ECONOMICS

Paper 9708/11
Multiple Choice (Core)

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

Key Message

Shifts in demand and supply curves and the current account of the balance of payments emerged as topics that troubled candidates.

General Comments

There were 1304 candidates, a reduction of 4 candidates. The mean score rose from 15.59 to 15.85 while the standard deviation rose from 4.9 to 5.0. Only **Question 17** proved to be relatively easy, while **Questions 20** and **22** proved to be relatively difficult. One candidate achieved full marks, while four (the same as in the last exam) got 29 out of 30. The number who scored below the guessing level was similar to last year. The standard of performance was very close to that of 2012. The topics that candidates found most accessible were division of labour, production possibility curves, public goods and terms of trade. Difficulties arose with shifts in demand and supply, cross elasticity (XED), trade areas and aspects of the current account of the balance of payments. The average mark on numerical questions was marginally below those on verbal and diagram based questions.

Comments on Specific Questions

For **Question 7** candidates are advised firstly to discard C and D that result in an increase in quantity and then use diagrams to identify B as the correct option. There was a slightly unusual approach to testing cross elasticity of demand in **Question 9**, although there is no difference in the required understanding. This demonstrates the need for adaptability in the approach of candidates. This flexibility was also required in **Question 11**, where candidates were equally spread in their choice of option, which can indicate a degree of guesswork. The diagram was a variation on the usual tariff diagram and required candidates to identify the equilibrium of the demand curve and the new total supply curve to establish C as the correct response. Only

14% of candidates (the smallest selection) chose A in **Question 20**. The combination of free trade and free movement amounts to a common market. The position on free movement excludes the free trade area, while the lack of a CET excludes a customs union and the lack of a common currency excludes an economic union. More candidates selected option D than the correct answer C in **Question 22**. D is incorrect as remittance of profits to Japan would be an outflow in the income section of the US current account. C is correct as investment would be included in the financial account and not in the current account. In **Question 27** a surprising proportion of candidates believed that a reduced current account surplus would raise the exchange rate when the opposite is the case. The reduction in the surplus would reduce aggregate demand so lessening inflationary pressure, and so A was the right response.

ECONOMICS

Paper 9708/12
Multiple Choice (Core)

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

Key Message

Understanding of the operation of maximum prices, particularly in terms of expenditure and consumer surplus, continues to be misunderstood by candidates.

General Comments

There were 7910 candidates, an increase of 549 candidates. The mean score fell from 18.7 to 17.5 while the standard deviation rose from 5.2 to 5.3. **Questions 1, 2** and **12** proved to be relatively easy, while **Questions 5, 18 and 25** proved to be relatively difficult. Twenty candidates achieved full marks, nine fewer than in the last exam. The number who scored below the guessing level was similar to last year. The topics that candidates found most accessible were factors of production, the economic problem, opportunity cost, consumer surplus and subsidies. Difficulties arose with points on the demand curve, maximum prices, causes of inflation and the trade deficit. The average mark on verbal questions was higher than the average on numerical and diagram based questions. The latter had very similar average scores.

Comments on Specific Questions

In **Question 4** as many candidates opted for option D as did for the correct option A. They may have been unfamiliar with the word 'intrinsic', although this is commonly used in this context. Banknotes have virtually no intrinsic value but they are cheaper to produce than coins. **Question 5** proved very difficult for candidates only 18% were correct, although this group included more able candidates. The majority opted for option C, but a particular point on the demand curve cannot identify the demand at **any** given point. D is correct as XY indicates the marginal benefit at that particular quantity Y. **Question 8** involved a number of steps but the stages were relatively straightforward, so it was surprising that almost as many candidates selected B as

selected the correct D. It was necessary to calculate the demand from Willis by combining the data in the diagram and in the table. This gave the demand as 10 at $10, 10 at $15 and 10 at $20 and hence a perfectly inelastic demand curve. This would not be shown as a downward sloping curve (B). Candidates frequently struggle with the positioning and outcome of maximum prices. In **Question 11** it showed an effective maximum price. The majority, who wrongly chose A, failed to realise that only quantity OL would be available to consumers, so no consumer surplus would apply to quantity LN. This error was made by some of the stronger performing candidates. Those consumers who managed to obtain OL would spend less than they had previously at the market price (B). The largest group of candidates in **Question 6** believed that the appreciation of a currency (A) would cause demand-pull and cost-push inflation. Higher export prices would reduce demand and lower import prices would reduce costs, so it is depreciation not an appreciation that would have the stipulated effect. On the other hand, import tariffs (C) would switch demand to domestic goods and raise the cost of production. The balance of trade refers to the relative value of exports and imports. This may include goods and services, although **Question 27** ignored the existence of services to allow for the fact that there are sometimes different interpretations of the term. A significant number of candidates opted for C which includes income and transfers which are not considered trade. Option B concentrated on the values of goods, so did meet the definition of trade.

ECONOMICS

Paper 9708/13

Multiple Choice (Core)

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

Key Message

Candidates need to build confidence to tackle familiar ideas presented in unfamiliar ways.

General Comments

There were 512 candidates, a decrease of 73 candidates. The mean score remained at 19.3, while the standard deviation fell from 5.7 to 4.9. **Questions 5, 6, 12, 17** and **19** proved to be relatively easy, while **Questions 20** and **22** proved to be particularly difficult. Three candidates achieved full marks, two fewer than in the last exam, although two more than last year made only a single error. No candidate scored below the guessing level. The topics that candidates found most accessible were demand changes, market supply, opportunity cost, consumer surplus, government price regulation and tariffs. Most of these indicated the candidates' strength on micro topics. Widespread difficulties arose with market adjustment and trade flows, while only half of the candidates succeeded on liberalisation, elasticity and expenditure, comparative advantage and impacts on a current account deficit. The average mark on numerical questions was clearly higher than the average on diagram based questions, which in its turn was equally higher than the verbal question performance. The small entry makes generalisations about performance less certain.

Comments on Specific Questions

In **Question 9** two thirds of candidates opted for D. This overlooked the fact that the increase in the size of the car fleet for the weekend market meant an increase in the supply of hire cars for the weekday market. Consequently a fall in weekday prices would be expected (C). The largest number of candidates selected option D in **Question 20.** Although both of these questions produced a low facility, they discriminated effectively between candidates. Those who chose D in **Question 3** might have considered that liberalisation

CAMBRIDGE
International Examinations

usually has short-term adverse effects of adjustment before benefits emerge. While candidates usually score well on PED (**Question 7**), half seemed unaware that unit elasticity means that total expenditure remains constant as price changes. This is unlikely and it was probably more likely that the variation in the presentation threw them. It shows that it is important that candidates are able to handle familiar ideas from a different angle. Option B attracted a third of candidates in **Question 21**. This thinking was incorrect because country M will produce product Y, so is earning more from the new exchange rate not paying out more, resulting in benefit rather than loss. The first step should have been to establish the pattern of exchange based on the application of comparative advantage. A surprising data interpretation error was evident from those who chose option B in **Question 25**. Throughout the period there was negative growth in the annual price change of goods meaning a continual fall in annual prices. A reduction in the rate of fall between 2010 and 2012 does not amount to a rise in price. In **Question 30** option B was correct as higher income tax would reduce disposable income and could be expected to reduce import demand or even push producers to seek export sales to replace falling domestic sales. Cuts in interest rates (A) might encourage spending on imports, note that the investment flow would not immediately affect the current account, while purchases of the currency (D) would appreciate its value leading to an increase in the deficit.

ECONOMICS

> **Paper 9708/21**
>
> **Data Response and Essay (Core)**

Key Messages

- It is vital that candidates look at the command word and read the question accurately. For example in **Section A** the data response question specified that answers should be applied to the data in the context, in this case Vietnam; and in **Section B** two questions asked for a diagram.

General Comments

Some of the answers in **Question 1** did not always relate to the data provided, despite the fact that it is a Data Response section. For instance, **(a)** and **(b)** both specifically referred to the situation in Vietnam.

Diagrams were explicitly required in two of the questions in **Section B**, but some candidates either did not draw any or did not use them effectively to support their answer. It was obvious in some answers that candidates had not looked closely at the command word being used in the question. It is important that candidates do recognise whether they are being asked to 'explain' or 'discuss' something and whether there is additional guidance provided, such as in **Question 3 (b)**, where candidates were required to 'discuss the extent' to which a firm could influence the demand for a product.

Comments on Specific Questions

Data Response

Question 1

The data response question concerned the economic situation in Vietnam and, in particular, the features of a command economy in that country, possible actions by the government that could cause inflation and decisions about price controls.

(a) Candidates were required to identify two features of a command economy in Vietnam with reference to the data. These included price controls and increasing the minimum price of exported rice, a minimum wage and state ownership of industries. A number of candidates seemed to believe that the devaluation of a currency was an example of a command economy, but this action is not exclusive to a command economy.

