

ECONOMICS

Paper 9708/11
Multiple Choice (Core)

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

Key Message

- Candidates need to develop their skills on items that involve handling numbers.
- Interpretation of numerical data and application of formulae should be practised.

General Comments

There was a very small fall in the number of candidates. Compared to last year the mean mark fell noticeably from 17.55 to 15.50, while the standard deviation narrowed from 5.33 to 5.28. The number of candidates gaining full marks remained at 3. The number of candidates who scored below 8, equivalent to the 'guessing' level, rose from 48 to 104.

Questions 11 and **16** proved to be easier than intended, while no question proved to be more challenging than intended. The even spread of the choice of options in **Question 28**, suggests the possibility of guessing. This is somewhat surprising given the usual familiarity with exchange rate determination.

Comments on Specific Questions

In **Question 12** more candidates chose option A rather than the correct option C. They had missed that the toll reduction generates \$2000 of extra surplus on the first 1000 journeys and \$1000 extra on journeys 1000 to 2000. This gives a total increase of \$3000. In previous exams similar errors have been seen when interpreting changes in consumer surplus diagrams.

In **Question 3** the largest group of candidates chose option C (a specific indirect tax). While an indirect tax is appropriate, an ad valorem indirect tax (option D) would be a more effective method to impose a greater penalty as the negative externality increased.

The balance of payments was the focus in **Question 22**. This topic frequently presents difficulties to candidates. The choice of option B by 41% of candidates meant that they had included loans as a current account item. Loans belong in the financial section, so do not enter the calculation.

Question 28 showed an even split between the options. The strongest performing candidates correctly selected option D. Particular care is needed if a negative is involved in the stem. Candidates can approach it by proving which of the statements work in a positive way and deducing the exception. In this case, an increase in the sales of UK exports will affect the demand for rather than the supply of pounds sterling. Hence D is the correct key.

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Paper 9708/12
Multiple Choice (Core)

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

Key Message

- Clear understanding and examples of externalities are important.
- While this is the same key message as in last year's report, the change to the syllabus will make it relevant to paper 32 rather than paper 12 in 2016.

General Comments

There was a small increase in the number of entries compared to last year. The mean mark fell from 19.53 to 18.88, still one of the better performances recorded in recent years. The standard deviation rose from 5.93 to 6.00. Rather disappointingly the number of candidates who achieved full marks dropped significantly to 38, while the proportion of candidates who scored below 8 marks, the equivalent of the guessing level, almost doubled.

Question 6 proved to be easier than intended, while **Question 14** proved to be more difficult than intended. It also achieved less than the target level of discrimination. This happened with the same topic of externalities in the June 2014 examination. This indicates a difficulty with the particular topic, which is returned to later.

Overall, the test worked well with a clear indication of sound understanding over the width of the syllabus.

Comments on Specific Questions

The performance of candidates mirrored that of 2014 with a similar outcome. Almost all questions achieved a facility of 50% or above, and had a satisfactory discrimination index. Consequently, relatively few question performances raised major issues.

In **Question 1** 53% of candidates selected option B rather than the key D. Nevertheless the question achieved satisfactory discrimination statistics. External cost being greater than external benefit does not necessarily mean that social cost would be greater than social benefit. The latter would be the basis for a decision on a public investment project. The Government might, however, not pursue the project if its opportunity cost in terms of other alternatives forgone, i.e. the loss of other potential public expenditure targets, was considered too high.

Question 14 raised several issues, with both options C and D being preferred to the key A. Option C can be discounted as bus passengers are involved in the 'transaction'. Some of the stronger candidates favoured option D. In this case it concerns an outcome of the operation of the market for transport. Externalities apply to incidental effects not the primary or intended effects. Candidates need to be clear that any outcome that is simply the result of the market adjusting to a change, and that does not result in a misallocation of resources, is not an externality. Unfortunately some textbooks offer definitions of externalities that are not wrong but are incomplete.

In **Question 30** option A was marginally more popular than the key D. The answer initially hinges on the first step of the process that follows an increase in the inflation rate. If the government uses monetary policy it is likely to raise interest rates as a counter-inflationary measure. Once that has happened capital inflows will increase and the exchange rate will appreciate.

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Paper 9708/13
Multiple Choice (Core)

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	A	21	A
2	C	22	C
3	D	23	C
4	D	24	C
5	B	25	A
6	C	26	C
7	C	27	B
8	A	28	D
9	C	29	B
10	D	30	B
11	C	31	C
12	D	32	D
13	D	33	B
14	B	34	A
15	B	35	A

Key Message

Candidates must realise that an accurate understanding of the most basic economic concepts is essential.

General Comments

The number of candidates for this paper remains relatively small, and was lower than last year. Generalisations about performance may not therefore be fully representative. Reversing the trend of the last two years the mean score rose significantly from 13.38 to 17.35. Whereas no candidate scored above 26 marks last year 9 achieved it this year with two scoring 29. The percentage of candidates who scored below 8 marks, the equivalent of the 'guessing' level fell from nearly 9% to 3%. This confirms a pleasing improvement in candidate performance.

Question 13 proved easier than intended, while candidates scored at least the minimum target facility on all questions. The items in the test worked well.

Comments on Specific Questions

For **Question 3** an equal number of candidates chose option C as those who selected the key D. The group choosing the key included the stronger performers on the paper as a whole. The outward movement of the ppc means that the same quantity of public goods can be produced as an alternative to a greater quantity of private goods. More private goods have to be given up per unit of public goods. The opportunity cost of the public goods has risen as a result of a greater quantity of private goods being sacrificed.

Question 8 concerns the distinction between a move along a supply curve and a shift in its position. The largest proportion of candidates wrongly selected option D (a shift in the supply curve to the right). The increase in demand will raise price and result in a shift along the same supply curve, hence leaving the original supply curve unchanged (option A).

