panels. Nearly all candidates correctly identified at least two of these. Those that did not usually named other substitutes such as oil which were not named in the source material and therefore are not correct answers.

(c)   Slightly fewer than half of candidates were able to name an economy of scale based on information in the source material. The three acceptable answers were managerial – based on reference to the employment of specialist workers; technical – based on employing advanced equipment and external – based on a skilled labour force. Quite a few candidates stated financial or purchasing economies of scale but there was no evidence in the source material to support this. Quite a few candidates were able to identify the feature e.g. specialist staff but could not name the relevant economy of scale. A few were simply too vague e.g. 'use of machineries for mining.'

(d)   There were a limited number of correct answers in response to this question. The main reason for this was that the answers given related to elasticity of demand rather than supply e.g. 'Demand is a key factor in determining the elasticity of supply of coal.' Often, candidates were able to select storage and construction of a new mine as relevant influences affecting elasticity of supply, but then did not state that this made elasticity of supply inelastic.

(e)   Most candidates were able to correctly draw a demand and supply diagram. However, only a few were able to add on a maximum price below the equilibrium price and show the surplus demand created e.g. the gap between the supply curve and the demand curve at this maximum price. In many cases, candidates shifted the supply curve or demand curve downwards creating a new but lower equilibrium price rather than a maximum price, which was incorrect.

(f)   This question required candidates to use the data in Table 1.1 which showed the output and consumption of the seven largest coal producing countries in the world in 2020. However, few did make use of this date and of those who did, very few identified that the two largest coal producers, China and India, actually consumed more then they produced. A few simply used data from the table without analysing it, e.g. 'from the evidence we can see that China has an output of 3640 and a consumption of 4215' which does not address the question. In previous exams, candidates have been good at looking at the data and identifying the relationship, so it is unclear why so many wrote an answer without any reference to any country in the table. These answers were less successful as they did not identify a relationship e.g. why large coal producing countries were likely to export coal. A few missed the point that all the countries in the table were large producers and only looked at India and China since they were the largest in the table.

(g)   There were some good answers to this question, with many candidates covering both reasons why an increase in the coal industry would benefit the Australian economy and why it might not. Common reasons why it would include providing employment, increasing exports, causing economic growth and providing tax revenue to the Australian government. There were fewer reasons given as to why it might not benefit. The most common given where it would create pollution and damage people's health or the environment and that world demand was moving away from coal to renewables, so demand would fall in the long run. Less successful answers often were one-sided or only covered several factors without development.

(h)   This question proved challenging for candidates, as many simply looked at the impact of the expansion of the coal industry on the Australian economy, overlooking all of the information on the Australian economy in the fact file. For example: 'Australia is likely to have a budget deficit in 2026 because of the decline in demand for coal.' The expectation was that as the question included reference to 2026, candidates would use the information contained in the fact file. This was not often the case. Strong answers covered why the Australian government might or might not have a budget deficit. Common correct answers picked up on higher unemployment and population growth as factors likely to lead to a budget deficit and a few also pointed out that the budget was already in deficit in 2026. Equally, the fact that GDP was forecasted to rise along with a rise in the size of the labour force suggested lower government expenditure and more taxpayers. A few candidates seemed unclear about what a budget deficit is and so their answers tended to relate to a balance of payments deficit instead.

Section B

Question 2

(a) Most candidates knew at least one function, usually medium of exchange or measure of value. Often there were errors in the wording of the term e.g. 'means of exchange' or candidates could only give a description e.g. 'money is used to pay for our goods and services.' A few candidates identified characteristics rather than functions e.g. it was portable, or they gave a function and a characteristic.

(b) This was a well answered question with most candidates explaining that improved education would result in less demand for cigarettes and more demand for fresh fruit. The reason given by many candidates was that people would be able to identify that cigarettes were demerit goods and bad for your health whereas fresh fruits were merit goods which are good for your health. Those that did not get full marks often did not state that demand would rise for cigarettes.

(c) There were some strong answers to this question which identified what had caused an increase in tax revenue e.g. rise in employment, higher income, more spending by consumers, greater profits by firms and increased imports and then linked these changes to the relevant tax e.g. income tax, sales tax, corporation tax and tariffs. Many answers showed a chain of reasoning. Less successful responses tended to limit their answer to the government increasing tax rates or simply repeated higher tax revenue without naming any taxes. A few candidates misunderstood the question and wrote about the consequences of an increase in taxes rather than the cause of it e.g. 'An increase in government tax revenue is likely to lead to an increase in spending e.g. on education and healthcare.'