(b) In this question, candidates were required to explain how the actions of the Vietnamese Government in 2009 might have caused two different types of inflation to have occurred in the Vietnamese economy. Many candidates were able to point out that the devaluation could have caused cost-push inflation, by increasing the cost of imported items, and that it could also have been caused by higher minimum wages, increasing the costs of production. Demand-pull inflation could also have been caused by higher wages and by higher state pensions, and it could also have been brought about by a banking policy that would lead to an increase in lending. It was important, however, that candidates paid attention to the command word used in the question, because although the two types of inflation were often identified, they were not always fully explained. Some candidates referred to 'creeping inflation' or 'hyperinflation' rather than 'cost-push' or 'demand-pull'.

(c) Candidates were required in this question to suggest two reasons why an inflation rate of 8.9% might not be a cause of concern to a government. Many candidates successfully pointed out that this rate might not be a cause of concern because it was quite close to the government's target of 8% and also that it might not be a cause of concern if it was lower than in other countries or if it was only expected to last for a short period of time. Some candidates, however, provided some

very general answers which simply reflected a matter of opinion, such as vague comments about '8.9% not being that high a figure'; in some countries, such a rate of inflation could be considered a very serious problem.

(d)(i) This question was not always answered very well by candidates. Some simply wrote out the figures for education and housing without effectively comparing them. Candidates needed to point out that although the price of education rose by more than housing, its lower weighting meant that overall this had less of an effect. It was clear that the concept of weighting was not fully understood by many candidates.

(ii) In this question the command word was 'analyse' and candidates needed to analyse two possible reasons for the Government's selection of the items included for price control. For example, agricultural supplies such as fertilisers might have been selected in order to keep down food prices and so contribute to keeping down the rate of inflation. Basic materials, such as cement or steel, might have been selected because they were very significant in production. Many candidates did focus on the selection of particular items, but some of the answers were very general and did not refer specifically to the particular items that had been selected.

(e) A number of the answers to this question were rather one-sided, arguing either for or against price controls in an economy. Many answers, however, offered a well-balanced response that looked at both sides of the argument. For example, many candidates argued that price controls could help to keep down the rate of inflation and act in a redistributive way, but would not actually deal with the underlying cause of the inflation. They may reduce efficiency and possibly lead to the existence of illegal markets. A number of candidates took a long time to actually get round to answering the question, spending too much time at the beginning explaining the difference between minimum and maximum prices.

Essays

Question 2

This question was concerned with the difference between social cost and private cost in **(a)** and with the potential effectiveness of cost-benefit analysis in **(b)**.

(a) Candidates were required to explain how the social cost of consuming some goods can exceed the private cost of consuming them. Many candidates were able to clearly distinguish between the two costs, emphasising that social cost was equal to the sum of private costs and external costs (or negative externalities), and included appropriate examples to indicate the distinction. The question did explicitly require a diagram to be drawn, showing the distinction between PMC and SMC, but many of the diagrams included in answers were not very helpful and needed to be drawn a lot more clearly, showing the distinction between social and private costs.

(b) In the second part of the question, many candidates were able to analyse what would be involved in a cost-benefit study and used appropriate examples intelligently. The discussion of the potential effectiveness of the method, however, was rather limited in many cases and candidates really needed to go much further in their consideration of some of the difficulties, such as in relation to the problem of giving the various costs and benefits a monetary value.

Question 3

This question was concerned with the price elasticity of demand for different flavours of yoghurt in **(a)** and with the various factors of demand, and the extent to which a firm could influence these, in **(b)**.

(a) There were some very good answers to the first part of the question, with many candidates demonstrating a sound grasp of the concept of elasticity of demand. Diagrams were not explicitly asked for in the question, but many candidates used them to support their explanations. Most candidates recognised that the PED for strawberry yoghurt was inelastic, and so price should be raised to increase total revenue, and that the PED for pineapple was elastic, and so the price should be decreased to increase total revenue. Some candidates were rather confused by the PED for vanilla, although many recognised that the PED was unitary and so the price could be left unchanged. A few candidates did consider pricing policies that were unrelated to price elasticity of demand.

(b)   Many candidates were able to explain a number of possible factors that would lead to an increase in the demand for all types of yoghurt, such as increases in income, changes in tastes and preferences in favour of yoghurt, a fall in the price of complementary goods or an increase in the price of substitute goods, but answers were generally less successful in relation to discussing the extent to which a firm could influence these factors. Some candidates, unfortunately, did not address this part of the question at all.

Question 4

This question was concerned with how a fall in the rate of interest in a country could cause its exchange rate to change in **(a)** and with whether a rise or a fall in its exchange rate was more beneficial for an economy in **(b)**.

(a)   There were a number of good answers to this first part of the question, with candidates recognising that a fall in the rate of interest would cause an outflow of capital, leading to a fall or depreciation in the exchange rate. The question required a diagram to be used to support the explanation and these were generally accurately drawn, showing the depreciation caused by a shift of the supply curve to the right and/or a shift of the demand curve to the left. Few candidates gained full marks for the diagram, unfortunately, because the vertical axis was not clearly labelled in terms of the price of one currency in terms of another. It is essential that diagrams are drawn and labelled as clearly and accurately as possible. A few candidates, unfortunately, believed that a fall in the rate of interest would lead to a rise or appreciation in the exchange rate.

(b)   Many candidates were able to discuss the advantages and disadvantages of both a rise and a fall in the exchange rate of a country, offering a balanced analysis of both exchange rate movements. Most candidates stressed that an appreciation would lead to higher-priced exports and lower-priced imports, whereas a depreciation would have the opposite effect, and they were able to consider the implications of these changes for an economy. Many candidates, however, did not address the question of which would be more beneficial for an economy and so could not access all the available marks.

ECONOMICS

> **Paper 9708/22**
> **Data Response and Essay (Core)**

Key Messages

- Analysis should be sufficiently developed to cover all aspects of the question set. Marks will be lost where analysis is superficial or incomplete.

- Diagrams where provided should be appropriate and drawn accurately.

- Answers should always be framed in the context of the question set. If answers do not match the context of the question some aspects are likely to be irrelevant and a low mark will be the outcome.

- Candidates are advised that all essays will have some marks available for evaluative comment. If no evaluative judgement is exercised marks will be lost as a result.

General Comments

The entry for this paper continues to grow. Some candidates produced papers of a very high standard that showed good knowledge and understanding together with the required analytical skills and the ability to score marks through the provision of appropriate evaluative comment. Unfortunately, a large number of candidates continue to display the same weaknesses as displayed by candidates in previous years. These include an inability to develop the relevant analysis to a sufficient extent, a tendency to support analysis with incomplete or inaccurate diagrams and a failure to provide evaluative comment where required.

Comments on Specific Questions

Data Response

Question 1

The data response question concerned the occurrence of hyperinflation in Zimbabwe and the impact of this upon the economy's trade position. Some of the answers required specific reference to the data and Zimbabwe. Others were more general and referred to any economy in which hyperinflation might exist.

(a) (i) This question required candidates to show good knowledge and understanding of the term 'hyperinflation'. Answers awarded both marks available emphasised the extreme nature of increases in the general price level when hyperinflation occurs. Some candidates failed to make the basic comment that inflation occurs when prices rise. These candidates were usually stated that hyperinflation was an extreme example of inflation, but they failed to show understanding that inflation referred to price increases.

(ii) In order to score both marks here it was necessary to show sound understanding that the real value of money had declined each day in Zimbabwe in November 2008 and then to accurately quantify the extent of this decline as 50%. Many candidates failed to make any attempt to quantify the decline and lost a mark as a result. Others gained no marks because they stated that a rise in prices meant that the real value of money had increased at this time.

(b) This question required candidates to explain how a government might cause hyperinflation. Two broad approaches were accepted. The most popular approach suggested that hyperinflation resulted from excessive increases in an economy's money supply and that this was initiated by governments. This would result in a situation where 'too much money was chasing too few goods'. Better answers supported this approach through reference to the Fisher version of the Quantity Theory of Money. This approach provides a demand-pull explanation of hyperinflation. Some

credit was awarded to those candidates who focused upon expansive fiscal policy, but such approaches usually explain inflation that is less extreme than hyperinflation and scored less well. Similarly, those candidates who explained a government's responsibility for cost-push inflation, through for example a devaluation of the currency gained some limited credit, but as stated although this might explain a government's responsibility for inflation, it is unlikely to generate the extreme price rises associated with hyperinflation. These are always associated with excessive increases in the money supply.

A disappointing number of candidates ignored the question requirements and explained the causes of inflation with no reference to the actions of governments. Such approaches scored very poorly.

(c) (i) This question required candidates to show understanding of the way in which cheques work and to explain why shopkeepers would only accept cheques if they were written to a value twice the amount owed by the customer. On the whole most candidates answered this poorly. Since it takes time to cash a cheque, the value of the cash received would have decreased considerably during a period of hyperinflation. This is the reason for the shopkeepers' actions. Unfortunately, a large number of candidates seemed unaware of the way in which cheques worked and as a result were unsure of how to start this question. As stated, marks awarded here were generally poor.

