

ECONOMICS

Paper 0987/12
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2, 5, 10, 11, 12,** and **25**. These questions were answered correctly by 80% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions that proved most challenging on the paper were **6, 7,** and **22** which were answered correctly by fewer than 40% of the candidates.

Comments on specific questions

Question 6 was answered correctly by 23% of the candidates who chose option **A**. 25% chose option **B**, 10% chose option **C** and 42% chose option **D**. The lower the price elasticity of supply, the harder it is for the producer to change the supply on the market. If demand for a good increases, then the price on the market will rise. It will rise the most when the supply cannot be increased quickly. Those who chose option **D** may have confused the meaning of inelastic and elastic price elasticity of supply.

Question 7 was answered correctly by 22% of the candidates who chose option **D**. 37% chose option **A**, 20% chose option **B** and 21% chose option **C**. When the total revenue a firm receives remains the same even though the price of the product has been reduced, it means that the proportionate change in the price is matched by the proportionate change in demand. This occurs when price elasticity of demand is unitary. (option **D**).

Question 22 was answered correctly by 35% of the candidates who chose option **B**. 18% chose option **A**, 28% chose option **C** and 19% chose option **D**. To reduce cyclical unemployment there needs to be some

increase in production. This would occur if the government increased its expenditure. An increase in a budget deficit would mean that the amount that the government spends, in excess of the amount it receives in revenue, has increased. The expenditure would be likely to increase economic activity and reduce cyclical unemployment (option **B**).

ECONOMICS

Paper 0987/22
Structured Questions 22

Key messages

- Candidates need to answer 3 optional questions – see General comments.
- As in some previous sessions, some candidates needed to provide more precision on the **(a)** parts of the optional questions. Long answers are not required but accuracy is needed.
- Candidates should recognise that **Question 1** is a data response question and they should draw on the source material in their answers.
- Candidates need to answer the **(d)** parts of the optional questions in depth. To gain the high marks, they have to achieve Level 3. To show the difference between Levels 1, 2 and 3, possible answers to **Question 5d** (Discuss whether or not an increase in exports will benefit an economy) answers at these different levels may be considered:

Level 1

Answers in this level are those which define key terms in the question and/or make statements which are not supported by relevant explanation. In the context of **Question 5(d)**, a Level 1 answer would be:

More exports would mean more employment. But more exports can cause inflation. There is both cost-push and demand-pull inflation. Prices of products will rise. There are products produced by the primary sector, the secondary sector and the tertiary sector. Primary sector includes farming. Countries grow crops and keep livestock.

The answer identifies two possible effects of an increase in exports – more employment and inflation. However, the answer does not explain why these effects may occur or why the effects may be beneficial or harmful. The rest of the answer does not add anything directly to examining the effect of an increase in exports.

Level 2

Answers at this level do explain some of the relevant points. The answer may be one-sided or, more commonly, the explanation may be somewhat limited.

A Level 2 answer would be:

More exports may mean that firms will increase their output. They may employ more workers. This would reduce unemployment. More exports may mean more export revenue. This could reduce a current account deficit as the current account balance is the difference between export revenue and import expenditure.

However, more exports may mean that the higher demand causes firms to raise their prices. More exports may mean that the higher demand causes firms to raise their prices. More exports may also increase demand for the currency. A higher value currency could reduce exports.

In this answer, some links are provided. It is explained why unemployment and a current account deficit may be reduced and why prices may rise. However, a link is needed between a higher value of the currency and lower exports and more effects might have been considered.

Level 3

At this level, answers will be two-sided and will have depth and width of explanation. A Level 3 answer would be:

More exports may mean that there will be higher demand for the country's products. This can increase output and the economic growth rate may be higher. The higher output may reduce unemployment. Higher output is likely to increase incomes which can raise living standards.

More exports may raise tax revenue. If export revenue rises above import expenditure, a current account deficit will be reduced. Governments aim for its export revenue to equal import expenditure in the long run.

