

# ECONOMICS

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Paper 9708/11  
Multiple Choice (Core)

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

## Key Messages

- Questions that were the most challenging involved the interpretation of diagrams or statistics, and so perhaps this would be an area to focus on.

## General Comments

There were 1308 candidates, a reduction of 47 and the mean score rose from 12.95 to 15.59 with a standard deviation of 4.94. No question proved relatively easy, although **Questions 13 and 27** were close to the top end of the test's design limit and only question **25** proved relatively difficult. Four candidates gained the highest awarded mark of 29, while 51 scored below the guessing level. The overall performance compared favourably with that of last year with a clear understanding of inferior goods, maximum prices, merit and demerit goods and trade deficits/surpluses.

## Comments on specific questions

As many candidates opted for D as the correct key C in **Question 2**. D is incorrect as the straight line production possibility frontier shows a constant opportunity cost.

In **Question 3** the largest group of candidates selected B rather than the correct answer C. C is correct as the stem indicates a lack of infrastructure (capital) and civil engineers (labour).

Consumer surplus was the topic in **Question 12**. While the majority recognised that consumer surplus falls when supply halves, they were equally split between option A and option B. By drawing a diagram it can be shown that consumer surplus will not usually halve, making A correct. The use of the word ‘must’ in the question was significant.

In **Question 21** more opted for B rather than the correct option A. This shows a failure to understand that government action is an interference with the market rather than a market solution. It also suggests a lack of familiarity with the concept of an embargo.

The most difficult question proved to be **25**, although the most competent candidates managed to answer it correctly. C is correct where the real value of the interest rate requires the nominal rate to be adjusted by the inflation rate to make the right judgement. The popular choices A and D are wrong as there is insufficient data to arrive at those conclusions.

# ECONOMICS

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Paper 9708/12

Multiple Choice (Core)

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

## Key Messages

- Questions that were most challenging related to unemployment and trade deficit topics, and so perhaps this would be an area to focus on.

## General Comments

There were 7361 candidates, an increase of almost 7.5% and the mean score rose from 16.19 to 18.65 with a standard deviation of 5.18. 29 candidates scored full marks, while 51 candidates scored below the guessing level. The general performance compared favourably with that of last year. Two questions, numbers 1 and 9, proved relatively easy, being at the top end of the test's design limit and no question proved relatively difficult. The exam worked well and there were relatively few obvious problems. Particularly good understanding was demonstrated of micro topics, namely mixed economies, production possibility curves and equilibrium price.

## Comments on specific questions

In **Question 7** half of the candidates gave the correct response B, while the remainder were equally split between the other three options. This suggests some uncertainty about the principle involved. The basis of the answer is that the same quantity is being sold at each price.

Almost as many candidates selected C as selected the correct response A, in **Question 16**. This overlooks the point that the private benefits of building the road outweigh the private costs as well as social benefits outweighing social costs.

In two **Questions, 24 and 27**, the most popular selection chosen by over 40% of candidates was incorrect. In **24** the use of a double negative may have caused difficulties for some who chose D. If someone is not in paid employment then she would fulfill one condition to be classified as unemployed by the ILO measure. C is the correct key.

The right answer in **Question 27** is A. The focus is on the amount of the harmful/beneficial change of the different components of the current account. Investment income contributed the least to the increased deficit as it improved by \$8 712m. Goods contributed the most by recording a decline of \$66 940m. The figures could be approximated rather than calculated. Those who chose C overlooked the significance of the 'change' element in the wording and appeared to use only the absolute values for 2006.

# ECONOMICS

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Paper 9708/13  
Multiple Choice (Core)

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

## Key Messages

- Performance was least successful on the link between price and expenditure, tariffs and quotas and productivity, and so perhaps this would be an area to focus on.

## General Comments

There were 585 candidates (up from 481 in 2011) with a mean score of 19.30 (up from 18.87) and a higher standard deviation of 5.68. This outcome was very similar to that of 2010. Five candidates scored full marks, while eight made a single error and eleven candidates scored below the guessing level. The general performance was impressive and the statistics confirmed that all items were valid. Four questions proved relatively easy while one question proved relatively difficult. Topics that were dealt with very competently were economic systems, money, supply curves and income elasticity. The small entry however makes generalisations about performance less certain.

## Comments on specific questions

While a clear majority correctly selected A in **Question 5**, it was surprising that almost a third opted for C. This reflected the common misconception that an indirect tax is illustrated by a demand curve shift.

In **Question 8** D was almost as popular an answer as the correct key C. This may have reflected a lack of care in reading the labels on the axes of the diagram.

56% of candidates opted for C in **Question 21**. This is incorrect as a quota is likely to raise prices as supply is restricted. This is linked to the correct answer A in which the seller can expect to benefit from a rent as a result of the introduction of the restriction.