(d) Unemployment benefits were understood by most candidates. Most were able to explain how they could be used to reduce poverty for those receiving it as it enabled them to buy basic necessities. It was good to see that many answers distinguished between relative and absolute poverty. Some less successful candidates misinterpreted the question and wrote about the impact of higher unemployment. Strong answers explained that the opportunity cost of increasing benefits was that there was less money for the government to spend on education and healthcare and that if total government expenditure rose it could lead to demand-pull inflation which would decrease the value of the benefits. Many candidates also made the point that it was only a short-term solution and that many unemployed might not spend their money wisely. A few candidates seemed to not understand that the size of such benefits was small and wrote about it being enough money to set up their own business or pay for the education of their children.

Question 3

(a) Most candidates were able to identify two valid reasons why death rates might vary between countries. Common reasons were the level of healthcare, standard of living, conflict and war. A common error was to state the size of the population, but as death rate is calculated as per 1,000 of the population this would make no difference to the death rate, although the average age of the population would.

(b) Many answers included at least one cause of an increase in the size of a country's labour force. Common causes included a higher birth rate, immigration of workers, a rise in the retirement age or a fall in the school leaving age. Less successful answers included those that stated a cause but did not give an explanation e.g. that the rise in birth rate would only increase the labour force in the long run. The least successful answers were those that stated a cause that would not affect the size of the labour force. For example, people getting a job who were previously unemployed, as the definition of the labour force already includes those seeking a job. These candidates confused labour force with those in employment. Another example of an error was 'An increase in education provision will improve their skills and make it more likely that they can get a job.'

(c) Most responses discussed how an increase in productivity increased output which led to greater exports. Relatively few discussed in detail why the extra output led to higher exports e.g. better quality or lower price or why it might also lead to lower imports. A small number confused the current account of the balance of payments with government budget balance and wrote about the impact on tax revenue.

(d) An understanding of inflation was clearly shown in many of the answers given. Strong answers explained the main causes of inflation e.g. total demand was exceeding total supply causing demand-pull inflation or higher costs causing cost-push inflation. These strong answers also explained that government contractionary fiscal and monetary measures could cause low inflation. However, many candidates were unable to explain why countries might have different rates of inflation. Some wrote about changes in exchange rates affecting prices within a country and the characteristics of high or low inflation, but not what caused it.

Question 4

(a) Nearly all candidates were able to identify at least one factor influencing which country a person would decide to work in. Common influences included family ties, job opportunities, wages and living standards. A few candidates gave answers that were not relevant or were simply too vague e.g. 'The level of challenges' or 'they provide merit goods and public goods', possibly because these two terms formed the basis of the next question.

(b) Nearly all candidates were able to explain that a merit good was beneficial and gave a correct example e.g. education. However, only a few were able to explain a public good. Many described it simply as a good provided by the government and gave an example of a public service. Few mentioned that it was non-rival or non-excludable good which private sectors would not provide and only a government would fund. However, quite a few were able to give an example, e.g. 'defence' and 'streetlighting'. Other responses were more confused and described free goods, or having written about a merit good then went on to explain what a demerit good was. This was possibly because they had written about merit and demerit goods in their answer to **Question 2b**.

(c) This question was answered well. These answers mainly focused on government spending on education and healthcare, explaining how this would increase life expectancy e.g. spending on healthcare would lead to more hospitals, more availability of medicines and greater accessibility to trained staff. Other acceptable answers included: better sanitation and water supply, better welfare support for those living in poverty or pensioners and improvements in infrastructure e.g. better roads reducing deaths from road traffic accidents.

(d) Most candidates understood what was meant by a country's foreign exchange rate, but a sizeable minority did not. Even where they did understand, quite a few candidates gave an incorrect explanation of the impact of a rise in the foreign exchange rate. They stated that the result would be that exports would be cheaper and imports more expensive and then described the consequences of that, which did not answer the question. However, a rise in the foreign exchange rate would lead to exports becoming more expensive and unless exports were inelastic in demand, export revenue would fall. Candidates tended to do better in explaining that consumers would benefit from lower prices for consumer goods and that industry would benefit from cheaper raw materials. More successful candidates also pointed out that it could lead to lower inflation and domestic firms losing sales to cheaper imports.

Question 5

(a) Generally, candidates correctly identified at least one reason why rich households spend more than the average household. The most common correct answer was higher income, wealth or finding it easier to borrow. Those that did not gain a second mark often missed out because of the imprecision of their statements. For example, stating that rich households purchase more luxury items, without adding the point that luxuries are more expensive.