(ii) When faced with hyperinflation workers would react by asking for wage and salary increases. Some might lose confidence in money and ask for payment in goods and services. If the hyperinflation persists some might seek to emigrate and seek jobs abroad. Many candidates recognised that workers would ask for wage increases, but disappointingly, many failed to go much beyond this, despite the mark allocation for this question. The second part of this question asked for an explanation of how foreign investors might react to hyperinflation. Again, although many understood that foreign investors might reduce their investment in Zimbabwe, only a small number of candidates went beyond this simple statement. No explanation was provided to explain this reaction and many scored a disappointing mark for this question as a result.

(d) In order to score well here candidates were required to discuss how Zimbabwe's current account would be expected to respond to the existence of hyperinflation in the economy. Clearly, it would be expected that since the price of Zimbabwe's exports would rise and the relative price of its imports would fall Zimbabwe's current account would be expected to go into increased deficit as export and import volumes responded to these price changes. Most candidates gained some credit for this observation, but for a good mark it was necessary to include consideration of the price elasticities of Zimbabwe's exports and imports. Only the minority of candidates included this in their discussion and overall marks for this question were reduced as a result. A further factor that is relevant to the discussion is the extent to which the external value of the Zimbabwean currency would depreciate to offset the rapidly rising prices in the Zimbabwean economy. Although many candidates recognised that the external value of the Zimbabwean currency was relevant to the discussion, only a small number used this point well and in a relevant context to develop the discussion sufficiently to gain a good mark.

Essays

Question 2

(a) Most candidates were aware of the impact of a maximum price set below equilibrium. Diagrams provided were usually appropriate and accurate and, if accompanied by an explanation, were awarded due credit. Unfortunately, a large number of candidates were less clear about the impact of a maximum price fixed above the market equilibrium price. A maximum price fixed above market equilibrium will, of course have no effect, but many stated incorrectly that this would lead to a surplus. Such candidates were clearly confused with the impact of a minimum price and this resulted in many failing to gain a good mark for this question.

(b) This question focused upon the problems that arise as a result of a maximum price that is fixed below market equilibrium and required a discussion of whether these problems can be overcome. It was pleasing to see the large number of candidates who were able to explain that the outcome of such a maximum price would be a shortage and many were able to explain the problems of allocation that arose from this. A range of measures was suggested to overcome these problems and good evaluative comment on the likely effectiveness of these measures was well rewarded.

Question 3

(a)   Most candidates were aware of the differences between merit and demerit goods, but the quality of the explanations and the diagrams provided showed considerable variation in quality. Some candidates emphasised the presence of either positive or negative externalities in distinguishing merit from demerit goods. Others provided an explanation for under or over consumption of such goods upon incomplete information. Either approach was acceptable although some gave rather confused explanations that combined both approaches. The main weakness on this question however was in the diagrams that were often inaccurately drawn or which did not match the accompanying explanation. This topic appears to be very popular in Centres, but it is clear that there remains considerable confusion amongst candidates on the characteristics of each type of good and the diagrams that illustrate the features of provision in the market.

(b)   To score well candidates needed to assess the advantages and disadvantages of two approaches to dealing with the problems generated by smoking. Some answers were overly descriptive, but others made some good points drawn from the application of economic concepts. Some for example, suggested that banning smoking would lead to the rise of illegal trade in cigarettes, others that the costs of enforcing the ban would be excessive. Others explained the effect of an indirect tax through the impact upon the supply curve and the price of cigarettes. The more successful approaches included a consideration of the price elasticity of demand for cigarettes and the impact of each approach upon factors such as government tax revenues and employment levels. To score a high mark for evaluation here it was essential that candidates reached a conclusion.

Question 4

(a)   Candidates needed to provide a good explanation of the concept of expenditure dampening here and also needed an accurate diagram to show how this would affect aggregate demand, prices and output in an economy. Most candidates who attempted this question had a satisfactory understanding of the term and explanations concerning measures to dampen the economy were on the whole sound, with both fiscal and monetary approaches referred to. Again however, many answers were let down by poor diagrams. Many candidates were not able to access all available marks because for example they provided a diagram appropriate to a micro rather than a macro context. Care should always be taken when selecting diagrams for inclusion in an answer to ensure that it is appropriate and that it is drawn accurately.

(b)   Here it was necessary for candidates to explain the meaning of the term expenditure switching and compare its effectiveness with expenditure dampening in solving the problems faced by an economy with a large current account deficit and a high rate of inflation. Most candidates were able to explain and illustrate the meaning of expenditure switching and gained due credit. Many found it more difficult however to score marks for evaluative comment on this question. Many found it difficult to assess which of the two policies was most appropriate for an economy with the problems described. To score well on this question it is clear that candidates needed to reach a conclusion concerning which policy was most appropriate. Without this the answer was considered incomplete and marks not achieved as a result.

ECONOMICS

Key Messages

- Analysis must be developed to a sufficient extent to answer a question fully. Superficial analysis that for example excludes a number of relevant issues when developing an explanation will score poorly.

- Evaluative comment must be based upon the evidence advanced in the analysis and must be free of value judgement.

- Data handling skills must be developed so that data can be interpreted meaningfully and overlong and descriptive approaches to data handling are avoided.

General Comments

The level of knowledge and understanding displayed by most candidates was certainly sufficient to score well. In addition most candidates showed the required analytical skills together with the ability to make evaluative judgement as required. A large number of candidates however do not use their knowledge and understanding to maximum effect. Analysis is left undeveloped and evaluative comment is missing or is speculative and not based upon the evidence advanced in the body of the answer. The result is considerable variation in the quality of scripts and marks vary accordingly.

Comments on Specific Questions

Question 1

(a) (i) This question posed few difficulties for candidates. Most were able to suggest two examples of non-tariff barriers to trade. Examples included quotas, embargoes, subsidies and administrative procedures. Most candidates scored full marks on this question.

(ii) Many candidates gained a mark for stating that one change that would have been necessary within the EAC when it became a monetary union would have been the adoption of a common currency. Unfortunately, few candidates recognised other changes that would have to occur despite the fact that these were so closely linked to the adoption of a common currency. Few for example mentioned the fact that monetary union and a common currency would mean a central bank for the union and a single exchange rate. Only a minority of candidates gained both marks available for this question.

(b) This question was answered successfully by many candidates. There was good interpretation of the data to explain possible reasons for the imposition of different CET rates by the EAC. Candidates exercised a logical approach and there was good application of theory to explain why for example zero rates are imposed upon raw materials and capital goods and high rates on goods produced within the EAC. Marks awarded were quite pleasing here.

(c) In order to score well on this question it was necessary to analyse the changed trade position of Tanzania with both its trade partners and with the rest of the world after the creation of the EAC. Some candidates provided quite sound analysis of the change in both positions and scored well. Some candidates scored less well because they provided a quite descriptive and over long account of the changes with only limited analysis. These candidates made little effort to manipulate and interpret the figures and as a result added little to the information provided. Such approaches scored poorly.

(d)   Most candidates showed some knowledge of the case for and the case against expanding the EAC after 2012 but there was considerable variation in the extent to which candidates developed their answers. This was a high mark allocation question yet some candidates provided only superficial answers that failed to do justice to the question requirements. Some provided only an outline summary and failed to discuss the issues in sufficient depth. The best answers here were well rewarded, but there was a wide range of marks awarded with the poorly developed answers only achieving low marks.

Essays

Question 2

(a)   In order to score well on this question a candidate needs a firm knowledge and understanding of the role of the enterprise factor in the production process in a free market economy. They needed to explain this and compare it with the role of the other factors in the production process. Most candidates had some idea of the role of enterprise but it was disappointing to see the large number of candidates who had only a partial grasp of this function. The factor enterprise has two functions in a free market economy. Firstly, it takes the risk of production. Although seeking profit it is possible that the factor makes a loss and loses the money that is put into the business. Secondly, the factor enterprise organises the other factors of production. A large number of candidates who attempted this question mentioned one, but not both of these functions, and so could not gain all the marks available. The second part of the question required candidates to explain the role of the other factors in the production process and to identify the difference between these factors and the factor enterprise. The key difference is in the risk-taking role in pursuit of profit.

(b)   Most candidates were able to explain the key differences between centrally planned and mixed economies and some high marks were awarded. Unfortunately, most were less successful when considering whether the factor enterprise was needed in a centrally planned economy. Given the nature of a centrally planned economy it is clear that the lack of profit motive means that this aspect of the factor enterprise's role is not required. It remains the case however that there has to be some organisation of the factors land, labour and capital. In a centrally planned economy a salaried manager appointed by the state usually do this. So in this sense this aspect of the role of the factor enterprise is still required in a centrally planned economy. Few candidates gave full consideration to this element of the question and low marks were awarded for evaluative comment as a result.