In **Question 23** a majority of candidates favoured a wrong key (**B**) over the correct key (**A**). This approach ignored the relevance of the hours worked and was based on the number employed rather than the labour input.

A common error probably operated in **Question 25** where the rate of inflation and general price level were not distinguished. It is difficult to understand why as many as 38% of candidates selected option **D**. They may have been unduly influenced by the nature of the line in year 1. As in **Question 8** this may indicate insufficient care in reading the information.

# ECONOMICS

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

## **Key Messages**

In order to improve Centres need to pay attention to the following, many of which have appeared in previous reports.

- Candidates must learn and practise the skill of evaluation as this is a vital element of an answer to any question that contains the directive word 'discuss'.
- Knowledge and understanding are also assessment objectives. Many candidates would have improved their performance by demonstrating their knowledge and understanding of key terms such as subsidies and indirect taxes in **Question 2(a)**, and cost-push and demand-pull inflation in **Question 3(a)**.
- Once again it is necessary to stress the importance of reading the question carefully so that the answer can be appropriately targeted. A small, but not insignificant, number of candidates wrote about the effects of the implementation of a subsidy and indirect tax, rather than the removal of a subsidy and indirect tax in **Question 2(a)**. Similarly, a number wrote about the benefits and drawbacks of trade protection, even though the question was about the global ban on protectionism. It is very difficult to earn analysis marks if the candidates are answering a different question to the one set.
- The diagrams were usually clearly drawn but labelling is still an issue for many candidates. Too many diagrams were either unlabelled (e.g. a production possibility curve diagram) in **Question 1(c)(ii)**, or incorrectly labelled (e.g. the axes labelled price and quantity for diagrams illustrating inflation) in **Question 3(a)**.

## **General Comments**

Fewer than 1400 candidates were entered for this examination. The overwhelming majority were appropriately entered and were able to access the questions and respond intelligently. As a consequence there were very few poor papers scoring single figure marks. Candidates showed themselves to be competent on the Data Response question while, on the essays, the analysis was often sound, and, in some cases outstanding in its detail. However, all the parts **(b)** of the essay questions began with the word 'Discuss...'. This requires more than the analysis of both sides of a question; candidates should also evaluate the arguments as required by the assessment objectives in the syllabus. Consequently, many good candidates fell short of the top grades because their answers were not balanced, lacking the evaluation element.

In **Section B** of the paper **Question 3** was noticeably avoided, probably attracting less than 10% of the candidates.

## **Comments on individual questions**

### **Section A**

#### **Question 1: Compulsory Data Response**

- (a) (i)** A large majority scored full marks, especially on **(i)**. A number wrongly named **(ii)** Belgium or New Zealand in **(ii)**.

- (b) There were only a few very good answers. Most were incomplete in that they only explained the situation for one age group. For example, many said that the participation rate was lower for the 20-29 age group because many were in employment. To get a second mark this needed to be balanced by stating that in the developed countries shown education is compulsory up to 16-18 years of age, so most in the younger age group are not allowed to take up employment.
- (c) (i) Many scored full marks on this. The main weakness was on the explanation of productivity using vague terms such as 'efficiency' or writing about the total output of a firm or a country.
- (ii) There were a lot of good answers to this question, with many getting three or four marks. The links between education, productivity and output were usually clearly made. The main weakness was the failure by some to explain or illustrate the production possibility curve.
- (d) Surprisingly, there were very few good answers to this question. Merit goods can be defined either in terms of information failure or positive externalities, not both! Many candidates mixed up these two approaches. They often earned one mark, but failed to explain the benefits of merit goods either to the individual or the external benefit to society.
- (e) This was the most challenging section of **Question 1**. A significant number did not understand the word 'provision' in the question and tended to write unfocused answers often about the importance of education and defence. A second problem that came to light was that many candidates do not understand the term 'public good'. They think any good supplied by the public sector is a public good. This is not true. A public good is one of a small number of goods and services whose characteristics of non-excludability, non-rivalry, and non-rejectability mean that private sector firms cannot make a profit by supplying them. Therefore, they must be supplied by the government or they will not be supplied at all. Thus national defence is a public good but education is definitely not, it is a private good. As such, it can be provided by the private sector in pursuit of profit. Despite the weaknesses above many candidates were able to pick up some marks e.g. on the characteristics of the two services, but coherent responses getting five or six marks for analysis were very rare.

## Section B

### Essays: Question 2

A popular question answered by a large number of candidates.