(b) Many candidates found this question challenging. The requirement was that for the point inside the PPC the response needed to explain the point was inefficient or that resources were wasted, and output was lower than potentially achievable. For the point on the PPC the response needed to explain the point was efficient or that resources fully employed with output is at its maximum. Many candidates explained the inefficiency/efficiency in various ways without also referencing the relative output achieved. Less successful candidates offered some facts about the PPC and attempted to draw examples with little success at the bottom end. Diagrams were often drawn, and although often accurate they were not relevant to the question being asked. Typically, less successful answers stated that 'A production point within a PPC means that there is a shortage of natural resources.'

(c)   Intuitively, many candidates were able to access marks on this item. Many either stated or explained how the skill set of the employee would be affected over time and to their detriment. Stronger candidates recognised that the worker's qualifications would become outdated and there would be some expense in retraining them that potential employers would seek to avoid. A pleasing number recognised the effect on the workers' mental health and wellbeing and its impact on their motivation to find work. Successful candidates also considered the wider economic environment and the chance of recession affecting the demand for labour as well as the worker's age. Less successful candidates tended to focus too heavily on the idea of the lost skills and attempted to use the same point several ways to add value to their answer. Such an approach did not score highly.

(d)   This question required a focus on whether or not a government should encourage firms to merge. Whilst the vast majority were able to address the issues around merger with some degree of success, the wider element of government was not understood by most. Strong answers discussed the advantages of merger from the point of view of the firms involved with respect to economies of scale, efficiency and greater profit. The very best responses recognised the potential for greater international competitiveness and improvements in the current account along with increased tax revenue for the government. More successful answers avoided simple reverse reasoning in their evaluative content and were able to recognise the difficulties inherent in fewer firms, reduced competition and the possibility of monopoly. The most successful answers were able to link the consequences of merger to a potential increase in prices and reduced employment. Less successful candidates focused on stating types of merger that could take place, e.g. horizontal or vertical. Such answers also tended to assert a simplistic impact on employment and output and prices (either up or down in each case) as a result of the merger activity, but crucially without a clear explanation. A few candidates spent too long explaining various economies and diseconomies of scale without enough link to the context of the actual question asked, which was about why a government would encourage a merger.

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Key messages

Candidates should be advised to:

- Pay careful attention to what questions are asking. It is important that candidates answer the specific questions set.
- Recognise that productivity does not have the same meaning as production. Most PE reports mention this but candidates continue to write productivity when they mean production.
- Recognise the difference between a budget deficit and a current account deficit.
- Answer the **(d)** optional questions in sufficient depth, using relevant economics. A number of candidates in this and previous sessions wrote in very general terms and did not make use of economic concepts and theory.

General comments

There were some excellent scripts. These applied relevant economics to all the question parts and made good use of the time. There were few unanswered question parts. However, a small proportion of candidates answered all four of the optional questions, providing relevant links between economic causes and consequences and the sequence of events. This session, some candidates found the **(b)** parts rather challenging. It is important for candidates to think through their answers before writing them.

There was a mixed performance on the **(d)** parts. Level 3 answers considered both sides of the question providing depth of analysis on at least one side. Level 2 answers were usually two-sided but with less depth. Level 1 answers just stated some relevant points but did not explain or analyse them.

Comments on specific questions

Section A

Question 1

(a) Most candidates correctly calculated 35 per cent of $790,000$ (Guyana's population size) although a small number of candidates gave 27,650 as their answer rather than 276,500. There were some other candidates who calculated 35 per cent of $1,100,000$ (the optimum population size).

(b) This was well answered, with the majority of candidates correctly identifying the two relevant causes from the source material.

(c) The source material refers to real GDP but not all candidates recognised this as a measure of economic growth. Some candidates mentioned GDP per head, not recognising that economic growth occurs when the country's total output increases. A number of candidates also mentioned measures of unemployment and inflation.

(d) This was generally well answered. The two main reasons explained were increased government spending on education and improvements to rail travel. These changes were linked well with increased occupational and geographical mobility.

(e) When candidates are asked to 'draw a demand and supply diagram to show' they only have to draw the diagram. They do not have to explain it. Some candidates wasted time writing relatively

long explanations of the diagram. It was surprising that some candidates who did well on other questions, confused the demand and supply curves. A number of candidates mislabelled the axes, and some did not clearly indicate the original and new equilibriums.

(f) To do well on this question, as on the other questions in this part, it was necessary to make use of the information in the source material. In the case of this question, the table provided evidence that could be used to analyse the relationship between GDP per head and internet access. There were some excellent answers which explained the expected relationship, provided supporting evidence by interpreting the data and identified an exception. Some candidates, however, just described the information in the table without, for example, recognising that Iceland had both the highest GDP per head and the highest percentage with internet access.