Question 3

(a)   This question required candidates to have good understanding of what constitutes the quantity of money in an economy and what is meant by the value of money. The relationship between the two is an indirect one and is usually expressed through the quantity theory of money. Disappointingly, a large number of candidates failed to show the necessary knowledge and understanding of the quantity theory here and provided only a limited and superficial explanation of the relationship between the quantity of money and its value. Those who were aware of the significance of this theory were able to provide a clear explanation of the link as required and were awarded high marks.

(b)   Candidates needed to provide an analysis of the impact of a significant rise in the general price level and the effects of this upon the functions of money. They then had to go on to show evaluative judgement and explain which effect would be most damaging for a modern economy. Most candidates showed some understanding of the functions of money, although some were not able to state all four functions. Many candidates found it more difficult to explain the impact of inflation on all the functions of money that they identified. It was expected that candidates would suggest that the impact on the functions depended to some extent upon the pace of inflation. During hyperinflation for example money can lose its function as a medium of exchange and it was hoped that this might influence the evaluative judgement made by candidates. The quality of evaluative comment was very variable here. Some candidates seemed to lack the confidence to make a judgement and did not go far beyond the analysis of the impact of inflation upon the functions of money. Some candidates however provided very perceptive comments. They were rewarded with a good mark for evaluation.

Question 4

(a)   Most candidates displayed the appropriate knowledge and understanding of the way in which exchange rates are determined in a free market and marks awarded were high for this part of the question but candidate explanations of government intervention in the foreign exchange market were often incomplete. Diagrams were often used to illustrate intervention, but were often drawn inaccurately so marks for application were often disappointing.

(b)   Analysis of the costs and benefits of a rising exchange rate provided by candidates was generally sound with a number of costs and benefits explained. Evaluation was generally less successful however with judgement often made with little reference to the evidence provided in the analysis. Candidates are advised to make evaluative comment taking into consideration the relevant information considered in the analysis offered.

ECONOMICS

Paper 9708/31

Multiple Choice (Supplement)

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

Key Messages

- A greater focus on the relationship between total, average and marginal variables would be helpful.

- Candidates also need to be prepared for different ways of asking similar questions from series to series

General Comments

The mean percentage score of 47.9% recorded on this paper was some 5% points higher than candidates have achieved on corresponding papers in recent years, and only one of the questions, **Question 18**, had a facility score below the 25% i.e. the guessing level for four-option items. However, there were no fewer than eight **Questions, 4, 5, 7, 11, 13, 19, 21**, and **23** where there was very little correlation between those opting for the correct response and the performance of candidates on the paper overall, and, as a result, these questions had discrimination scores which were below the test design limit.

Comments on Specific Questions

Economic rent is usually depicted diagrammatically by a single triangular area, which no doubt explains why **B** was a positive distractor in **Question 5**.

The statistics thrown up by **Question 7** confirm once again that candidates have difficulties in working out the relationship between total, average and marginal variables, and, clearly, more attention should be given to these relationships.

In **Question 10**, the question was found hard by candidates, and a good many of the better candidates wrongly concluded that a switch from sales revenue maximisation to profit maximisation would enable firms to afford higher wages, and, therefore, opted for **A.**

The characteristics of different market structures are usually quite well understood, and the low discrimination on **Question 11**, and the fact that over half of the candidates wrongly opted for **C** or **D**, was unexpected.

Not only are the definitions of different categories of the money supply constantly being revised but they also vary from one country to another. In addition, the spread of on-line banking has meant that depositors are able to switch funds from savings accounts to current accounts almost instantaneously. This has blurred the distinction between broad and narrow money and may have contributed to the low statistics recorded in **Question 18**.

The more unusual wording used in **Question 19** may have contributed to the low discrimination score as the more often used wording about how much the government would need to increase its own spending normally gives a better response from candidates. Candidates need to be prepared for different ways of asking similar questions from series to series

Those candidates, 44% in total, who wrongly opted for **A** in **Question 20** failed to distinguish between the impact of a new cash deposit on the receiving bank and its impact on the banking system overall.

It was anticipated that **Question 21** might prove to be a good discriminator, and although 39% answered the question correctly, the statistics suggest that a good many candidates resorted to guesswork.

The low discrimination score in **Question 23** was due to the fact that the candidates opting for **A** (33% of the total) included many of the better candidates on the paper overall. One can only presume that these candidates failed to recognise that to calculate the approximate value of the % growth of real GDP per head, the rate of population growth and the inflation rate have to be subtracted from the % growth of nominal GDP.

ECONOMICS

> **Paper 9708/32**
>
> **Multiple Choice (Supplement)**

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

Key Messages

- A greater focus on the relationship between total, average and marginal variables would be helpful.

General Comments

The mean percentage score of 46.3% recorded on this paper was 3% points below the score achieved on the corresponding paper in 2012. For the most part, candidates performed perfectly well on the more tried and trusted items, but a good many struggled when confronted with items on less familiar topics and with items which called for more independent thinking, especially those dealing with policy related issues.

Comments on Specific Questions

Question 1 was the only question on the paper which turned out to be too easy. To help candidates settle down, setters try to ensure that the first question on MCQ papers is not too difficult, but the facility score of .86 in this instance was slightly above the test design limits.

It has been clear for some time that more attention needs to be devoted to the relationship between total, average and marginal variables, and this was borne out once again by the facility and discrimination scores recorded on **Question 8**.

One might have expected candidates to recognise that in the case of industries such as the steel industry where fixed costs account for a high proportion of total costs, fluctuations in demand will have a

disproportionate impact on profits. However, it is clear from their performance on **Question 13** that very few candidates understood this.

It is also clear from the statistics for **Question 15** that very few candidates were familiar with the concept of a 'poverty trap'. In the event, over half of the candidates chose the option that was that regressive taxes would increase the incidence of poverty. However, somewhat ironically, regressive taxes also make it easier for households to escape the poverty trap since the proportion of their incomes paid in taxes falls as their incomes rise.

It had been anticipated that most candidates would realise that GDP figures will exaggerate a country's true rate of growth when people move from unpaid work to paid employment. In the event, **Question 17** was found difficult by candidates with 55% of the candidates, including many of the better candidates on the paper overall, wrongly opting for **B**.

Question 22 was another item which proved to be a poor discriminator. In this case, over half of the candidates, including, once again, many of the better candidates, thought that restrictions on foreign inward investment or high trade union membership would contribute to a country's long-term economic growth.

A 'dirty float' is another concept with which most candidates were clearly unfamiliar. The most popular option in **Question 26** was **B** which stated that a 'dirty float' would leave a country's foreign exchange reserves unchanged. Perhaps this area could be focussed on more.

Finally, **Question 29** was yet another item where more candidates opted for a distractor than for the key. In this case, 42% of the candidates thought that steady growth in line with a country's long-run increase in productivity would leave average living standards unchanged and cause unemployment to fall.

ECONOMICS

<div style="border:1px solid black">

Paper 9708/33

Multiple Choice (Supplement)

</div>

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

Key Messages

- A greater focus on the relationship between total, average and marginal variables would be helpful.

General Comments

The mean percentage score on this paper was 63.7%. Nineteen of the thirty items had facility and discrimination scores which were well within the test design limits. As was the case in the corresponding paper in 2012, the paper contained many items, **Questions 1, 2, 7, 15, 16, 18, 19**, and **24**, which candidates found to be too easy.

Comments on Specific Questions

Most of the 'easy' questions were standard items on topics with which candidates were very familiar: the condition for allocative efficiency (**Question 1**), the equi-marginal principle (**Question 2**), the distinction between economic and accounting costs (**Question 7**), short-run problems of transition associated with a move from a command to a market economy (**Question 15**), characteristics of developing economies (**Questions 15** and **24**), the identification of injections and leakages (**Question 18**), and the condition for the achievement of the equilibrium level of income (**Question 19**).

By way of contrast, there were two questions, **Questions 8** and **14**, which succeeded in confounding the majority of the candidates. In **Question 8**, candidates were presented with a diagram showing a firm's short-run total cost function and were asked to identify points on the curve at which different average and marginal

variables are minimised. Only 16% chose the correct option. No fewer than 59% thought that the firm's AVC is minimised at the point of inflection on the curve. There have been several similar questions on past papers which candidates have found equally intractable, and it is increasingly clear that this part of the syllabus is being totally disregarded.

As there have been very few questions on past papers which have asked about the characteristics of universal and means tested benefits, it was not entirely unexpected that candidates would struggle with **Question 14**. However, this is a policy area which is clearly covered in the syllabus, and is likely to become increasingly topical as governments seek to control their welfare budgets.

In **Questions 21** and **26**, more candidates opted for one of the distracters than for the key. In the case of **Question 21**, the discrimination score suggests that these were mostly the weaker candidates on the paper overall. Most of the better candidates recognised that if an increase in the money supply exceeds the resulting increase in money income, this signifies that the velocity of circulation has decreased.