- (a) This was often well-done with many marks of six or more. Diagrams were clear and usually accurate and, in many cases, it was possible to award all the analysis marks on the diagrams themselves. There were four marks available for knowledge and understanding of subsidies, but many candidates gave only brief responses, typically earning 1 mark for each. A small number of candidates mistakenly thought the withdrawal of an indirect tax would lead to a shift in the demand curve.
- (b) Questions on agricultural subsidies have appeared on this paper in previous years and this could help account for both the popularity and quality of the answers. Most candidates began by demonstrating some knowledge and understanding of subsidies before going on to analyse both sides of the argument. This analysis was often well done with many candidates scoring four or more of the six marks available for this. However, few attempted to evaluate the arguments. It is not enough to say that 'there are both benefits and drawbacks and the government will have to decide'. Examples of appropriate evaluative comment on this question could be:

'The government should conduct a cost-benefit analysis so that it could weigh up the costs of the policy (e.g. the payments to farmers) against the benefits such as the increase in GDP due to higher production', or

'Agriculture is a strategic industry and despite the costs the government is justified in subsidising the industry in order to provide a secure food supply. This is especially true if the industry has become run-down before the government intervenes'.

### Question 3

This was an unpopular question. It has not appeared on this AS paper before and (b) is a particularly challenging question.

- (a) This was normally well done. Most candidates were able to demonstrate some knowledge of cost-push and demand-pull inflation and most could demonstrate the correct shifts of the AS and AD curves on appropriate diagrams. However, too many axes were labelled 'Price' and 'Output' rather than 'Price Level' and 'Real Output' and many candidates referred to 'quantity' in their answers rather than 'real output'. Such precision is essential in order to earn the highest marks.
- (b) Many candidates began well by demonstrating knowledge and understanding of inflation and exchange rates. The analysis was less competent with very few candidates able to explain accurately the effects of inflation on exchange rates, and the effects of exchange rates on inflation. Few were able to demonstrate linkages such as that depreciation of the exchange rate would lead to higher import prices which could fuel cost-push inflation. A relatively low inflation rate at home would make the exports competitive, leading to a high demand for that country's currency, causing an appreciation of the exchange rate. In addition, there were very few attempts at evaluation. An example of an appropriate evaluative comment could be:

'The influence of inflation on exchange rate and vice versa will depend on how open the economy is. In an economy heavily dependent on international trade there will be a powerful effect in either direction. But in countries which are virtually self-sufficient the influence will be negligible.'

### Question 4

- (a) There were many very good answers scoring seven or eight marks. Candidates were expected to explain the meaning of international economic integration, before identifying three main types of integration and explaining the main features of each. Most candidates answered very competently. The main weaknesses were the vagueness in the explanation of international economic integration and the main feature of a customs union. In the latter case a number of candidates wrote about "restrictions on exports from non-members" instead of the more precise 'common external tariff'.
- (b) This question has appeared in various guises on a number of past papers. Candidates mainly produced very good answers to the knowledge and understanding and analysis components. In fact an appreciable number of candidates produced much greater analytical detail than needed for full marks. However, in the main there were often only token attempts at evaluation and very few marks were awarded for this assessment objective. An example of acceptable evaluation could be:

'The benefits of a ban on trade protection are experienced on a global scale but individual countries may experience many economic problems such as the closure of infant industries and are justified in retaining protectionism.'

A small number of candidates turned the question around and explained arguments for and against protectionism, earning very few marks.

# ECONOMICS

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

## **Key Messages**

- Emphasis must be placed upon developing all the skills required to fulfil the assessment objectives outlined in the syllabus. The development of evaluative skills is a particular weakness in many Centres with many candidates gaining no marks for evaluation despite the fact that all essay questions have some marks available exclusively for this assessment objective.
- Many candidates fail to answer the question set. This could be because candidates do not read the question carefully, or because they are not equipped with all the material necessary for an answer to all aspects of the question set, or because they were expecting a different question on a topic rather than the one that appears. Candidates are advised that they must respond to the question set if they want to gain the highest mark available for a question.
- There are clear weaknesses in the data handling skills of some candidates. On this paper this was revealed in a misunderstanding of the basis of information presented in the form of index numbers. Candidates need to practice to develop a wide range of data handling skills to ensure that they are confident in the interpretation of economic data.

## **General Comments**

As in previous years, most candidates continue to show very sound knowledge and understanding of the key concepts identified in the syllabus. There are also signs that in many Centres candidates' analytical skills are developing and reaching a good standard. Again however there are weaknesses in evaluation skills with many candidates failing to gain marks for evaluative comment. This may indicate that they lack sufficient confidence to make some judgement about the material they have studied and its worth in answering the questions set. In addition, as in previous years there are many candidates who are awarded marks far below what they might expect because they fail to read the question carefully and respond appropriately.