A novel application of the price mechanism was involved in **Question 17**. A significant minority of candidates selected option A. This indicated confusion between public goods and the public sector. The statement in A itself cannot be correct as the existence of excludability would prevent the service being a public good. C is correct as an element of the market system is being used by the public sector

In **Question 18** the all too common misunderstanding of an ineffective maximum price appeared. The largest proportion of candidates (44%) chose B. This is incorrect as a maximum price set above the equilibrium price would be ignored by the market. Option C is correct as the market equilibrium would reign.

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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 question, such as ‘explain’ or ‘discuss’.
- It is important that candidates understand that in the second part of the ‘discuss’ questions in **Section B**, 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 entrepreneurs or governments were **more likely** to cause economic growth in a mixed 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 2(a)**, some candidates wrote about the demand, rather than the supply, of a product.

General Comments

Candidates should make sure they draw a diagram(s) where they are explicitly required such as in **Question 1(b) (i)**. It is important that candidates look closely at the command word being used in the question so 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** 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 assess the ‘**likely effectiveness**’ of attempts by governments to make the supply of an essential good more responsive to a change in its price, or in **Question 4(b)** where candidates were required to discuss whether a significant rise in the general price level would be ‘**likely to**’ turn a deficit into a surplus.

Comments on Specific Questions

Section A

Question 1: Compulsory Data Response

- (a) Most candidates were able to recognise that Fig. 1 showed that the trend in US net imports of oil after 2005 was downward, but unfortunately only a minority of candidates went on to explain this trend in terms of falling consumption and rising production.
- (b)(i) Most candidates recognised that the fall in the price of gasoline (petrol) was due to both an increased supply and a decreased demand, but they did not always explain this very clearly or very fully. Many diagrams were well drawn and correctly labelled, but some responses were improperly labelled. Certain candidates misunderstood what was happening and drew diagrams showing a decreased supply and an increased demand. Some candidates did not include any diagrams, despite the explicit reference to their inclusion in the question.
- (ii) A number of candidates were able to suggest one factor that might have caused the price of gasoline (petrol) to rise in the US after 2009. This could either come from the demand side, such as a rise in incomes, or from the supply side, such as a rise in tax on gasoline.

- (c) There were a number of good answers to this question, with candidates demonstrating a good knowledge and understanding of the concept of cross elasticity of demand. They recognised that in this particular context the two products were substitutes and that therefore the coefficient would be negative.
- (d) Again, there were a number of good answers to this question with candidates recognising what was meant by the concept of aggregate demand and explaining it in terms of $C+I+G+(X-M)$. They generally understood that there would be an increase in aggregate expenditure as a result of an increase in net exports and that this would be likely to lead to an increase in both the general level of prices and in the level of employment in the US economy. A diagram was not required in this question, but many candidates included one to good effect to support the points that were being made in their answer.

Section B

Essays:

Question 2

- (a) In this part of the question, candidates were required to explain **two** factors that would be likely to make the supply of a product relatively price inelastic. There were marks available for both knowledge and understanding of the concept of elasticity of supply and for the meaning of the term 'relatively price inelastic'. Candidates included in their answers factors such as the lack of stocks, the nature of the product, the availability of factors of production, factor mobility, the number of producers, the existence of spare capacity, the ease of storing stocks and the time period, especially the length of the production period.
- (b) In the second part of the question, candidates were required to discuss how governments might attempt to make the supply of an essential good more responsive to a change in its price and to assess the likely effectiveness of such attempts. There were marks available for analysis of the ways in which governments might attempt this and candidates included a range of possible measures, such as the operation of buffer stock schemes to ensure the availability of stocks during periods of shortages and training programmes to increase the availability of appropriately skilled labour. There were also marks available for evaluation of the likely effectiveness of such attempts, such as in relation to cost issues. A number of candidates used the concept of opportunity cost to good effect in their evaluation. A strong response would also have included an evaluation of the various possible measures that governments might take.

Question 3

- (a) In this part of the question, candidates were required to explain how the contribution of each factor of production differed in an agricultural economy from that in an industrialised economy. There were marks available for knowledge and understanding of the contribution of each factor of production in the production process, and the majority of candidates demonstrated a reasonably sound understanding of land, labour and enterprise, although in some cases there was some uncertainty about the meaning of capital in this particular context. There were also marks available for application in relation to how the different factors of production might contribute in the two different types of economy, and many candidates applied their knowledge and understanding of the factors of production to the different economies intelligently. Some responses, however, offered a rather simple application, such as suggesting that capital was unlikely to be of any major importance in an agricultural economy.
- (b) In the second part of the question, candidates were required to discuss whether entrepreneurs or governments were more likely to cause economic growth in a mixed economy. Responses needed to analyse ways in which both entrepreneurs and governments could generate economic growth and it was pleasing to see that many candidates had a good grasp of what entrepreneurs did and how they could contribute to economic growth in a country. It was important to evaluate which was more likely to cause economic growth in a mixed economy, and there were some good answers in respect of this, such as in relation to the funds available to a government and to the skills and experience of the entrepreneurs.

Question 4

- (a) In this part of the question, candidates were required to explain what acts as money in a modern economy and what would be likely to happen to the price level if the quantity of money increased significantly. Responses required knowledge and understanding of money in a modern economy, and candidates generally provided some good answers to this part of the question. Some responses did not fully appreciate what was meant by a 'modern economy', such as in relation to bank deposits and the electronic transfer of funds. Candidates were rewarded for application in relation to what was likely to happen to the price level in an economy if the quantity of money increased significantly. The majority of candidates recognised that inflation would be the result of an excessive growth of the money supply in an economy, but only a minority developed their answer in relation to the Quantity Theory of Money ($MV=PT$).
- (b) In the second part of the question, candidates were required to explain how a significant rise in the general price level would affect the current account of the balance of payments of an economy and then to discuss whether this would be likely to turn a deficit into a surplus. Candidates needed to analyse the impact of a rise in the general price level upon the deficit, and it was pleasing to see a number of responses bring the concept of price elasticity of demand for exports and imports into their answer, especially in relation to the Marshall-Lerner condition. There were also marks available for evaluation of whether it was likely that a deficit would be turned into a surplus, and there were some good answers in respect of this, such as in relation to relative rates of inflation in different countries and to the time period, with a number of answers including a useful consideration of the J-curve effect. The best responses attempted to offer some evaluation of whether it was likely that the deficit would be turned into a surplus.