However, the higher total demand, caused by more exports, could result in demand-pull inflation. Total demand may increase by more than total supply, if the economy is approaching full employment. As more workers are employed, the increased competition for workers may push up wages. In turn, higher wages could increase costs and result in cost-push inflation.

It is possible that an increase in exports may involve an increase in the export of non-renewable resources. If a country, for example, sells a large amount of its copper now, it will not be able to sell it in the future.

More exports would increase demand for the currency. This may cause the currency to rise in value. A higher currency will increase export prices. This may mean that again, in the long run, the rise in exports may be short-lived.

This answer does provide good explanatory links and is a well = thought out, two-sided answer.

General comments

There did appear to be an increase in the proportion of candidates who attempted all the optional questions. This is not a good strategy as it means they cannot spend sufficient time on the three required questions.

Of those who did select three of the optional questions, **Question 3** and **Question 4** were the two most popular questions. They were very few unanswered questions. Most candidates answered **Question 1** first and then the optional questions. As in previous sessions, there were a small number of candidates who misnumbered their answers, It is important that candidates correctly identify the questions they are answering.

There was less confusion on economic terms this session than in some previous sessions. For example, only a small proportion of candidates confused a current account deficit and a government budget deficit in their answers to **Question 5(d)**.

Comments on specific questions

Section A

Question 1

As in previous sessions, the overall performance on this compulsory question was good.

- (a) Most candidates answered this question accurately. However, a small proportion ignored the word 'percentage' in the question and some gave the answer as 8.3m. Some even gave an answer of 83m, a figure larger than the total size of Honduras's population as given in the fact file in the question paper.
- (b) Most candidates answered this well. The most common benefits identified were an increase in exports sold to the US and more money sent back to relatives by Honduran workers employed in the US.
- (c) Not all candidates paid attention to the command word 'Explain'. As a result they identified two advantages. A number of other candidates wrote about the advantages of specialisation in general rather than in the context of the information provided. Most of those candidates that did take into account the information provided, focused on the greater skills that may arise from specialisation. A number of these provided good explanations of how this could be beneficial.
- (d) There was a full range of responses to this question. The strongest answers recognised that a progressive income tax system takes not just a larger amount of the income of the rich but more significantly a higher proportion of the income of the rich. It is important that candidates are aware that not only a progressive income tax system but also proportional income tax and regressive income tax systems will take a larger amount of the income of the rich.

The explanation of the provision of unemployment benefit tended to be stronger with some good links as to how this could improve the position of those with lower incomes.

- (e) Some candidates wrote long explanations of the diagram they had drawn. No explanation was needed. The instruction to ‘Draw a demand and supply diagram to show...’ should indicate to a candidate that they just need to draw a relevant diagram.

The diagrams provided varied in accuracy. A disappointing number of candidates confused the demand and supply curves. Other candidates did not accurately show the original and the new equilibriums. Some candidates did, however, provide clear, well-labelled and accurate diagrams.

- (f) Over time, the quality of numerical data interpretation has improved. There were some strong answers which recognised that the main relationship was an inverse one with the higher the level of poverty, the lower the life expectancy. These answers provided supporting evidence, explained reasons for the negative relationship and recognised there was an exception. Some candidates, however, just reproduced the data without any interpretation. For example, just stating that Sweden had 0.2 per cent of its population living in poverty and a life expectancy of 83 does not involve any analysis. In contrast, comparing the information for the other countries and recognising that Sweden had the lowest percentage of population in poverty and the highest life expectancy involves analysis. A small proportion of candidates did not look at the data carefully enough and wrote about population sizes.

- (g) This was quite well answered. A relatively high proportion of candidates developed points from the source material, making good use of relevant economics. There were some particularly good comments about the effects of increased training, more use of capital and lower unemployment. An example of a strong response:

If the training of workers increases, they will be more skilful, effective, and productive. Hence production costs are reduced. If their working conditions are improved, they may put more effort into their work and may not demand higher wages. The use of more capital goods should make production faster and reduce human errors. This would increase the output of clothes and expand their production scale, allowing the clothes industry to enjoy economies of scale, like financial and marketing economies.