## **Comments on individual questions**

### **Section A**

#### **Question 1: Compulsory Data Response**

- (a) (i) This question demonstrated the lack of grasp of the nature of index numbers amongst a large number of candidates. This undermined the ability of these candidates to perform the required calculation and arrive at the correct value for the price of sugar in January 2008. Data handling skills are necessary for the interpretation of economic data provided by a wide range of agencies and index numbers are used extensively. A sound understanding is essential for success in Economics.
- (ii) This question also revealed a lack of grasp of the essentials of index numbers. This was shown in comments such as, 'the prices of food and sugar were the same at the beginning of the period', or 'the price of sugar was higher at the end of the period'. A further weakness here was the tendency for candidates to describe the behaviour of the price of food and the price of sugar without any attempt to compare their behaviour. Inevitably, such approaches scored poorly as did those that provided a chronological account of changes in each.

- (b) Some good answers were provided here for weather explanations of the sugar price rise. Most candidates recognised the decrease in supply and provided a correct diagram showing a shift of the supply curve to the left and the consequent rise in price. Many candidates also scored well on the ethanol explanation of the price rise although a significant number misinterpreted this part of the question. Some thought incorrectly that this was another supply shift, while others drew the market for ethanol rather than the market for sugar and scored no marks for this part of the question as a result. Disappointingly, only a few candidates achieved the mark available for contrasting the effect on the quantity traded when explaining the two occurrences.
- (c) (i) With a continual, rapid rise in the price of sugar we would expect consumers to reduce their consumption of the product. This provides us with the standard, inverse relationship between price and quantity demanded. This was sufficient for a single mark here. The second mark was available for some elaboration of this idea. Often this came with reference to the concept of price elasticity of demand. Those candidates who suggested that the demand was price inelastic because sugar was seen as a necessity and went on to explain that this resulted in a contraction of demand by a smaller proportion than the increase in price gained the second mark. What was surprising here was the large number of candidates who asserted that since demand was inelastic, an increase in price would result in consumers purchasing the same quantity. This unrealistic assertion was less likely to convince Examiners that the candidate fully understood the underlying concepts than an accurate statement of the impact of an inelastic demand for a product when there is a price rise.
- (ii) With a continual, rapid rise in the price of a product, we would expect a direct relationship with the quantity supplied. This means that we would expect producers of sugar to supply more as prices rise. Again, some elaboration of this idea was necessary for both marks. Reference to the profit motive of firms was one approach and an examination of price elasticity of supply was also acceptable and many candidates were awarded both marks here for valid elaboration. A number of candidates became confused here however and failed to score. A significant number for example assumed that since consumers would reduce their demand for sugar when its price rose, producers would supply less. This suggests a poor grasp of the emergence of equilibrium price and quantity in a market.
- (d) These questions were generally well done although a weakness amongst a large number of candidates was the tendency to repeat the information provided in the text rather than respond to the information provided in order to develop ideas in answer to the question.
- (i) Many candidates were able to identify a number of effects stemming from the actions of the Indian government in banning sugar exports. These included lower sugar prices in India, unemployment in sugar producing industries, lower export earnings and possible problems in the current account of India's balance of payments. Marks awarded to candidates varied according to the range of effects identified together with the extent to which candidates were able to develop these ideas. A common misconception remains amongst many candidates who assume that a decline in an economy's export earnings means that that country's government will see an equivalent fall in the revenue it has available to spend as part of its fiscal policy.
- (ii) This question also resulted in candidates identifying a range of effects of the Malaysian government's actions in imposing a maximum price for sugar. Many were rewarded for the provision of an accurate diagram showing how the imposition of a maximum price below equilibrium would lead to excess demand and the need for an alternative method of allocating the available sugar supplies amongst consumers. This part of the syllabus appears to be well understood amongst the majority of candidates and some good marks were awarded here.

## **Section B**

### **Essays: Question 2**

- (a) Many candidates showed good knowledge and understanding of the production possibility curve and opportunity cost and used these concepts to good effect to score highly on the first part of the question. Some however, failed to recognise that the question required candidates to provide numerical values to show how opportunity cost can be measured and lost marks as a result. A significant number explained the causes of shifts in the production possibility curve. This was not required and valuable time was wasted that could have been used to develop other aspects of the answer.

This is a regular topic and it is a pity that candidates cannot get straight to the point in essays such as this with a brief and accurate definition of the required concepts.

- (b) Most candidates demonstrated good knowledge and understanding of the characteristics of both planned and market economies. Many described the relative advantages and disadvantages of each type of economy. Such approaches generally scored poorly. The question was about the ease of transition from a planned to a market economy. Unfortunately, many candidates did not use their understanding to address this. There were some excellent answers by those candidates who focused upon the question requirements. Often this was backed by relevant examples of economies that have had teething problems during their transition. These were interesting and a pleasure to read and scored highly. This emphasises again the importance of reading the question carefully and responding to the question requirements, rather than presenting a pre-prepared answer to an anticipated question. This approach is unlikely to score well.