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<p>Paper 9708/22</p> <p>Data Response and Essay (Core)</p>
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Key Messages

- It is essential that candidates read the question carefully and follow the instructions provided.
- Candidates must use diagrams where appropriate and ensure that they are drawn accurately with the axes labelled.
- When selecting essays candidates must ensure that they have a firm grasp of all elements of the underlying concepts to ensure that all aspects of the question can be answered.
- Candidates should be made aware of the assessment objectives of the examination to ensure that they are able to respond to the various command words with appropriate answers that demonstrate the skills that each question is designed to assess.

General comments

Candidates did demonstrate the required knowledge and understanding to score well, but there were wide disparities in their ability to develop their analysis along the correct lines and to a sufficient depth. It is essential that candidates apply concepts successfully to answer the questions set and offer an evaluative judgement.

Comments on Specific Questions

Question 1

- (a) In order to score well here candidates needed a good knowledge and understanding of production possibility curves together with the ability to apply the concept to the data in the passage. This data showed that there had been an increase in the output of Brazil's economy measured in trillions of US dollars in 2013 compared to 2003. Production possibility curves could be used to show that either the curve had shifted outward because of an increase in the productive potential of the Brazilian economy or that formerly unused resources had been utilised and this would be represented by a movement from within the curve to a position on or nearer to the limit of the curve. Either representation was acceptable for both marks available. Unfortunately, a significant number of candidates ignored the data shown in Fig 1 and suggested that the curve had shifted inwards. This misinterpretation arose because many candidates focused upon the problems that were present in the Brazilian economy after 2011 that are described in the text. The question clearly referred to a comparison of the economy in 2013 with 2003 and it is clear from the data shown in Fig 1 that the economy grew over this period. Many candidates also lost a mark because they did not label the axes correctly. A range of mistaken labels were applied to these axes including price and quantity; Brazil and time period and imports and exports. This showed a clear misunderstanding of the concept of production possibility curves and undermined the answer provided.
- (b)(i) Candidates were able to gain a mark here for recognising that the Brazilian Real had appreciated between 2004 and 2013 despite the fall in its value after 2011. The second mark was available for some calculation of the extent of this appreciation. Many candidates were able to gain the first mark here, but fewer candidates were able to provide a correct calculation and describe the changes in the value of the currency on a year-by-year basis.
- (ii) A number of reasons could be offered to explain the stability of the Mexican Peso from 2004 to 2008. All needed to focus upon the supply and demand for the currency that had to be in relative

balance for the value of the Peso to be stable. For example, some suggested that imports and exports could be in balance, but it was necessary to go on to explain that this meant that the demand and supply of the Peso would be in balance. Similarly, some candidates stated that Mexico might be operating a managed exchange rate system. For full marks this answer needed to explain that the Mexican monetary authorities would be intervening in the foreign exchange market, buying and selling foreign reserves to keep supply and demand for the currency in balance.

- (iii) This question was well answered by many candidates. Successful explanations of the changes in currency values were based upon an understanding of the changes in the demand and/or supply of the Brazilian Real and the Mexican Peso in the foreign exchange markets that had occurred as a result of the economic experiences of Brazil and Mexico described in the text. High scoring answers made good use of diagrams as required and provided a clear accompanying explanation.
- Some candidates lost marks because they failed to make the link between the economic experiences of the two economies and the foreign exchange markets. Such answers identified the changes that had the potential to change currency values, but did not go far enough to show how those values changed.
- (c) Responses to this question generally showed little attempt to apply knowledge to explain how the approach of the Mexican government described in the text would impact upon the Mexican economy. It was expected that candidates would explain for example how this approach would develop the skills of the labour force, enhancing labour productivity and expanding the supply-side of the economy. Similarly, candidates could have applied economic concepts to examine the impact upon economic activity of the development of Mexico's infrastructure. These policies could be contrasted with the policy of the Brazilian government that was unlikely to generate an expansion of the Brazilian economy.
- (e) The question clearly asked candidates to 'identify and evaluate the usefulness of any further information that might be helpful in assessing the future prospects' of the two economies. Candidates attempted to assess the future prospects of the two economies and this was often done by repeating the information provided in the text. Further information that might be helpful included the rate of inflation in the two economies, their unemployment rates and their balance of payments accounts. Candidates then needed to go on to explain how the information referred to could be helpful in assessing the future prospects of an economy. For example, the relative inflation rates of these economies compared to their competitors in international trade would be helpful in assessing whether the exports of the economies were competitive. Further marks were available for providing some evaluative judgement on whether this information really was useful. For example, some good answers suggested that it might be difficult to obtain accurate, reliable data in these economies.

Essays

Question 2

- (a) Most candidates who chose this question had the required knowledge and understanding of the central concept together with the ability to apply it to the question set. Some pleasing marks were awarded. Some candidates needed to improve the accuracy in their explanation. In providing the formula for income elasticity, for example, some had the percentage change in quantity as the denominator in the equation. This may signify a lack of understanding rather than mere carelessness. In addition, the accompanying explanation of income elastic or inelastic was often incorrect. Some responses included long explanations of price elasticity of demand. This was irrelevant for this part of the question and was not awarded any credit. There was an opportunity cost here as the production of irrelevant material reduced the time available to answer other parts of the question.
- (b) Many candidates had the required grasp of the concept of price elasticity of demand, but application was not always successful. Candidates needed to provide answers that showed how the concept might be useful to a firm considering price changes rather than the usefulness of the concept to governments. There was some repetition of the concepts covered in part (a). Few candidates were able to provide the required analysis and then go on to score marks for evaluation.