One can understand why candidates might have opted for **A** in **Question 26** since, arguably, **A** is half correct. A high ratio of government debt to GDP is likely to lead to higher taxes which could well have an adverse effect on economic growth, but not, as stated in **A**, via a fall in the money supply.

ECONOMICS

Key Messages

- Essays should be clearly structured with a concise introduction which sets the question into context and explains key terms and the significance of the subject matter
- Diagrams should be accurate and clearly labelled
- Attention should be paid to key command words such as analyse and discuss. These require the higher order skills to ensure that candidates attain higher level marks
- Answers should be relevant and succinct. It is important to focus upon the specific question and to avoid overlong verbose responses which add little to the overall performance.

General Comments

The overall performance across all Centres would suggest positive improvement. There were many instances of candidates fulfilling many of requirements referred to above. There was also clear evidence of candidates being carefully prepared for an examination set at GCE Advanced level. Many responses were able to incorporate a significant proportion of critical analysis within their essays and as such gain a higher level grade. It was also pleasing to note that grammar and spelling errors appeared to be less in evidence generally.

Comments on Specific Questions

Data Response

Question 1

(a) Candidates produced some very good well informed responses to this question and frequently gained full marks. Good answers explained that integration referred to mergers/takeovers, and that there were different types such as vertical, horizontal or conglomeration. This was sometimes combined with clear examples such as a bread retailer acquiring a bakery providing evidence of backward vertical integration. Similarly, most candidates were able to link economies of scale to the cost benefits associated with a firm's expansion. Candidates did not access all available marks if they failed to point out that economies of scale relate to a long run situation where average total (or unit) costs fall due to the opportunity to expand output. Also less effective responses did not identify the specific type of cost reduction but simply listed how these cost savings might be obtained, that is, by referring to commercial economies, financial economies etc.

(b) This part required careful thought and produced a range of responses. It was expected that candidates would refer to both fixed and variable costs and also how these might change over time. This would have provided the necessary structure to ensure that a range of appropriate issues would be covered. Marks were gained for recognising that integration might initially lead to an increase in costs due to the requirement to cover an immediate increase in fixed and variable costs. However, due to the potential additional cost saving benefits of scale, it would subsequently be possible to reduce long run average total costs. Some very good responses attempted to debate the relative increase in costs and the relative long run reduction and then form some overall judgement.

(c) An ability to use the given data to provide comparative performance analysis was required in this part. The data supplied was not complex and full marks could be gained by focusing entirely upon the data provided in Table 1. It was important to note that this question was examining the relative performance of one organisation compared with its larger competitors over a particular time period.

Thus, responses which identified information which related only to the beginning or only to the end of the period, did not gain marks. Also marks were not allocated for simply stating information taken from the table. Good answers noted that Morrison's market share remained the same whilst two of its main rivals declined, as well as referring to the fact that Morrison's revenue had risen by 4.4%, which was higher than two of its rivals with only Sainsbury's improvement being better than that of Morrison's.

(d) Normally, the final question which incorporates higher order skills, serves as a good discriminator. This was not the case on this occasion. Marks tended to be bunched around 3-5 out of 8. Very few responses gained full marks but the majority of answers gained around half marks which would ensure at least a bare pass level. Responses were expected to demonstrate some knowledge of how oligopolistic markets work and, and more importantly, use the evidence provided in the text to decide whether food retailing and banking could be described as oligopolistic markets. Basic responses referred to some key characteristics associated with oligopolistic markets and attempted to locate these in the information provided. Far too many responses identified characteristics which could not be identified in the text but which were subsequently used to claim that food retailing and banking were indeed operating in oligopolistic markets. In particular, many answers referred to the existence of barriers to entry, even though there was no clear evidence from the information provided to support this claim. Good answers identified a range of relevant characteristics associated with an oligopolistic market and then made some attempt to link these to the information provided. Marks were gained for recognising that there were many characteristics associated with the behaviour of firms in an oligopolistic market that were simply not referred to in the text. Hence, it was not possible to conclude that there was enough evidence to support the contention. It was essential to provide this final statement to access all marks.

Essays

Question 2

(a) This question required a succinct explanation of how economic analysis suggests that consumers make a choice when purchasing products and how consumers react to price changes. Basically, candidates needed to provide the analysis which underpins the construction of the normal demand curve; that is a demand curve which slopes downwards from left to right and which indicates an inverse relationship between a change in price and a subsequent change in the quantity demanded. Good answers explained the meaning of the term 'utility' as applied in Economics and the key assumption of diminishing marginal utility. It was necessary to combine this explanation and assumption with the assumption that consumers make rational decisions and that they also attempt to maximise the satisfaction gained from the purchase and consumption of goods and services. On this basis, it was expected that good answers would make the link between marginal utility and price and the desire to maximise satisfaction. Marks were gained for explaining some key terms such as total utility, marginal utility and diminishing marginal utility. However, very few responses were able to make the link between the above and price which was necessary to inform choice. The most effective answers did establish the basis for choice, the link between rational decision making, marginal utility and price and proceeded to provide some clearly expressed analysis. Some particularly impressive answers explained the principle of equi-marginal returns and how purchases would be re-adjusted in the light of price changes.

(b) This part enabled candidates to cover many possible choices facing firms and explain how they related to alternative business objectives. A much wider choice of subject matter allowed candidates to deal more effectively with this part of this question and, as a result, more marks were generally gained. As expected, the majority of responses described the key motive of profit maximisation and then proceeded to examine alternative objectives. Good answers referred to and explained a wide range of alternative aims including: sales maximisation, revenue maximisation, managerial utility maximisation and growth maximisation. Some particularly good responses managed to explain the sales revenue maximisation subject to a profit constraint, complete with appropriate diagrams. Although the approach outlined above was the expected approach, candidates were given credit for identifying other possible objectives associated with the behaviour of firms, for example, the desire to increase market share or reduce long run average total costs.

Question 3

An argument is presented in the statement and candidates were expected to address issues raised by this statement. To this effect, it was necessary, first of all to demonstrate a clear understanding of how economic theory attempts to explain wage determination in a perfect market. This part of the syllabus is frequently tested and it is generally the case that candidates are usually prepared for a question of this nature. This cohort was no exception. Explanations of how a perfect labour market would operate were often sufficiently clear and accurate to gain high marks. Relevant assumptions were identified and the link between the industry and the firm was clearly established via appropriate, accurately labelled diagrams. The key requirement to show why the demand for labour curve facing the firm would be downward sloping, based on the theory of diminishing marginal productivity, was frequently demonstrated. Those candidates who failed to provide this explanation lost marks accordingly.

The extent to which candidates could then proceed to discuss how well this theory could then be adapted to accommodate imperfect markets served to provide a good discriminator. It was pleasing to note the relatively high number of responses which were able to explain and discuss how the theory could be adopted to accommodate, monopsony, trade unions and government intervention. Marks were allocated for this part of the answer on the basis of coverage and depth of analysis relating to each of at least three examples of imperfect markets. It was essential that candidates provided an appropriate conclusion to their argument, to secure a high level four mark. It should be pointed out that, in spite of frequent references to the cost of omitting Marginal Revenue Product analysis, a significant number of candidates submitted answers which contained analysis which did not proceed beyond supply of and demand for labour. This type of response would, in relation to a question of this nature, be restricted to a maximum mark of 17/25.

Question 4

(a)   There were surprisingly few good answers to this question. The question was very straightforward, testing a mainstream part of the syllabus and was set out in a very clear, uncomplicated manner. Candidates were required to explain the possible link between interest rate changes and economic growth. The key to successful responses related to the recognition of the relationship between changes in the rate of interest, the effect of these changes on the level of investment and the subsequent effect of changes in investment on the level of income and output. It was expected that candidates would also refer to the importance of the multiplier effect when examining the overall impact on economic growth. Good answers provided clearly labelled diagrams, using the Marginal Efficiency of Capital (MEC) curve, to illustrate the relationship between changes in the rate of interest and changes in the level of investment. Answers were then further developed to show the importance of the level of investment and its impact on national income, output and employment. Higher marks were gained by those who incorporate the role of the multiplier into their analysis of the overall impact of changes in investment on the circular flow of income. Less effective responses focused on the effect on the production possibility curve and more general comments regarding links between investment and economic growth. Some excellent responses used diagrams in conjunction with an explanation of the monetary transmissions mechanism and why interest rate changes might have a fairly weak impact on the level of income. It should be noted that answers which did not refer to the multiplier effect were restricted to a maximum level two mark.