### Question 3

- (a) Many candidates demonstrated a clear understanding of the factors that influence the demand and supply of foreign currency and how these influenced the exchange rate. Some misinterpreted the demands of the question however and explained the effects of a change in the exchange rate upon the price of an economy's exports and imports, analysis that was more appropriate in answer to part (b) of the essay. On the whole however, this part of the question was done well and some high scores recorded.
- (b) Most candidates started well here and showed sound understanding of the meaning of depreciation and/or devaluation. This was essential to ensure a high mark for the analysis required to answer the question successfully. Unfortunately, many lost marks because they confused the balance of trade with the current balance.

Most candidates demonstrated knowledge and understanding of the link between the depreciation or devaluation of an economy's currency and changes in that economy's balance of trade. Many provided good analysis and recognised the importance of price elasticity in the short and long run in determining the outcome of depreciation. In addition, there was good understanding shown of factors other than price elasticity that might negate the beneficial effects of depreciation. The J-curve was a popular concept, but it was not always well applied to the question. Although most candidates who chose to use the concept were able to draw the J-curve, many failed to explain it and the reason why depreciation would lead to an initial decline in the balance of trade before it became a surplus. There was also a tendency for answers to lose focus and drift into the effects of depreciation upon the domestic economy. This was appropriate if candidates went on to show how the change in the domestic economy that resulted from the change in the exchange rate impacted upon the balance of trade. It was relevant for example to show the impact of depreciation upon the rate of inflation in an economy and how this affected the balance of trade, but this was not always the case and the analysis provided was not always used to answer the question.

### Question 4

- (a) This was the least popular of the essay questions. Many of the candidates who did attempt this question wasted time explaining the causes and consequences of inflation instead of focusing on how price indices are measured, how they are used and their associated problems. This lack of focus upon the question set resulted in some very low marks for a number of candidates.
- (b) Many of those who attempted this question scored well for their analysis of the impact of inflation, but few demonstrated an equally sound grasp of the concept of productivity. Many confused productivity with production and economic growth. Although there is clearly a link, these concepts are distinct and the relationship between them needs careful explanation. As a result many candidates scored well for their analysis of inflation, but the confused grasp of productivity meant that they were unable to score high marks for this aspect of the question and in addition their attempts to score credit for evaluative comment were undermined.

# ECONOMICS

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Paper 9708/23  
**Data Response and Essay (Core)**

## **Key Messages**

- Many candidates often poorly answer the data handling questions. Answers are provided that fail to follow the question instructions. They are often descriptive and overlong. Candidates are advised to read the question instructions carefully to ensure that answers are accurate, focused and directed at the question set.
- There are some core concepts that are poorly understood by a significant number of candidates. On this paper the terms of trade, consumer surplus and the distinction between merit goods and public goods were not well understood by some. This lack of understanding undermined the answers provided and meant that candidates were unable to gain good marks for the essential analysis and evaluation at the heart of the question. Candidates must ensure that they have command of all the material required to provide a good answer to the question set.
- Emphasis must be placed upon developing the skills required to fulfil all of the assessment objectives outlined in the syllabus. The development of evaluative skills is a particular weakness in many Centres with many candidates gaining no marks for evaluation despite the fact that all essay questions have some marks available exclusively for this assessment objective.

## **General Comments**

A disappointing number of candidates had an incomplete grasp of the core concepts however, most candidates had the required knowledge and understanding of economic concepts together with the required skills for success in this subject. There were, as a result, very few very poor papers. Unfortunately, there were also very few really outstanding scripts. The main reasons for this were that very few candidates were able to sustain a high level of performance on all aspects of the paper. In addition, there was a particular weakness in the required skills of evaluation; so many essays were limited to the marks available for knowledge, understanding and analysis.

## **Comments on individual questions**

### **Section A**

#### **Question 1: Compulsory Data Response**

- (a) (i) Many candidates provided over long answers here. Most scored at least one mark, but there was a disappointing tendency to provide long-winded chronological descriptions of the changes in the price of petrol in each economy, rather than focusing upon succinct and to the point comparisons. Candidates should be reminded of the opportunity cost of writing at length when answering a question with a low mark allocation.
- (ii) This was generally quite well done. Most candidates were able to identify the different nature of price changes in each economy and then attempt some explanation of why they differed.

Most candidates usually explained the difference by referring to the U.S. petrol price changes shown in Figure 1, and suggesting that this was an indication that prices were set by market forces rather than the government.