Question 3

- (a) This was the most popular of the three essays and some high scoring answers were provided. Many candidates were able to explain the difference between merit goods and public goods in terms of excludability, rivalry and rejectability. Most were able to go on to link these features to explain how firms are able to make a profit in the supply of merit goods but not in the supply of public goods with due reference to the 'free-rider' problem. Some answers displayed common weaknesses when dealing with this topic. For example some defined public goods as all those goods that are supplied by the public sector; others suggested that roads were examples of public goods ignoring the existence of toll roads.
- (b) This question also resulted in some good answers. Many candidates explained that merit goods were under-consumed because of lack of information on the true value of the goods. Most were able to explain this through the use of valid examples such as health care and education. Most were able to go on to consider the effectiveness of policies to deal with this problem such as subsidies, education campaigns and direct provision. Many answers displayed effective evaluation of the chosen policy and some good marks were awarded as a result. Analysis and evaluation of one policy only could be credited.

Question 4

- (a) This essay was the least popular of the three available. Many responses seemed to have confused the terms of trade with the balance of trade. Those candidates who did have a firm grasp of the concept tended to score highly here providing good application of the effects of a declining exchange rate and a high rate of inflation.
- (b) Some good answers were provided to this question although for many the confusion over the central concept reduced marks here also. Those responses that provided a good analysis that explained clearly the advantages and disadvantages of a fall in an economy's terms of trade got high marks. The significance of the price elasticity of demand of imports and exports was recognised by many and this allowed candidates to go on to assess the overall effects and to score marks for evaluation.

ECONOMICS

<p>Paper 9708/23 Data Response and Essay (Core)</p>

Key Messages

- It is essential that candidates read the question carefully and follow the instructions provided.
- Candidates must use diagrams where appropriate and ensure that they are drawn accurately with axes correctly labelled.
- Candidates should ensure that their knowledge and understanding of core economic concepts is comprehensive so that all aspects of a question can be answered.

General Comments

Most candidates had the required knowledge and understanding to score well on this paper, but there was considerable variation amongst candidates in their ability to apply this information and to use it to maximum effect to gain a high mark. Many candidates provided excellent answers that displayed all the qualities required for a high mark, but some did not develop the analysis sufficiently to score well. In addition evaluative judgement is not always provided and, as a result, marks awarded for this assessment objective could have been improved.

Comments on Specific Questions

Data Response Questions

Question 1

- (a) (i) Most candidates were able to identify recreation and culture as the category of spending that has shown the biggest rise in price over the specified time period, but many provided an incorrect calculation. Some simply subtracted the index number shown in January from the index number shown in September 2013. This gave a figure of 21.1. In fact the correct calculation gave a percentage rise in price of 17.1%.
- (ii) This question was well answered by many candidates. Most had the required knowledge and understanding of the construction of price indices and the reasons why different categories of spending have different weights. Some candidates had a good understanding of weights, but did not express their ideas clearly.
- (b) (i) This question revealed a lack of understanding of the concept of the terms of trade amongst many candidates. It was clear that many confused the terms of trade with the balance of trade. Many candidates focused upon the potential long-run effect of inflation upon the balance of trade and ignored the impact upon the terms of trade.
- (ii) In response to this question, candidates were expected to explain that increasing exports would increase the demand for Malawi's currency with the result that this would lead to an appreciation in the exchange rate of the kwacha. Given the question instructions, it was essential that a diagram was included in the explanation, but some candidates did not follow this directive. Most candidates were aware of the impact of increased exports upon the demand for the kwacha.
- (c) (i) In order to score the two marks available here, candidates needed to provide a diagram of a production possibility curve showing the choice between the production of tobacco and the production of tourism services. Most candidates recognised the diagram that was required and many scored well here.

- (ii) Many candidates were able to identify a difficulty that Malawi might face if it decided to reallocate resources from the production of tobacco to the production of tourism services, but there was considerable variation in the extent to which responses developed an explanation of their chosen difficulty. For example, many said that a difficulty might be that there was likely to be a lack of skilled labour to work in the tourism industry. Fewer went on to explain what this would mean in terms of the time taken to train new staff and the lack of facilities to provide the training. Few responses considered the overall cost of the training and how the finance would be provided.
- (d) It was hoped that candidates would provide an answer to this question in the context of the concept of comparative advantage and consider whether Malawi was more efficient at producing tobacco or tourism services as cost factors had changed. Most chose to provide an assessment of the more practical issues that should be considered by the Malawi government. This was an acceptable approach and some good marks were awarded, but there was considerable variation in the extent to which answers were developed. Some candidates made only brief reference to relevant factors. Better answers provided discussion of a range of factors and scored well.

Essay Questions

Question 2

- (a) This was the most popular of the three essays that candidates could choose and some good answers were provided. There was good knowledge and understanding of the concept of income elasticity of demand and most candidates were able to apply this to explain the meaning of inferior and necessity goods.
- (b) This part of the question was done less well. On the whole, candidates were aware of the impact of a recession in terms of lost jobs and falling incomes. A limited number of candidates were able to provide a thorough analysis of this impact with due use of the concept of income elasticity. They needed to consider how the impact would vary across the country according to the type of goods produced. It could be argued for example that those areas of the country that produced inferior goods would see a rise in the output of these just as those parts of the economy that produced normal goods would see a fall in output, jobs and incomes.