(b)   This part was answered well. The question provided an opportunity to discuss a range of policies which might be used to encourage economic growth apart from the use of interest rates. Unfortunately, some candidates did not read the question carefully and wasted time writing about policies which used interest rates as a possible instrument to promote economic growth

Nevertheless, the majority recognised the need to explain how monetary and fiscal alternatives might work in theory to encourage economic growth. This was an opportunity to reproduce some basic Keynesian macroeconomic theory to analyse how such policies might work. Keynesian demand management techniques were explained with reference to the use of budget deficits which incorporated both income tax cuts and increases in government expenditure. Similarly, opportunities existed to link a relaxation of monetary policy via loosening of credit controls to promotion of and attainment of economic growth. Also some answers managed to add supply side alternatives to the above to produce some very comprehensive analysis. Perhaps the main weakness associated with answers to this part related to the lack of evaluative comment. A question of this nature lent itself to evaluative comment based around a critique of the effectiveness of the chosen policy. For example few referred to problems such as 'crowding out' or

the potentially negative effects the balance of payments and/or inflation associated with Keynesian demand management policies.

Question 5

Questions relating to difficulties involved in measuring living standards and using these measures to compare living standards between countries occur frequently on this paper. As a result, it is often the case that candidates are well prepared to answer a question of this nature and this is often borne out by consistently high performance. This applied to this particular cohort. Candidates who chose this question frequently gained relatively high marks. With regard to this particular question, candidates were required to examine problems associated with trying to measure living standards and then they should have considered whether it is possible to use these measures to determine whether people in some countries are better off than others. The most effective responses considered both parts of the question. Marks were gained for identifying common measures which are used and why they might not provide reliable benchmarks to compare living standards. Difficulties arising when using indicators such as GDP were well documented and marks were gained accordingly. References to the need to use per capita, real estimates of GDP gained marks and also problems connected with measuring negative externalities and the value of the work/leisure balance were highlighted and gained marks. The highest marks were gained by those who attempted to address problems associated with using some indicators to compare living standards between countries. Also additional marks were gained for identifying and explain alternative measures such as HDI and MEW

Given the nature of the specific question, it was essential that candidates attempted to form a judgement which should have been incorporated into their conclusion, as to how far they agreed with the statement under consideration.

Question 6

(a)   Many candidates attempted this question and many gained very high marks for part a). This first part focused on the requirement to identify and explain the main causes of employment. The question did not require any grasp of technical issues relating to theory but it did require detailed knowledge and an ability to support explanation with some up-to-date valid examples of at least four different causes of unemployment. Not surprisingly, the majority of candidates were able to do this by identifying and explaining: frictional; structural; seasonal; cyclical; technological causes of unemployment. Moreover, there many examples of good supporting examples and, in some cases such as cyclical unemployment, accurately labelled diagrams. The level of mark was determined by the depth of explanation and the number of caused referred to.

(b)   Although part a) was straightforward and as a result, clearly had some appeal to many candidates, this part was quite different and produced some markedly different levels of performance compared to part **(a)**. Marks were gained quite easily for explaining the three Keynesian motives for demanding money. Candidates had been well prepared to re-produce the standard text book explanations of the transactions, precautionary and speculative demand for money. As such it was relatively easy to gain level two marks. However, the question then required candidates to apply their understanding of the determinants of the demand for money to explain how they might be affected in relation to the information contained in the announcement. Very few responses were able to establish any kind of connective thread between the changes announced and a subsequent effect on the motives for demanding money. Thus, although candidates understood that the level of income would influence the level of transactions demand, they were unable to establish any link between a planned job cuts, reduction in income and transactions demand for money. Similarly, few were able to link proposed changes in the pension age to possible changes in the precautionary demand for money. Even fewer seemed to be aware that unless either of these announcements affected long term rates of interest, then neither would affect the speculative demand for money. As a result the overall, average mark for this question was disappointing.

Question 7

(a)   This part of the question undoubtedly attracted a lot of responses because it is a frequently tested part of the syllabus and the structure of the question was very straightforward. Candidates familiar with the different concepts of efficiency would feel confident that relatively high marks could be gained for this part of the question. This was borne out by some very good detailed answers to part **(a)**. As usual, candidates were able to explain the concept of productive efficiency in some detail. Moreover, it was especially pleasing to note the proportion of responses that could also explain the concept of allocative efficiency in similar depth. Past performance indicate frequent

problems regarding explaining allocative efficiency but this cohort has certainly demonstrated some significant improvement in this area. As a result, level four marks were frequently awarded for this part.

(b) In contrast to part **(a)**, this part was not dealt with effectively. A discussion of the balance between the creation of wealth, income and jobs by the building of an airport by the private sector and the potential destruction of existing environments, with overcrowding, congestion, pollution and negative externalities was required. Whilst some answers did refer to some of these issues, they were not address in any carefully structured manner. As a result answers were often not fully developed or a collection of points were raised but with little semblance of forming any balanced argument which was a pre-requisite for this question. Higher marks were awarded to those who did attempt to consider the possible costs/benefits associated with each alternative and, as a result, attempt to form an overall judgement.

ECONOMICS

Paper 9708/42
Data Response and Essay (Supplement)

Key Messages

- Essays should be clearly structured with a concise introduction which sets the question into context and explains key terms and the significance of the subject matter
- Diagrams should be accurate and clearly labelled
- Attention should be paid to key command words such as analyse and discuss. These require the higher order skills to ensure that candidates attain higher level marks
- Answers should be relevant and succinct. It is important to focus upon the specific question and to avoid overlong verbose responses which add little to the overall performance.

General Comments

The overall performance across all Centres would suggest positive improvement. There were many instances of candidates fulfilling many of requirements referred to above. There was also clear evidence of candidates being carefully prepared for an examination set at GCE Advanced level. Many responses were able to incorporate a significant proportion of critical analysis within their essays and as such gain a higher level grade. It was also pleasing to note that grammar and spelling errors appeared to be less in evidence generally.

Comments on Specific Questions

Data Response

Question 1

(a)   It was expected that candidates would make mention of the fact that Unilever is a large multinational company and it is likely that its size would indicate that it is in an imperfectly competitive market. As an explanation candidates could mention that this could mean that it has some control over its price decisions, that it has branded products, which implies that it advertises. While many candidates opted for an imperfect market, a significant number stated that Unilever was operating in a perfectly competitive market. Some candidates confused market structures with economic systems, and wrote about planned or mixed economies. Some credit was given for market or mixed economies but planned economies was not accepted.

(b)   Candidates could have mentioned that Unilever had an aim of doubling its size. This might indicate that it hoped to achieve economies of scale. However, elements of their business would seem to be conflict with this and tend to be against the idea of larger size as they wish to deal with 500 000 small farmers. A further conflict is possible with its environmental aim and its distribution policy. It stated that it had a policy of improving efficiency by reducing international suppliers. It also said that its future aim would be to halve our environmental impact. However, rather than limiting its transport and distribution to a few suppliers as it did in the past this wold involve expanding its distribution network with more demand on resources and transport pollution. Candidates appeared confused at times when they talked about the possibility of economies of scale arising from the use of 500 000 small farmers.

(c)   Candidates could have suggested that the company wished to make profits and to expand. They were able to put forward the idea that undertaking research would help achieve this by creating a new product for which there is a large demand and that revenues from this product would more than offset the research costs.

(d)   There were many well-balanced answers to this question with candidates giving equal weight to Unilever and to GSK. Candidates made good use of the text in the question. The text seems to indicate that there would still seem to be a desire for profit maximisation in the statements about doubling the size of the business, (Unilever), the wish to still make profit (GSK initial pricing). Against the notion of a pure profit aim are the statements from Oxfam about Unilever and the government policy towards GSKs supply policy. It may be, however, that this agreement with the government is more likely to secure a constant demand for GSK from government hospitals and would in the long run enable a more secure growth in profits. It is usually the case with the data response questions that there is not enough evidence in the limited text to draw a firm conclusion. It is acceptable, in these circumstances, for candidates to indicate what might be useful to know to aid the drawing of a conclusion. They could, for example, say that the article does not give information about the pricing of other products, and the comparative profits with other competitors is not known. Relatively few candidates made such suggestions.

Essays

Question 2

(a)   It was expected that candidates would explain the theory of marginal utility and the consumer equilibrium based upon the principle of equi-marginal utility. Most candidates made an attempt to explain marginal utility. A significant number did not explain the principle of equi-marginal utility and some confused total utility with marginal utility. Sadly, some of those who did explain the equi-marginal principle did not show how it could be linked to an individual demand curve. There was no explanatory connection between utility and demand. There were even fewer who, having explained an individual demand curve developed the argument in order to answer the last part of the question and show the link between an individual demand curve and a market demand curve. As a result this section of the question was not well answered.

(b)   This section was answered better than *Section A* by most candidates who recognised the differences in potential consumer and producer influences which might occur in different market structures. Candidates considered the relative strengths of consumers and producers in perfect and imperfect competition and within imperfect competition they dealt with different types of imperfectly competitive markets. Overall, this section was well-answered.