- (b) This question was well answered. The concept of negative externalities was generally well understood and some high scores recorded. Some candidates failed to gain all the marks available however, because although they were able to define and identify the externalities associated with the consumption of petrol, they did not fully explain or elaborate the third party effect. In addition, after scoring a good mark for an explanation based upon negative externalities many candidates surprisingly attempted to show how the consumption of petrol generates positive externalities.
- (c) (i) This question was also well answered on the whole, but a disappointing number of candidates chose to describe the numbers rather than state what the numbers represent. For example, many candidates stated that the short-run price elasticity of demand was less than one in both studies, rather than stating that the two studies agreed that the coefficient indicated that the short run price elasticity was inelastic.
- (ii) A few candidates misunderstood the requirements of this question and did not score. Most were able to gain some credit however for recognising that in the long run consumers had time to adjust their consumption of an essential good such as petrol after a price rise. Some candidates did not gain marks here however because, although the explanations provided were often along the correct lines, they were superficial and insufficiently developed for full marks.
- (d) This was a searching question and only a few very high marks were awarded. A few of the better answers showed good knowledge and understanding of the consequences of the Chinese price fixing policy. Some demonstrated a sound understanding of the benefits of a more stable price of petrol for consumers and suppliers and then went on to explain the welfare losses that result when market forces are not allowed to function. A number of candidates however, seemed unaware of the demands of the question and made a few relevant points in a generally disorganised framework and scored a few marks for material that was only marginally relevant.

## Section B

### Essays: Questions 2

- (a) Most candidates showed sound knowledge and understanding of the concept of consumer surplus and were able to illustrate this with an appropriate diagram. Disappointingly a number of candidates lost marks because the diagram provided was inaccurate or inappropriately labelled. It was also surprising that some candidates selected this essay when it was clear that their understanding of the core concept was lacking.
- The analysis required for this question was less well done. Many candidates were aware that changes in supply and demand would affect the amount of consumer surplus that was available in a market, but disappointingly few were able explain the changes clearly and accurately.
- (b) For success on this question it was essential that candidates had a sound understanding of the difference between private goods and merit goods. This understanding was implicit in many answers, but many candidates still appear confused on the distinction between merit goods and public goods and assume that the latter refers to any goods or services supplied by the public sector. As a result, many candidates assume that, since the government supplies much educational provision, this must mean that education is a public good. This misunderstanding undermined a number of answers and resulted in some disappointing marks. Despite this some candidates did provide some good discussion based upon a sound knowledge and understanding of the core concept. Evaluative comment was limited however and many candidates did not gain marks as a result.

### Questions 3

- (a) There were many low marks awarded to this question. Many candidates are not clear on the distinction between the terms of trade and the balance of trade and provide very confused, low scoring answers as a result. This has been commented upon in reports in the past and it is disappointing that this confusion remains. Those candidates who showed a firm grasp of the core concept scored well here. The most popular cause of a fall in the terms of trade chosen by candidates was a depreciation of the exchange rate and some good explanations were provided that scored well.

- (b) Some good answers were provided to this question. The analysis was generally very sound and candidates were usually able to provide balanced answers that explained the advantages and the disadvantages. On the whole however the evaluative comment was lacking or was superficial. Many candidates simply summarised the arguments advanced in the analysis. The marks awarded for evaluative comment are designed to reward candidates who have the confidence to exercise some judgement. This could be provided in a variety of forms depending upon the wording of the question. For example, it might arise in assessing the validity of a theory in a particular context or, as in this case, the advantages and disadvantages could be examined and a conclusion arrived at in the context of current developments in world trade.

#### Questions 4

- (a) This was the least popular essay question. This part of the question was done well by most candidates who attempted this question. Most had a good understanding of the components of the current account of the balance of payments and were able to explain how it was possible to have deficit on the balance of trade and a surplus on the overall current account. Some high scores were awarded.
- (b) This was less well done. Some candidates did not have a sufficient grasp of the core concepts and the conflict inherent in achieving the stated outcomes at the same time. Most candidates were able to pick up some marks however by explaining some of the linkages. Many saw the apparent incompatibility between a strong exchange rate and a satisfactory balance of payments, but only the better candidates went on to link the former to a low level of inflation. Once again marks were not achieved here as evaluative comment was limited.

# ECONOMICS

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Paper 9708/31  
Multiple Choice (Supplement)

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

## Key Messages

- Diagrams designed to test candidates' understanding of the relationship between total, average and marginal variables were found to be particularly difficult and attention needs to be devoted to ensuring that candidates have a better understanding of diagrams of this kind.

## General comments

The mean percentage score on this paper was 42.4%. This is more or less in line with the scores recorded on the corresponding papers in previous years but it is somewhat lower than one would have hoped, and does suggest that for the majority of candidates these papers have been quite challenging. On this occasion, five of the items, **Questions 4, 9, 17, 20** and **27** proved to be 'difficult'.

## Comments on individual questions

Both **Questions 2** and **3** were among the items with low discrimination scores. **Question 3** was quite a complicated question about the equi-marginal principle, and candidates needed to go through a number of different steps to arrive at the right answer. **Question 3**, on the other hand, seemed to be a perfectly straightforward question about the characteristics of normal and inferior goods, and it is a bit surprising that this caused any problems.

**Questions 4** and **20**, where candidates were presented with diagrams designed to test their understanding of the relationship between total, average and marginal variables. Candidates have had difficulties with similar questions on past papers. The facility scores on both questions were very low, and there was evidence that many candidates resorted to guesswork.