Question 3

- (a) Most candidates were able to provide a clear explanation of the meaning of a demerit good and they illustrated their accounts with appropriate examples. There was considerable variation in the ability to show why these are over-consumed in a free market. Many candidates used diagrams to good effect.
- (b) In response to this question candidates had to provide an analysis of two policies that might be adopted to deal with the problems caused by the consumption of demerit goods. The most popular policies chosen by candidates were indirect taxes and campaigns to raise the awareness of these problems. Developed analysis was then necessary. For example, candidates needed to explain that an indirect tax would reduce the supply of the demerit good, raising the price and contracting demand. Diagrams were used to good effect by some candidates. It was then necessary to make an evaluative judgement in assessing which policy might be more effective. Many candidates provided some good evaluation. It was important to consider the difficulties associated with the chosen policies. In addition, it was essential that a conclusion be offered to answer the question fully.

Question 4

- (a) This was not the most popular of the essay questions but some good answers were provided. Most candidates who attempted this question showed good knowledge and understanding of the concept of aggregate demand, but a number chose to list the components rather than define them as required by the question. Successful responses also needed the required diagram.
- (b) Candidates found this part of the question more challenging. Many found it difficult to distinguish between the impact of inflation upon consumers and producers and gave very general accounts of the effects of a high rise in the general price level. This of course made it difficult to complete the question by providing evaluative comment on whether consumers or producers would suffer more.

ECONOMICS

Paper 9708/31
Multiple Choice (Supplement)

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

General Comments

1092 candidates took this paper and the mean mark was 15.0 which was comparable to the mean mark last year of 15.4.

The questions for which most candidates selected the correct answer were 7, 9, 10, 16 and 23. These questions were answered correctly by 65% 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 8, 13 and 28. These questions were answered correctly by fewer than 33% of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall. (If this were to be the case then it may indicate that those who scored well on the test overall might have seen an alternative, and possible, interpretation of the question which could possibly indicate a fault in the question).

Comments on Specific Questions

Question 8 was answered correctly by 31% of the candidates who chose option D. 18% chose option A, 19% chose option B and 31% chose option C. Average variable costs are constant so a constant figure would be added to average fixed cost. Average fixed costs would always decline as output increased.

Question 13 was answered correctly by 31% of the candidates who chose option D. 26% chose option A, 27% chose option B and 31% chose option C. The closeness of the percentages in the choice of 3 of the

options may indicate a tendency to guess the answer to this question. The output would be determined by the intersection of the MR and LRMC and would be below the output at the lowest point of the LRAC. Thus there would be excess capacity and the some economies of scale still to exploit.

Question 28 was answered correctly by 28% of the candidates who chose option D. 21% chose option A, 6%, chose option B, 45% chose option C. Spending was in excess of revenue in 2012/13 so there was a deficit. Spending was also in excess of revenue but by a smaller amount in 2013/14 so there was a further but smaller deficit in that year. Overall, the national debt would have increased.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

Paper 9708/32
Multiple Choice (Supplement)

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

General Comments

8618 candidates took this paper and the mean mark was 16.8 which is slightly lower than the mean mark last year of 17.6.

The questions for which most candidates selected the correct answer were 2, 4, 6, 10, 12, 13, 15, 20, 22, and 29. These questions were answered correctly by 65% 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 14, and 25. These questions were answered correctly by fewer than 33% of the candidates.

There were no questions which were answered incorrectly by candidates who scored well on the test overall. (If this were to be the case then it may indicate that those who scored well on the test overall might have seen an alternative, and possible, interpretation of the question which could possibly indicate a fault in the question).

Comments on Specific Questions

Question 14 was answered correctly by 14% of the candidates who chose option D. 5% chose option A, 46% chose option B and 35% chose option C. Equitable relates to fairness and not to equality. It is more a subjective interpretation of what society thinks is a fair distribution than an objective measurement.

Question 25 was answered correctly by 22% of the candidates who chose option D. 9% chose option A, 59% chose option B and 10% chose option C. Although the rate of inflation may increase in certain

circumstances as a result of economic growth it is not guaranteed to do so. Similarly, economic growth may increase capital technology rather than employment and any increase in income may be spent on imports rather than domestic production so the current account surplus need not necessarily increase.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

Paper 9708/33
Multiple Choice (Supplement)

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

General Comments

58 candidates took this paper and the mean mark was 12.9 which is very similar to the mean of 12.5 last year.

The questions for which most candidates selected the correct answer were 2, 4, 7, 8, 9, 12, 15, 29 and 30. These questions were answered correctly by 50% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions which caused the biggest challenge for candidates were 20 and 21. These questions had few candidates choosing the correct option and were also answered incorrectly by some, but not all, of the candidates who did well on the test overall.

Comments on Specific Questions

Question 20 was answered correctly by 12% of the candidates who chose option C. 36% chose option A, 12% chose option B and 40% chose option D. It is likely that the error occurred because candidates did not notice that the question referred to an increase in consumption, not income. The investment multiplier would mean that **income** would rise by \$800 (option D) but consumption would rise by $\$800 - \$200 = \$600$.

Question 21 was answered correctly by 17% of the candidates who chose option C. 41% chose option A, 24% chose option B and 17% chose option D. The banks would have normally kept 10% of the \$20 000 and been able to use the remaining \$18 000 to lend. The \$18 000 would have been lent to purchase items or for investment and that would eventually have been re-deposited. 10% of that would have been kept and the rest lent. The overall increase in lending would be ten times the reserve ratio. The money multiplier indicates

the maximum amount the money supply could increase. With a reserve ratio (r) of 10% the lending could increase by $1/r$ or ten times. Thus \$18 000 could have created \$180 000 in loans.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

Paper 9708/41

Data Response and Essays (Supplement)

Key Message

- Candidates need to read the question carefully and direct their knowledge to the particular phrase and question asked.
- In evaluative and discussion questions it is important that responses discuss the question and come to a well-thought out conclusion stating what the candidate believes as a result of the arguments they have put forward rather than leaving it to the reader to decide what the candidate believes.
- Diagrams should be presented clearly with accurate labels.