(g) There were many strong answers to this question. These focused on the direct impact that the discovery of oil might have on living standards in Guyana. An example of a strong answer:

The discovery of oil is likely to increase living standards in Guyana. This is because the government will gain tax revenue from oil and can spend some of this on education and healthcare which can benefit the population. The discovery of oil will also create some skilled jobs with high wages which will allow the Guyanese people to spend more on goods and services.

However, the discovery of oil may not increase living standards because the oil was discovered by a foreign MNC which may bring their profits back to their home country and may employ people from their own country. The oil production may also result in external costs including air pollution which can lead to harmful living standards.

A number of candidates, however, tried to turn the question into a different question and/or were too narrowly focused. For example, some candidates explained correctly that oil production could increase tax revenue and might result in higher government spending on education. They then just explored the possible advantages and disadvantages of higher government spending on education and ignored other possible effects of the discovery of oil.

(h) This was generally well answered. A relatively high proportion of candidates developed the information provided in the source material to explore the possible advantages and disadvantages of an increase in Guyana's population. An example of a strong answer:

An increase in the size of its population would benefit Guyana because it will increase the number of people in the labour force and consequently increase the productive capacity of the economy. A larger population would also mean that the government will earn more tax revenue which can be spent on services like education and healthcare. More people can increase consumer spending which can encourage firms to produce more and so result in economic growth.

However, a larger population may result in overpopulation. Guyana's population was below its optimum level but a large increase could take it above the optimum level. This would put a strain on the country's services like education and healthcare and could lead to a lot of natural resources being depleted. More housing would be needed. This means cutting down forests to build houses, creating environmental damage.

Section B

Question 2

(a) This was well answered by most candidates with the quality of services and the rate of interest paid and received being the most common influences identified.

(b) Some candidates wrote about why firms would like to receive higher prices rather than why a merger may result in higher prices. There were some good answers particularly in terms of how a merger can result in greater market power and how it may result in diseconomies of scale.

(c) The strongest answers here analysed how an increase in bank lending could increase economic growth, lower inflation, reduce unemployment and improve the current account balance. A number of candidates wasted time by exploring why an increase in bank lending may harm an economy. This was not required.

(d) A few candidates confused a market economy with a mixed economy or a planned economy. Most candidates did write about a market economy but there was a wide spread of performance. Some candidates just stated points, some provided answers that were limited or reasonable on both sides. Others produced answers that were strong on one side and, at least, limited on the other side. An example of a Level 3 answer that was strong on both sides:

A market economy is where the private sector operates according to the price mechanism and there is little government intervention.

A market economy allocates resources to meet consumers' demand. The firms will want to produce what consumers are willing to pay for as they can earn profits from doing this. If demand for one good rises and another falls, the price of the first will increase and the price of the second will fall. The change in price will signal to firms that it is more profitable to produce the first good. Resources will be moved from making the first to making the second.

A market economy will ensure resources are used efficiently. Firms will earn higher profits by cutting costs. Reducing wastage lowers costs.

However, a market economy may not allocate resources in the best way. It will not make public goods as firms will not get paid for producing public goods as they cannot make people pay for them. Public goods can provide benefits for consumers.

In a market economy, demerit goods are over produced and merit goods are under produced. Firms may be able to earn high profits from demerit goods but the price consumers will pay will not cover the full costs of producing them. Less resources devoted to demerit goods would benefit society. Merit goods, like education and healthcare, have external benefits. Consumers do not take them into account. A higher output of merit goods would benefit society. A market economy will also not devote many resources to making goods for the poor.

Question 3

(a) The two most common objectives identified were profit maximisation and growth.

(b) Some candidates found this a difficult question. Some confusion was shown over the nature of land and a number of candidates wrote about causes of changes in the use of land. Many of the candidates who did well on this question, wrote about the discovery of new natural resources and the use of fertilisers.

(c) Most candidates recognised that investment could cause higher output, the creation of jobs and a fall in unemployment. The stronger answers explained in depth why unemployment may fall, the type of unemployment that may be affected and/or why unemployment may actually increase.