The intention in **Question 9** was to test candidates' understanding of the price elasticity of demand by presenting them with data which was somewhat different from what they would previously have encountered. Unfortunately, this proved too big a challenge. The facility score was very low and most candidates wrongly opted for C or D. One would expect candidates to be aware that if a reduction in price leaves sales revenue unchanged this implies that the price elasticity of demand is  $-1$ . However, very few recognised that the same applies if an increase in quantity supplied leaves sales revenue unchanged.

Questions about the money supply are problematic since definitions can vary from one country to another. As a result, there has been a tendency to avoid questions in this topic area, and this may account for the poor statistics in **Question 17**. Candidates were clearly unaware that commercial bank deposits held at the central bank are part of the monetary base, but are not part of the broad money supply.

In **Question 27**, only 22% of candidates managed to work out that a higher inflation target would allow a country's central bank to lower interest rates which, in turn, would be likely to result in a capital outflow and a depreciation of the currency.

The candidates, 50% in total, who opted for D in **Question 29** failed to recognise that a reduction in the level of import quotas by the governments of developed countries will have a detrimental effect on the growth prospects of developing economies.

# ECONOMICS

Paper 9708/32

Multiple Choice (Supplement)

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

## Key Messages

- The factors underlying shifts in budget lines is a fruitful area for multiple-choice testing, and candidates should expect future questions on this topic to be a bit more challenging than **Question 3** on this paper.

## General comments

The mean percentage score on this paper was 49.3%. This was nearly 5% points higher than on the corresponding paper in 2011. All but two of the questions had facility scores which were within the test design limits. One of the questions, **Question 3** candidates found particularly easy, while **Question 10** was found particularly difficult.

## Comments on individual questions

In **Question 5**, one suspects that most candidates figured out that over the backward sloping segment of a supply of labour curve, income and substitution effects are probably working in opposite directions, but a good many of these candidates seem then to have resorted to guess work when choosing between B and C.

The survival of small firms and the growth of firms is a topic area which does not lend itself readily to multiple-choice testing, and **Question 10** was a 'difficult' item.

No fewer than 76% of the candidates in **Question 26** correctly identified an increase in the participation rate as the factor most likely to assist in boosting an economy's potential rate of growth, but for some reason the

item had a very low discrimination score, and many of the better candidates on the paper overall were among the 14% who opted for B.

**Question 28** turned out to be a highly topical item as there has been a lot of media discussion in recent months about fiscal multipliers. In the event, only 32% of the candidates recognised that the principal factor that might result in a fiscal multiplier of less than 1 is the increase in interest rates arising from increased government borrowing.

There was clear evidence of a widespread resort to guesswork in **Question 30** which is perhaps a bit surprising since one would have expected candidates to realise that if the unemployed have a higher MPC than taxpayers then an increase in unemployment benefits would need to be accompanied by a bigger increase in taxes in order to keep aggregate spending unchanged.

# ECONOMICS

Paper 9708/33

Multiple Choice (Supplement)

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

## Key Messages

- Evidence from this and past papers indicates that candidates encounter problems when they are confronted with diagrams depicting a consumption schedule, a short-run production function or a total cost curve and are then asked what can be deduced from the diagram about the behaviour of average and marginal variables. This would be an area to focus on.

## General comments

When looking at the statistical evidence and receiving one comment from a Centre, one question, **Question 1**, was found not to have worked, and as a result, this question had to be scrapped, in order for candidates not to be disadvantaged.

It may be of interest however to note that the 65.5% mean percentage score achieved by candidates on this paper was almost identical with the score recorded on the corresponding paper in 2011.

## Comments on individual questions

If an economy is operating at a point on its production possibility curve the only definite conclusion one can draw regarding resource allocation is that the economy is productively efficient. Unfortunately, this was not one of the options available to candidates in **Question 1**, and so this question was removed.

Apart from the problems with **Question 1**, the paper's principal characteristic was that no fewer than nine of the questions were found to be 'easy' by candidates. It is gratifying when candidates obtain the correct responses to MCQs, and most of the questions with very high facility scores were standard questions on

topics which were well taught and with which candidates were familiar. For example, candidates had no difficulty in working out the marginal cost of labour per day in **Question 5**, or how factor inputs could be adjusted to lower production costs in **Question 8**. Similarly, they almost all recognised that revenue is maximised where  $MR=0$  (**Question 9**), that if GDP increases every year this implies continuing economic growth (**Question 16**), that there will be a trade deficit if aggregate domestic expenditure exceeds GDP (**Question 17**) or that inflation will accelerate if unemployment remains below the natural rate (**Question 27**).