General Comments

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.

For example, in **Question 6(a)**, although candidates could distinguish between a closed and an open economy they lost the focus of the answer to the specific question asked about the effect of investment. In **Question 7(a)** candidates could explain the two terms in the question but left the Examiner to deduce the differences. An explicit contrast would have helped the clarity of the answer. In **Question 7(b)** candidates became involved with describing general characteristics of a developing country to the detriment of considering the query in the question about population size.

Comments on Specific Questions

Question 1

- (a) Required candidates to define economic growth. It was acceptable for candidates to write a brief comment on a rise in output or shift in production possibility curve but to achieve all three marks allocated candidates were expected to be more precise. For example they could have stated that economic growth is an increase in the real level of net national product (national income) which can be indicated by an increase in GNP per capita and that it is measured over a given time period, often one year. Many candidates omitted to mention the time period.
- (b) It was expected that candidates would comment on the problems reported by businesses and realise that they had not been overcome as there was a bigger gap between demand and supply in 2011-12 than in 2010-2011. To achieve all the allocated marks candidates should have illustrated their answer with reference to the figures in the table.
- (c) Traditional economic analysis of monopoly suggests that profits will be high and that price will be above the cost of production. The monopolist can control prices or output, and is free to increase production/investment if it wishes. Most candidates commented on the fact that Coal India controls 80% of production so could be classed as a monopoly. The better answers also recognised that there have been governmental price controls that limited prices, profits and hence investment. This conflicts with the traditional analysis as Coal India was not free to determine the price and output.

- (d) Candidates were expected to comment that Coal India was forced to sell coal at 70% below the market price which resulted in an unprofitable situation and a lack of investment in new mines and technology despite massive coal reserves. This meant that the investment multiplier, and thus potential growth, in the economy was reduced. Better candidates recognised that the government-imposed lower price encouraged demand – in 2012 10.3% or 12.9% above supply – but this was not met. Imports were required. These were expensive (Indonesia doubled prices) and again caused another leakage to the economy lowering growth. Thus government policy towards Coal India could have been disadvantageous in the wider economy. However, the excess demand due to artificially low prices may not be entirely detrimental as the increase in price would generate more spending and more injection into the economy.

Question 2

This question required an explanation of the meaning of efficient allocation together with an explanation of the analysis of how an efficient optimum may be reached. Candidates were expected to distinguish between productive and allocative efficiency. Some candidates concentrated on this part of the question to the detriment of the second part of the question. More balanced answers discussed the reasons for market failure and the necessity or desirability of government intervention to achieve efficiency. The very best answers also commented on the likelihood that governments would not necessarily be able to overcome all market failures and that lack of information might be one reason for this.

Question 3

This question required a consideration of an opinion and a decision whether the candidate agreed with the opinion. There were three aspects to consider. Candidates needed explain utility theory and consumer equilibrium. They then needed to consider whether the theory allowed an account to be taken of a change in income and whether the existence of imperfect markets and price fixing might be included in the theory. Lastly, candidates needed to consider whether the overall conclusion of the argument was correct. The difficulty for candidates appeared to be the recognition of the structure of the answer required. Many concentrated on the first part alone. Others did include a comment on the second part of the question and stated that both income changes and imperfect markets could be incorporated into the theory. (However, of those who make this comment some digressed into too much detail about the structure and characteristics of imperfect markets). Only a few responses reached and presented an overall conclusion.

Question 4

- (a) This question required an explanation of wage rates in a perfectly competitive labour market linking the firm and the industry. This was usually well answered and clear analysis was presented. Candidates should be reminded that higher marks are given for such questions if candidates refer to the theory of marginal revenue productivity and not just to simple demand and supply diagrams.
- (b) Candidates were expected to discuss the differences between the theory of perfect and imperfect labour markets and recognise that there would be a change in the shape of the demand, supply, marginal cost and marginal revenue product curves if the market were imperfect rather than perfect. There were some good answers to this question and candidates were also able to comment and discuss the effect of the institutional factors mentioned in the question. Better answers recognised that there would not necessarily be a single outcome and the result caused by the intervention in the market of the government or trade unions would depend on how high/low the maximum salary was and at what level the TU decided to ask for a higher rate of pay.

Question 5

- (a) The answers to this question were generally well-informed. Differentiation was explained as the branding of goods, advertising by brand names with the purpose of increasing consumer loyalty and, thus, potentially increasing profits for the firm. Candidates were also able to give accurate descriptions of two market structures choosing from monopolistic competition, oligopoly and monopoly. Very occasionally candidates confused the market structures and suggested that perfect competition had product differentiation through brand names.
- (b) In answering this question candidates were usually able to define marginal cost. There was some confusion between diminishing returns and economies of scale. The relevance of the time period was not always clearly expressed in distinguishing between the two concepts. There were three links to discuss. That between marginal cost and diminishing returns; between diminishing returns

and economies of scale; between marginal cost and economies of scale. The explanation of the links often lacked clarity. There is a link in the short run between marginal cost and marginal product and thus to diminishing returns; there is only an indirect link between diminishing returns in the short run and economies of scale in the long run (via the long-run average cost curve); there is a theoretical long-run marginal cost but it is not directly linked to economies of scale and the short run marginal cost is not linked to economies of scale.

Question 6

- (a) Candidates were able to explain what a closed economy meant but the analysis showing the link between investment and national income, recognising that there would be no leakages to taxes and imports in the closed economy, was not as clearly expressed. Consequently the comparison with investment in an open economy was not accurately considered.
- (b) There were good answers to this question with discussions of the way a government might wish to influence the investment by using fiscal or monetary policy or supply-side policies. Candidates also mentioned that a government might also influence the level of investment in the private sector by regulation. A range of policies was usually provided including taxes or subsidies, interest rates, regulations or controls.