However, cotton is an agricultural product with an inelastic supply. Weather conditions could reduce the supply of cotton and so increase raw material costs. The investment in capital goods may make it difficult to immediately cut costs. This is because capital goods are expensive, so there may be a short run increase in average costs of production.

A small proportion of candidates wrote about whether the price, rather than the cost, of producing clothes would fall in the future. A number also just stated points rather than explaining them.

- (h) This was generally well-answered. There was particularly good explanation of how demand-pull inflation could arise from a fall in unemployment in Honduras. Most of those candidates who did well, tended to be stronger on the why the fall in unemployment may cause inflation. An example of a strong response:

On the one hand, a fall in unemployment will lead to increased incomes. The increased incomes will lead to increased consumer expenditure and aggregate demand will increase, Firms will be encouraged to increase their prices as a result and that will lead to demand-pull inflation. Additionally, the greater difficulty of finding new workers may increase wages. This will increase firms’ costs of production and there may also be cost-push inflation.

On the other hand, a fall in unemployment may be caused by the emigration of unemployed workers as aggregate demand may not increase. Also, if the rate of interest is high, aggregate demand may not increase as the workers may prefer to save rather than expand.

Section B

Question 2

This optional question was selected by a slightly smaller percentage of candidates than the other optional questions. Some of those who selected this question struggled somewhat with the **(b)** question, but a relatively high number did well on the **(d)** part.

- (a)** Most candidates were able to give a relevant example but not all were able to give a relevant definition and some confusion was shown between a capital and a consumer good.
- (b)** As in some previous sessions, several candidates showed a confusion between a low inflation rate and a fall in prices. These candidates tended to run into difficulties. There were, however, some strong answers which examined, most commonly, the possible effects on international competitiveness and the willingness to invest.
- (c)** Most candidates were able to describe some methods of protection. The strongest answers directly addressed the question by analysing how, for example, the removal or reduction of a tariff, could reduce the price of imports which could result in a rise in the exchange of imports and exports.
- (d)** There were some pleasingly strong answers to this question. These explored a range of possible effects on macroeconomic performance and on working conditions, pollution and on the ability to mine diamonds over time. An example of a Level 3 answer:

An increase in diamond mining is likely to increase output and so result in economic growth. Higher output will increase tax revenue and this can be spent to improve the quality of people's lives by improving education and healthcare. Some of the diamonds mined could be exported. A rise in export revenue will help to correct a deficit on the balance of payments.

Increased jobs in the primary sector (diamond mining), secondary sector (manufacturing diamond products) and tertiary sector (selling the products) would decrease unemployment due to the creation of jobs. Higher employment can increase incomes and living standards.

However, workers in the diamond mining industry may be exposed to harsh working conditions. This would decrease the quality of their health and cause the government to spend more on healthcare provision.

In order to maximise profits, diamond firms may pay workers low wages and decrease their working conditions. As a result, their standards of living may be low. Furthermore, mining diamonds now may deplete the diamonds, so that they cannot be mined in the future.

Question 3

This was the most popular optional question. Candidates did particularly well on **Question 3(b)**. There were also strong answers to **Question 3(c)**. Candidates tended to find **Question 3(d)** relatively challenging and there was a wide spread of quality of answers on this question.

- (a)** As with **Question 2(a)** most candidates were able to give a relevant example. In this case, it was usually rent. Some candidates, however, provided an imprecise definition of a fixed cost. A number of these stated it is a cost which does not change without recognising that it does not change with output (in the short run).
- (b)** This was extremely well answered. Most candidates showed a strong awareness of different types of unemployment. There were only a small proportion who either confused the different types or who seemed to be unaware of the different types. The most common confusion shown was that cyclical unemployment is caused by a fall in demand for one product rather than a fall in total demand.
- (c)** A few candidates showed confusion over the meaning of supply-side policy measures. However, most candidates did analyse some relevant policy measures. These candidates tended to be strongest on education, training, lower personal income tax and subsidies where some good analytical links were provided.