Question 3

(a)   The aim of this question was to ask candidates to explain the analysis of wage determination in perfect competition using marginal revenue product. Candidates could have derived the marginal revenue product curve, shown the link between the market wage and the firm, and discussed the interaction of the marginal revenue product curve and the wage given to the firm. Many candidates had a clear idea of the derivation of the marginal revenue product curve and understood that the employment of labour, according to the theory, can be determined by the link between the marginal revenue product and the wage. Candidates correctly stated that the firm would employ labour as long as the marginal product was above the marginal wage and would stop employing more labour at the point where they became equal.   They provided a diagram to illustrate the point. Surprisingly, many of the same candidates who explained this so well and provided a diagram then stated that the proposition in the question was true and that the firm would employ labour up to the maximum point of the marginal revenue product. Thus they contradicted all that they had previously written.

(b)   There were not such glaring errors in this section of the question as occurred in *Section A*. Candidates were able to adapt the analysis of marginal revenue product to show what would happen to the wage in an imperfect market and then discuss how this wage might be altered by the action of a trade union.

Question 4

The question stated that in the economic recession of 2011, many private firms were still able to announce that they were successful and had made substantial profits. It was also stated that large bonuses had been paid to directors and that shareholders had received large dividends. The purpose of the question was for candidates to discuss whether it was better for an economy if the allocation of resources was left entirely to the private sector operating through the market system.

Many candidates wrote about the potential advantages of the private sector in allocating scarce resources efficiently, often contrasting productive and allocative efficiency. They then discussed, despite these potential advantages, the possible limitations of such an allocative system. A number of candidates demonstrated a sound knowledge and understanding of the existence of market failure, especially in relation to merit goods, demerit goods, public goods, externalities, the distribution of income, the existence of monopoly and information failure. It was expected that candidates would include a conclusion in their answer.

Some candidates seemed to offer a prepared answer without really addressing the issues raised in the question. For example, few made the point that substantial profits could well generate further investment, income and employment. It is vitally important that candidates read the question asked and think carefully about what is required.

Question 5

(a)   The purpose of the first part of the question was to ask candidates to explain, using the concept of the multiplier, the possible link between a fall in interest rates and an increase in national income. There were some good explanations of this link, with appropriate diagrams used to good effect. For many answers, the concept of the multiplier was not used as fully as was expected. For example, a number of responses merely referred to the multiplier in passing without showing convincingly how the multiplier process operated. Although some candidates did focus on the circular flow of income and the possible injections that might bring about such an increase in national income, many offered a prepared answer on monetary policy without fully addressing all that was involved in the question

(b)   The purpose of the second part of the question was to ask candidates to discuss whether the only effective means of stimulating economic growth was by the use of fiscal policy. A number of candidates demonstrated a good knowledge and understanding of what was involved in fiscal policy, although relatively few commented on the likely effectiveness of such an approach, for example, in relation to possible time lags. Most candidates suggested that fiscal policy was not the only possible approach and that other policies might be adopted, such as monetary policy and supply-side policy. It was disappointing to see a few candidates confuse fiscal policy with monetary policy, citing interest rates as an example of fiscal policy. There were some very good answers which attempted to contrast the short term and long term effects of different policies. It was expected, as in other questions which invite candidates to 'discuss' a proposition that there would be a conclusion.

Question 6

Unfortunately this was one of the least well-answered questions in **Section B**. Many candidates found it difficult to understand how government economic policies could conflict even though government macroeconomic aims and related economic policies were intended to improve the state of the economy. As a result very few candidates were able to discuss meaningfully how to prioritise different policies in a particular economic situation. Many did not make any attempt to do so.

The better answers linked aims to policies and illustrated these by reference to examples. A popular argument was to explain how the pursuit of full employment, by increasing both aggregate demand and aggregate supply, was carried out at the risk of causing a general rise in prices and increasing wages costs. Better candidates developed this further by considering the observations of A W Phillips, and they illustrated this through the Phillips Curve showing that there was a 'trade-off' between inflation and unemployment and that increasing aggregate demand had led to higher inflation but lower unemployment.

The most neglected aspect of the question was an evaluation of which macroeconomic policies should be prioritised in relation to the state of an economy. The better answers referred to the different circumstances in which one policy might be more appropriate than another. For example, if a country aims to improve its balance of payments position, it may decide between a free floating exchange rate and a managed exchange rate. It may rule out floating exchange rates for being too volatile and opt for a managed exchange rate. Examples were given, such as the case of Singapore which possesses few natural resources and is dependent on imports of raw materials and fuel. There is a danger of 'imported' inflation. Therefore, Singapore appreciates the exchange rate so that fewer Singapore dollars are needed to buy these imports even though the same policy will make export prices less competitive.

The good candidate weighed up the impact of a policy to decide whether it was likely to lead to net economic gain. In the example cited of Singapore, the appreciation of the Singapore dollar meant that the inelastic demand for imports had to be offset by a more elastic demand for exports, thereby satisfying the Marshall-Lerner condition and improving the balance of payments.

Question 7

This was a very popular question but with relatively few direct answers to the question set. The question required candidates to evaluate a situation: do high levels of unemployment and low levels of GDP give a good indication that a country is a developing one?

Good answers were aware, as with any generalisations, that there will be exceptions to the relevance of these indicators among developing countries and also that developed countries could experience, for example, high levels of unemployment, but possibly for different reasons. It was also acceptable to refer to other indicators such as international indebtedness, size and age structure of population, the relative contributions of different sectors, agriculture, manufacturing and services, to employment and national output. It was not acceptable simply to list all the different characteristics of the economies of both developing and developed countries without focusing on the question. The danger with this approach was that candidates wrote an answer to a different question.

Very few candidates who did try to answer the question directly used real examples to illustrate their points. Good answers made strong points through examples. China's situation as a developing country, for example, was explained as being an anomaly. China has the second highest GDP in the world, after the USA, but it is classified as developing due to its low GDP per capita when its GDP is divided by the world's highest population of 1.34 billion. China has a much lower rate of unemployment (4.1%) than many developed countries in the Eurozone, such as Spain (26%) and Greece (27%) but this low figure disguises the fact that unemployment is much higher in rural China than urban China.

The very best answers suggested that there were more sensitive measures of development than the size of GDP and unemployment rates. Instead they suggested indicators such as the Human Development Index (HDI) which has been used since the 1990's to measure the impact of economic policies on quality of life or economic well-being. These are published each year by the United Nations.

ECONOMICS

Key Messages

- Diagrams were generally accurate and clearly labelled, although there were many instances of diagrams not being referred to in the supporting text. This applied particularly to **Question 4(a)(i)**
- Essays should be clearly structured with a concise introduction which sets the question into context and explains key terms and the significance of the subject matter
- Questions which use the command word 'Discuss' would normally require learners to provide a conclusion represented by a judgement based upon the preceding argument
- Answers should be relevant and succinct. It is important to focus upon the specific question and to avoid overlong verbose responses which add little to the overall performance.

General Comments

The overall performance across all Centres was in line with that of recent years. Fewer than 150 learners sat this examination and the overwhelming majority gained at least a pass grade whilst a significant number gained a grade B or above. Therefore, the relatively high standards attained by past cohorts were maintained. The data response question, which was based on a relevant macroeconomic issue was answered particularly well and there were many instances of an ability to use text and data to consider some key macroeconomic issues. Answers to *Section B* varied quite widely and this often depended upon the choice of question. In some cases, learners needed to take heed of some of the key messages outlined above, especially in relation to the requirement to provide relevant, succinct responses.

Comments on Specific Questions

Data Response

Question 1

(a) A surprisingly large number of learners failed to gain full marks for this question. Many responses confused the term deflation, which refers to a persistent fall in the general price level over a particular time period and disinflation, which refers to a decrease in the rate of increase of the general price level. Also a mark was lost due to the failure to recognise that this price change would be persistent rather than a 'one off' price change.

(b)(i) This part of this question required learners to use both the information in the text and the data in the table to address the specific question. Hence, some reference to the table to explain what the data suggested was happening to the rate of inflation during the 1970s, would have been a good starting point. Additional marks were gained for reference to the importance of oil prices used in the construction of the consumer price index and for recognising that firms could pass on the increased cost of production due to rising oil prices, to consumers. A range of marks gained suggested that this question worked well as a good discriminator.

(ii) There were some very good answers to this question. Again, learners needed to read the instruction to refer to what actually happened to the rate of inflation as depicted in the table, before attempting to answer. Many clearly did this and proceeded to demonstrate knowledge and understanding of what a budget deficit meant, and, and more importantly were able to provide suitably accurate analysis to establish the links between an increase in the budget deficit and inflation.