Question 7

- (a) Sound explanations of the three main ways of calculating GDP were given in answering this question. Candidates explained that GDP can be measured by the expenditure method which places a value of the goods and services produced in a country in a given time period (usually one year). They also stated that the net national income can be calculated by the income method and is the sum of incomes to the factors including incomes earned abroad. A clearer use of this information to answer the explicit question asked would have benefited some of the answers. The information that factor cost + taxes - subsidies gives market prices was missing in some cases. More commonly omitted was the role of depreciation. Gross – depreciation gives net.
- (b) This question elicited some good answers and sound descriptions of the characteristics of a developing country – for example, it may be poor in the level of infrastructure, the level of health care, education, sanitation as well as in the average income level. The access to these may be because they are limited and/or the population is large. However, the focus of the question on population was often then lost. A large population is not the main criterion of developing countries. Reducing the size of the population is not, therefore, necessarily the solution. Candidates often were too involved in the general characteristics and avoided drawing a conclusion about the need to reduce the size of the population to which the question referred.

ECONOMICS

Paper 9708/42

Data Response and Essays (Supplement)

Key Messages.

- Candidates should be aware of the command word “Discuss”. It requires the provision of a conclusion to enable access to the higher levels of attainment. Those responses which only contained one side of an argument or two sides of the argument but which did not reach a conclusion limited their marks, however detailed the analysis.
- Candidates are reminded that a thorough reading of the question is necessary to pick out the breadth of the question. This is particularly true of the questions without sub-divisions.

General Comment

The standard of answers was good this year in response to the questions on the paper. Many candidate responses contained enough material to show that they had understood the relevant theory. It was important to develop that theory to relate it to the context of the question.

It is imperative that students avoid inaccurately drawn or labelled diagrams or perfectly presented diagrams without reference to them in the essay. This will detract from the reward given and may display a learnt response rather than actual understanding of the question posed.

Comments on Specific Questions

Question 1

- (a) Most candidates successfully identified at least two factors which may have affected supply or demand.
- (b) Many candidates only wrote about changing prices. Some extended their answers to mention elasticity but made no comment on profitability. The best responses recognised that profits are the difference between total revenue and total costs, and that there was a possibility of both winners and losers.
- (c) This element of the question allowed the best candidates to identify the different proportions of income spent on food in different countries and the range of price increases that applied to discuss the impact on spending patterns. Additionally the point of food free days was noted as was the fact that cereal prices and food prices could be different.
- (d) It was gratifying that the vast majority of candidates correctly identified two government policy aims before continuing to explain how their achievement would be affected by changes in the cereal market.

Question 2

- (a) Most answers distinguished between normal and inferior goods and the effects of a change in income. Better answers referred to a range of values for income elasticity and linked them to examples of goods which consumers may buy. The best responses commented upon the fact that income elasticity may vary between consumers and for the same consumer over time.

- (b) The different forms of unemployment were clearly defined by many candidates. Credible answers introduced the role of aggregate income in raising general demand but noted that rising income may not be beneficial in all cases.

Question 3

- (a) Candidates showed they had good knowledge of the factors underlying the differences between perfect competition and monopoly. The best responses then applied this knowledge to answering the question by illustrating the answer correctly with a single diagram; accurately drawn from which the differences in price and output in the two competitive forms. A development of the answer in terms of whether the same cost curves would apply to both forms of competition gave access to the highest marks.
- (b) The best candidates recognised the breadth of the question and provided an answer which included a discussion of economies of scale and the continuing existence of the small firm as well as alternative theories such as sales revenue maximisation.

Question 4

This question was very popular. It enabled many candidates to successfully show a wide range of knowledge of wage theory, including the required references to the marginal revenue product theory. The better responses were often shorter, concentrating on a brief over-view of factors affecting labour supply and demand (including MRP) to illustrate the market theory of wages before continuing to a discussion of the exceptions. A link to the equivalent product market situation completed these answers.

It should be noted that access to the highest marks was only available to those answers that were based on MRP theory of labour demand.

Question 5

- (a) The most convincing responses clearly defined a “recession” and explained it either in terms of the trade cycle or reduced aggregate demand before continuing to trace the causes to possible changes in any of the elements of the national income identity $Y = C + I + G + (X - M)$. They also included reference to negative multiplier effects. This was a question where insecure responses often addressed only part of the question either the definition of recession or what may have caused it.
- (b) The majority of candidates identified fiscal and monetary policies as being at the heart of the solution to a recession. The strongest responses developed their descriptions of FP and MP by illustrating their answers with the more theoretical aspect of these policies. Those who extended their discussion to supply side policies often failed to link this approach to ending a recession.

Question 6

- (a) In many ways candidates’ responses to this question showed the same strengths and weaknesses as they did in **question 5 (a)**. The best answers distinguished between short-term and long-term growth with diagrams to show the effect of growth through aggregate demand curves or movement of the production possibility frontier. This was followed by a good discussion of the advantages and disadvantages of growth.
- (b) Most candidates produced a good explanation of the differences between developing and developed economies. The answer was extended to include comment on the merits of alternative measures of growth before data in the table was drawn upon to suggest economic growth rates were a poor measure of the level of economic development. It was encouraging to see reference to the current situation in Greece.

Question 7

The best candidates realised that definitions of productive and allocative efficient were required as benchmarks against which the working of a free market economy could be compared. Even when these were missing nearly all candidates showed a wide knowledge of the limits of the free market system and were able to write and illustrate their answers correctly before discussing a range of government policies which might be applied and the limitations of such policies.