- (d) There was a full range of responses to this question. A proportion of candidates just made unsupported statements. Others provided some relevant explanation but did not go into any depth. Some candidates produced a rather narrow answer, concentrating just on, for example, prices. A small number of candidates did not consider the impact of fewer firms on consumers. These examined the effects on the firms themselves but did not go on to consider how, for example, the greater opportunity for the firms to take advantage of economies of scale might benefit consumers. An example of a Level 3 answer:

Having fewer firms may not benefit consumers as there may be lower competition due to which firms charge higher prices as there may be less substitutes which may lead to higher prices and reduce the living standards of consumers.

Moreover, the firms may end up being complacent and produce a low quality product with little or no innovation which may lead to deteriorating consumer satisfaction which may lead to higher imports.

However, as the firms would not have to worry about competition, they may be able to expand and benefit from economies of scale, getting bulk buying discounts. Furthermore, the higher revenue gained may be used for research to improve the quality of retraining staff. This may lead to increased production costs with less wastage of resources. Allowing firms to sell the product at lower costs adding to consumer benefit while still maintaining their revenue.

Therefore, as long as firms may be under supervision of governments to stop exploitation, they may benefit the consumer.

Question 4

This was quite a popular question. Candidates were able to answer all the question parts but some of the answers lacked precision.

- (a) Several candidates provided an accurate definition. However, some did not recognise that it is not just the change in supply which is greater than the change in price but the percentage change in supply which is greater. A small proportion of candidates sought to define elastic demand.
- (b) The strongest answers here tended to be focused on lowering the price of food and reducing imports of food. A proportion of candidates only explained one of the reasons they identified.
- (c) There were some good answers to this question. A number of these explained well the derived demand nature of a farmer's demand for labour and a number of other influences, including the relative cost of labour and the impact of subsidies. Some candidates, however, produced rather confused answers with a number writing about why someone would want to become a farmer.
- (d) Most of those candidates who answered this question were able to identify several reasons why living standards may differ in cities and rural areas. Most were also able to provide some explanation of the points they made but the analysis tended to be rather limited and some answers were over descriptive.

An example of an L2 answer:

When looking at who has the better living standards between people living in the city and people living in rural areas you have to look at a number of things. People living in cities have better access to healthcare and emergency services. Their better jobs give people more freedom. The costs of living is high because in a city there is expensive housing. But living in rural areas means that you have poor healthcare, more physically demanding jobs and do not access to things like running water and power. In the end, I think people living in cities have better living standards as they have access to more even though it may be more expensive.

Question 5

This was not as popular a question as **Question 3** and **Question 4**. There were some strong answers but also some that seemed rather uncertain as to what to include particularly in terms of **Question 5b** and **Question 5b**.

- (a) The two most popular benefits identified were less pollution and a reduction in the amount the government might have to spend on education. There were also a pleasing number that stated it might move the population towards the optimum level. However, some candidates thought that a decrease in a country's population would result in more resources in total rather than less pressure on resources or more resources per head.
- (b) There were some excellent answers. These gave a precise and accurate explanation of how a market may move from equilibrium to disequilibrium. Some candidates, however, appeared confused as to how to answer this question and wrote about, for example, a government setting a maximum and minimum price.
- (c) Over time, the quality of production possibility curves drawn by candidates has improved. The diagrams drawn in response to this question were generally good. Most were labelled accurately although a few candidates labelled them as price and quantity or labour and capital. The written analysis tended not to be as strong. A relatively high proportion of candidates showed a confusion between a decrease in the amount that could be produced with a decrease in actual output.
- (d) There were some rather brief answers to this question. A relatively high proportion either did not explain the points they made or only explained the points in a limited way. There were, however, some perceptive answers which explained points in depth.

An example of a Level 1 answer:

Exports are the selling of goods made in the country to another country. An increase in exports may benefit a country. They will bring income to improve the current account. It can also lead to the creation of jobs.