(d) Some candidates wrote about how a government could reduce unemployment. There were also some strong answers. These explained the harm that unemployment may cause to those who experience it, to firms and/or to the economy as well as reasons why a higher rate of unemployment may not be a problem and why it might even provide some advantages. An example of an L3 answer:

First, the government should prevent a rise in unemployment. A high unemployment shows that the country is not fully using its resources. The rise in unemployment may cause consumption to be lower as less people are receiving wages. The firms' profits may decrease as the consumption drops, so the firms are less likely to invest. The decrease in profit of firms and decrease in employment may cause government tax revenue to decrease. Government may have less money to correct market failure. There will be an increase in budget deficit. Also, the increased unemployment means the government have to pay more in unemployment benefit.

However, the government should not fix a rise in unemployment as unemployment occurs naturally. The rise in frictional unemployment is just a temporary change in unemployment. What's more, there may be a problem of opportunity cost. If the government increases its spending on education and subsidies in order to lower unemployment, it may have to give up on spending on e.g. defence.

Moreover, the measure of lowering unemployment may conflict with other objectives. If government spending on training increases, the aggregate demand may increase which can cause demand-pull inflation. Government measures to lower unemployment may also not be effective as some, including training, require a long time.

Question 4

(a) Most candidates identified two relevant reasons why a government may set a national minimum wage. A few candidates, however, revealed some confusion over what a national minimum wage is.

(b) Some candidates showed a good awareness of the causes of an increase in the value of a country's floating foreign exchange rate. These candidates recognised how an appreciation could be caused by influences on the demand for and supply of the currency. There was some particularly strong explanation in terms of hot money flows. However, some candidates confused a rise in the foreign exchange rate with a fall in the foreign exchange rate.

(c) The analysis of the effect of an increase in the price of milk on the reasons caused by soft drinks producers was relatively straightforward. Most candidates recognised that milk and soft drinks may be substitutes, that demand for soft drinks may increase and, as a result, the revenue of soft drinks may increase. Most candidates also recognised that demand for milk would fall. However, strong analysis of the impact on the revenue of milk producers required use of the concept of price elasticity of demand.

(d) Some candidates did provide strong answers. These explored a range of influences including economies and diseconomies of scale, specialist markets and the financial support different size firms may gain from commercial banks and the government. Other candidates, however, wrote in very general terms, and did not recognise, for example, the difference between average and total cost. An example of a Level 1 answer, which was vague and which stated points but did not explain them:

Small firms are more likely to go out of business than large firms. Small firms are easier to manage than large firms. If small firms do something which is not correct, it may have less consequences than large firms.

Small firms are not more likely to go out of business than large firms. Small firms are not as developed as large firms. They have less experience than large firms.

In balance, it is difficult to decide whether or not small firms are more likely to go out of business than large firms. It depends on what the firms do and so on.

Question 5

(a) Most candidates recognised that saving is the opportunity cost of households spending their income. However, a number of candidates thought that the opportunity cost of Chinese firms exporting goods and services is importing goods and services rather than selling goods and services on the home market.

(b) In explaining the relative earnings of a particular group of workers, it is useful to consider the factors that influence the demand for and supply of the workers. In the case of this question, some candidates wrote that to become top sportspeople may take years of training. Not all, however, went on to relate this to low supply.

(c) This was generally well answered. Most candidates identified and analysed a number of reasons. These included improving the current account position, helping domestic firms, gaining tax revenue and stopping or reducing the import of demerit goods. There was good awareness shown of infant (sunrise) industries and declining (sunset) industries and a relatively high proportion of candidates revealed an understanding of dumping.

(d) A small proportion of candidates confused a deficit on the current account of the balance of payments with a budget deficit. A higher proportion produced rather vague answers. For example, some of these stated that exports would increase without explaining why they may increase. There were also some strong answers which explored a range of influences including higher imports

arising from higher production and consumption and how economic growth may encourage investment which can result in an increase in price and quality competitiveness. An example of a Level 2 answer, which does provide some analysis but would have benefited from more depth e.g. explaining why consumers and firms may be more willing as well as more able to buy imports, why exports may increase, why economic growth may result in more MNCs and the type of income that may add to the credit items in the current account of the balance of payments:

On the one hand it will have a deficit on the current account. First, a country with higher economic growth rate will have more ability to import goods from other countries because they have more money. So outflow of spending will exceed inflow of income and there will be a deficit. Second, a country with high economic growth rate will have more ability to get some invisible services from other countries.

On the other hand, it will not have a deficit. First, economic growth may be because of more exports because AD = consumer expenditure + investment expenditure + government expenditure + export – imports. If exports increase, AD will increase as will real GDP. So there is economic growth. So, there may be a surplus rather than a deficit on the current account. Second, in a country with higher economic growth rate, there will be many MNCs. So the country will receive more income from MNCs in other countries.