ECONOMICS

Paper 9708/43

Data Response and Essays (Supplement)

Key Message

- Candidates need to read the question carefully and direct their knowledge to the particular phrase and question asked.
- In evaluative and discussion questions it is important that responses discuss the question and come to a well-thought out conclusion stating what the candidate believes as a result of the arguments they have put forward rather than leaving it to the reader to decide what the candidate believes.
- Diagrams should be presented clearly with accurate labels.

General Comments

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.

Comments on Specific Questions

Question 1

- (a) Candidates explained that price discrimination was the charging of different prices to different customers for a product. The crucial fact that it should be for identical products was not always mentioned. Neither was the fact that it should have the same production costs. This omission led to confusion in part (b)
- (b) The example given by the candidate should have been linked to an explanation which involved the assumption of similar costs but different prices. Departure time, day of week, month of year may involve different costs if overtime has to be paid or more seats made available. If costs are the same, they may involve discrimination, if costs are different they may not involve discrimination. An example of discrimination on the same train would be a discount card or an adult/child ticket. An example of non-discrimination would be a different train route or different rail operator; a return journey; a standard/first class ticket; a balcony seats/stalls seats; a football game against different teams.
- (c) For most of the answers the diagram proved a challenge. Quite often there was no diagram presented at all.
- (d) To answer this question candidates could have mentioned that the practice of price discrimination needs different elasticities of demand to exist in the market - so there is a link to demand. It also needs restricted supply to prevent competition and ensure separated markets – so there is a link to supply. This section was answered more accurately than **section (c)**.
- (e) It was expected that candidates would present a discussion. Some of the advantages that they could have mentioned are linked to the firm, some to the consumer. For the firm there could be extra revenue that may enable continued production when otherwise the firm would close. The revenue could also be used for research. An advantage for some consumers is that there will be cheaper prices.

The disadvantage might be that the resulting price discrimination may not be equitable; those who benefit from lower prices may not be the poorest. The discrimination may also cause inefficiency in use of resources or may involve extra administration costs for the firm.

Question 2

- (a) Very few candidates answered this question. Those who did answer the question could have chosen any two areas of economic theory where an equilibrium occurs. For example they could have referred to demand/supply and the equilibrium in the market; to consumer utility and the equilibrium of the consumer; to the equilibrium of the firm; or to the employment of labour.
- (b) It was expected that candidates, in answering this question would present a discussion of the meaning of economic welfare with reference to efficiency. There should have been a consideration and reference to market failure and a recognition that if market failure occurs welfare may be increased by government intervention. Of the few who answered this question, mention was made to productive and allocative efficiency but there was little mention of market failure and usually no conclusion to the question asked.

Question 3

- (a) This question required an explanation of the law of diminishing returns and of the concept of economies of scale and a recognition that the two can be used together. Diminishing returns occurs in the short run and economies of scale in the long run. Those who answered this question were able to describe both concepts but the relationship between them and the relevance of the time period was often not considered.
- (b) It was expected that candidates would discuss the various aims of the firm, for example, profit maximising, behavioural aims, managerial aims, satisficing, and consider whether these are all attempts to ensure the growth of the firm. Most of the candidates who answered this question described profit maximisation but did not develop the alternative aims and did not consider the link to the growth of the firm.

Question 4

It was expected that candidates would consider the theory of wages when the market for labour became more imperfect. Those that answered this question tended to digress and explain the meaning of imperfect competition in the product market and did not really consider the determination of wages. Imperfect markets could result in reduced employment and also lower wages compared with perfect labour markets. The outcome may well depend upon any bargaining power of trade unions or any minimum wage legislation of the government. It could also depend on whether the larger firm carried out investment that may well cause factor substitution in favour of capital. However, such substitution may result in an increase in productivity with possible beneficial effects on wages.

Question 5

- (a) It was hoped that candidates would be able to explain the distinction between the three types of policy. Monetary policy involves measures to influence economic activity, specifically by manipulating the supplies of money and credit and by altering rates of interest. Fiscal policy influences the economy by the use of taxation and government spending. Supply side policy aims to influence aggregate supply. Supply side policies refer to factors affecting the quantity or quality of goods and services produced. This includes the level of productivity, investment in research, the training of labour. Those who answered this question tended to concentrate on monetary and fiscal policy and did not consider whether there was any overlap between the policies.
- (b) Candidates were able to use some of the material in a part (a) to re-present the meaning of monetary policy but found difficulty in considering whether monetary policy was always the main tool for responding to changes in economic outlook. There was little explanation of the meaning of 'changes in economic outlook' and how government policy could be used to influence demand, investment, inflation and employment.

Question 6

This question was in the form of an argument and candidates were asked to consider that argument and draw a conclusion. There were three parts to the argument. First, an explanation of labour and its link to resources. Second, an explanation of the meaning of economic welfare and a discussion of whether increases in welfare can occur only if labour supply increases. Third, a discussion of the particular case of a developing country that may have a rapidly growing population and, as a result, poverty, poor sanitation, poor health and education. Candidates were able to describe the characteristics of a developing country and to refer to population growth. The link between population growth and the resource of labour was not well argued and few drew a conclusion about the overall statement in the argument.

Question 7

- (a) It was hoped that candidates would explain that the level of investment is determined by the rate of interest, the cost and efficiency of capital equipment, changes in consumer demand and expectations. Those who answered this question concentrated on the change in the rate of interest but the link between that and the reason why investment might change was not always clear.
- (b) Changes in investment affect the level of GDP. It was expected that candidates would explain this link by using the concept of the multiplier. It was then hoped that candidates would recognise that an increase in GDP/investment may increase economic growth. They could then have discussed the possible consequences of this increase in terms of employment, incomes, demand, international competitiveness, possible pressure on price increases, detrimental effects of growth, externalities and resource depletion. There were few answers that presented a balanced account of the advantages and possible disadvantages of a growth in GDP.