(c)   Although many learners produced some impressive detailed responses and, as a result gained high marks, few gained full marks. The way in which much of the relevant information was presented, that is, in the form of bullet points, did make it easier to extract the relevant information. This applied particularly to this final question which required learners to examine evidence provided to explain the cause of inflation in the 1970s and compare this to evidence available to explain a similar situation in 2011. The key to success related to an ability to read the information carefully and then form a judgement. This is a typical requirement of final part data response questions. It is common for answers to questions of this nature to consider both sides of an argument and then draw a conclusion. Often, there is a balance argument to support each case. However, this question was slightly unusual because the evidence available to support the view that the rise in oil prices was more likely to have been inflationary in the 1970s compared to 2011, was overwhelming. It was possible to use the text to identify six reasons to support the view, whilst there was no unique reason to support the view that oil prices might have been more significant in 2011. Good answers recognised this, provided reasons from the text plus pointed out why some evidence was not convincing and produced a valid conclusion. Far too many seemed determined to argue that an equal case could be made for 1970s and 2011. Unfortunately, to support their contention, learners frequently made assumptions about events which were not referred to in the information. It should be noted that points made that were not available in the given information, were not awarded marks.

Essays

Question 2

(a)   Although this question was not one of the popular questions, those who did attempt it produced some excellent responses. Success depended upon knowledge recall and an ability to provide a carefully structured response which made the necessary links at each stage of the developed answer to ensure an outcome based on reasoning and logic. It was essential to explain terms such as total and marginal utility at the outset and explain their interrelationship. Good answers then proceeded to outline the concept of diminishing marginal utility and also point to the key assumption stating that consumers behave rationally and that they attempt to maximise satisfaction. It was then necessary to link marginal utility to price, expenditure and the achievement of maximum satisfaction. Some very clearly set out response did this and established the rule that consumers would consume a product/service until its price was equal to its marginal utility. Highest marks were then awarded to those who were able to show why/how consumers would re-allocate their expenditure, using the principle of equi-marginal returns. Less effective answers tended to state outcomes rather than explain them and link them to established theory.

(b)   There were two parts to this question and learners were expected to examine the extent to which markets are controlled by the producer and whether utility theory still provides a valid explanation of consumer control within the market environment. Many answers addressed the former but a significant number made little or no reference to the validity of utility theory. This resulted in many receiving only average marks for this part of **Question 2**. Marks were gained for providing some evidence to support the idea of producer power. This usually focused upon a description of a particularly non competitive market structure such as monopoly or oligopoly and how firms operating in such situations could exercise a significant amount of control over price, output, type of commodity and general profitability. Better responses explained the linkages between different market structures and producer power, rather than simply describing different market structures. The highest marks were gained by those who recognised that the main issue related to the degree of power rather than absolute power and, based on this it would be unrealistic to assume that the consumer had lost all power. Examples were provided of consumer power still remaining, that is, through their control of their expenditure and demand which meant that ultimately, producers could not entirely ignore the wishes of consumers. Alternative approaches outlined the key assumptions underpinning the idea of consumer sovereignty and then proceeded to examine how realistic they were in practice. This approach was acceptable and marks were awarded accordingly.

Question 3

(a)   Answers to this part of the question varied widely. Many made the common mistake of writing 'everything they knew' about the labour market. This approach and its weakness has been highlighted many times in past Principal Examiner Reports but it still seems to re-occur. Good answers recognised the need to demonstrate how; in theory, a perfectly competitive labour market

would work. As a result, clear diagrams linking the market and individual firms were drawn and the assumptions underpinning the conclusions relating to employment and wage determination were clearly identified. This then provided an appropriate platform to address the view stated and point out that wages would be determined by the interaction of both supply and demand and he view stated was therefore unsustainable. Responses which focused entirely upon demand and supply analysis without referring to the use of marginal revenue product theory to establish the shape of the demand for labour curve, failed to gain higher level marks.

(b) The majority of answers to this part were aware that minimum wage rates, fixed by law, could be incorporated into a theory of wage determination in an imperfectly competitive labour market. Marks were gained for clear diagrams supported by accurate analysis which did refer to the diagram. This was in contrast to responses to other questions which simply produced diagrams and left it to the Examiner to deduce whether the learner had fully understood its significance. The more successful responses provided more detailed analysis and explanation of alternative imperfect market situations and also were aware that the imposition of the minimum wage had to be above the existing market equilibrium to produce the intended effect of raising average wages.

Question 4

(a) This question focused upon two specific aspects relating to the behaviour of firms in imperfect competition. On a positive note, it directed learners to precise areas for consideration, hence removing any potentially cost misinterpretation of the meaning of the question. Also, however, this question required learners to concentrate upon a particular aspect of microeconomic theory and as such, left little opportunity for alternative approaches/interpretations. Many gained marks for providing some very good, clearly labelled diagrams depicting 'deadweight welfare loss'. However, many failed to provide the necessary written explanation to fully show their understanding of the concept. Diagrams by themselves are not enough, they are important but they have to be used in conjunction with lucid written explanation to convince Examiners that the concept has been fully understood. Few, actually described why the area located in their diagram as 'deadweight loss' was indeed consistent with the idea of a 'deadweight loss'.

There were similar mixed responses to the second part of part **(a)** which related to the concept of price discrimination. Some answers went into great detail describing first, second and third degree price discrimination plus supporting diagrams. It was surprising however to note the significant number of answers which did not explain the key conditions necessary to allow price discrimination to take place. It was important to locate and explain these conditions, for example different price elasticities, separation of markets etc., to ensure higher level marks were gained.

(b) In contradistinction to part **(a)**, this part allowed learners to examine a very wide range of alternative factors which might influence the decision by firms to remain small or attempt to grow. In many cases, answers simply went through the advantages and disadvantages of remaining small or growing in size. However, the key command word was 'discuss' and this should have alerted learners to the requirement to compare and contrast the alternative cost/benefits of each decision and to ensure that some judgement should attempted in the form of a conclusion. Conclusions do not always have to be definitive but they should show that the learner has made some attempt to collate the preceding argument and use this to produce some kind of final summary, however tentative this might be. Far too many answers simply described as many benefits associated with remaining small or attaining growth, as they could.

Question 5

Many learners attempted this question which was based on a frequently tested area of the syllabus. Above average marks were gained and this suggested that learners had been well prepared for a question of this nature. There were a number of elements to this question which were covered thoroughly by the better learners and in a more superficial manner by the less well prepared. It was expected that answers would consider alternative economic indicators that could be used to measure economic improvement and also to try to ensure that the argument was set in the context of a developing country. Some responses lacked focus because it was clear that they were ready to answer a more general question relating to how well economic indicators could be used to measure living standards. Thus although points raised gained marks, they were often gained indirectly and the overall structure of the essay lacked focus. Good responses referred to a range of alternative measures, then proceeded to discuss their usefulness in relation to attempting to measure improvement in a developing country. Those who adopted this approach frequently gained high marks because it was clear that they understood that developing countries would look at some

different economic indicators compared to their more advanced counterparts. In particular, the use of the Human Development Index (HDI) and, in some cases, the Human Poverty Index (HPI), allowed the discussion to concentrate on key indicators more specific to developing countries. Although marks were gained for reference to a whole range of relevant measures including: inflation; unemployment; income levels; house prices; average rates of pay.

Question 6

Relatively few learners attempted this question and those who did, did not always deal effectively with the specific nature of the question. The question required a discussion relating to the choice of alternative macroeconomic aims by governments. Many learners decided to discuss the policies available to attain these aims. This was not what the question asked and therefore no marks were gained for this type of response. This further underlines how essential it is for learners to read each part of the question carefully before attempting an answer. This point is made very often in Examiner reports because those who miss this basic requirement experience an often unnecessarily high loss of marks. It was expected that learners would examine each of the key macroeconomic aims, including the two referred to in the question and then decide how far that they would agree that low levels of unemployment and economic growth should be seen as the most important.

Better responses demonstrated that they were aware that most of these aims were inextricably linked and therefore it was extremely difficult to produce definitive conclusions. It was essential to provide a conclusion to the discussion.

Question 7

It was important for learners to recognise that there were three interrelated parts to this question. Firstly, it was necessary for learners to identify and describe the necessary conditions for efficient resource allocation. It was not necessary to examine a range of efficiency concepts but it was essential to show an understanding of the concept of allocative efficiency. Many learners were able to do this quite effectively, often combining definitions of Pareto Optimum with some accurate diagrams which clearly depicted the conditions necessary for firms to operate at an allocatively efficient level of output.

It was then necessary to examine situations where the market would not allocate resources efficiently. Learners dealt with this part with varying degrees of success. There were some excellent responses which identified problems associated with positive/negative externalities, public goods and imperfect market structures such as monopoly. Unfortunately, there many who were only able to provide brief descriptions/explanations of market failure and therefore did not gain maximum marks. Perhaps the main discriminating aspect of this question related to the final part which required learners to examine the contention that market failure can be easily overcome if the government intervenes in the price system. Good answers attempted to address this part of the question by examining how governments might intervene to rectify market failure, for example, through taxation or direct regulation. Moreover, additional marks were gained by those who attempted to provide evaluative comment to assess how successful these alternative government policies might have been in practice.