By contrast, evidence from past papers indicates that candidates encounter problems when they are confronted with diagrams depicting a consumption schedule, a short-run production function or a total cost curve and are asked what can be deduced from the diagram about the behaviour of average and marginal variables. It was not entirely surprising, therefore, that only a third of the candidates answered **Question 7** correctly and that this question was also a poor discriminator.

Candidates also tend to struggle when they are required to apply basic economic analysis to real life issues. In **Question 15**, 59% of the candidates failed to recognise that the imposition of a congestion charge is likely to reduce journey times and vehicle operating costs, and, hence, the net impact on the economic welfare of those who continue to use their vehicles is uncertain.

Finally, in **Question 28**, almost one half of the candidates thought that the best measure of the economic cost of unemployment is the financial cost to the government.

# ECONOMICS

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Paper 9708/41

Data Response and Essay (Supplement)

## General Comments

The overall standard of performance was better than the previous two sessions. This was pleasing given the fact that the structure of the paper and the associated degree of difficulty remained the same as that of previous years. Many learners managed to gain a pass level and a significant proportion of these were able to build upon knowledge of basic economic principles and extend and deepen the breadth of their responses to convert to a higher level grade. However, as in the past, there were still many instances of a failure to progress beyond the provision of basic knowledge and understanding. The need to use and build upon knowledge and application to enable a more analytical/evaluative approach has been pointed out many times in past Examiner Reports. It is precisely this ability which allows learners to progress to higher level marks associated with grades A/B. In this respect there is still much scope for improvement.

The last two Examiner Reports attempted to highlight the continuing inability of learners to provide clear, accurately labelled, supporting diagrams. There was some clear evidence in this examination session that learners had been willing to act upon this advice. As a result additional marks were gained and the clarity of many responses improved markedly. This allowed learners to build upon knowledge and application with a more analytical approach embodied in diagrammatic form. Particular examples relating to diagrams will be referred to within specific question comments set out below.

The data response questions in **section A** were once again based upon the very relevant macroeconomic issues surrounding government policy, budget deficits and economic growth of four European economies. It appears that questions of this nature which address current macroeconomic issues are generally well received by learners. This would possibly help to explain to some extent why the data response questions were generally answered more effectively than their essay counterparts in **Section B**. This was even more impressive given the lack of choice in **Section A** compared to **Section B**. Also, as stated above, **Section B** provided the opportunity to further develop and demonstrate higher order skills although, unfortunately, this opportunity was often not taken up. The candidate's choice of questions appeared to be evenly balanced between microeconomic and macroeconomic elements.

There were few instances of rubric infringement and candidates on the whole, allocated their time quite well. The standard of written expression did appear to have improved somewhat compared to past papers and this positive trend was further reflected by higher standards in general

## **Question 1**

- (a) Although this question covers what is generally considered to be a very basic part of the syllabus, it has often been misunderstood with learners confusing a government budget deficit with an international balance of trade deficit. It was pleasing to note that the overwhelming majority of learners in this session did not make this mistake and, as a result, the majority gained full marks for this question.
- (b) Candidates were required to use fig. 1 to examine the link between economic growth and the size of a budget deficit. Answers varied quite widely. Good answers focused upon the information contained within figure 1 and quite correctly recognised that budget deficits and economic growth occurred together but not to the same extent. Marks were gained for identifying and using appropriate selected examples. Very good answers commented upon the nature of the causal link and how evidence suggested that this might work both ways, as well as concluding that the information was limited and therefore did not allow any definitive conclusion. This question discriminated quite effectively with marks ranging from zero, for simply describing the figures, to full four marks for incorporating all the key points outlined above.

- (c) This part was answered particularly well. A significant number of learners produced answers which established each of the key links between a currency depreciation and the ultimate effect on the level of domestic manufacturing. It was important for learners to explain what a falling value of some countries currencies means and how this then would impact on the price of exports and ultimately on the demand for domestic manufactured goods. There were many examples of clear, precise analysis. Marks that were lost usually related to a failure to trace each of the four links in the analytical chain.
- (d) There were ten marks available for this part of **Question 1** and it was this part which frequently differentiated strong responses from less effective responses.

The question also provided the opportunity for learners to demonstrate higher level skills of analysis and evaluation. A discursive response was essential to gain a level four mark of 7/10 or above. It was also essential to locate both similarities and differences in the two stated opinions. Responses which included the above and made some attempt to summarize their previous discussion by forming a conclusion relating to which opinion they felt would be more appropriate to overcome a recession gained high marks. Marks were lost when learners failed to consider **both** similarities and differences. Also, some learners persisted in simply copying sections from the text. This also resulted in loss of marks. It is important to point out that copying from the text, by itself, adds little to an overall answer. However, additional marks were also awarded to those learners who recognised that the charts did not give consistent support to either side of the debate

## Question 2

- (a) This type of question is frequently asked in relation to this part of the syllabus. Marks were gained for showing some understanding of the concepts of utility, marginal utility and total utility and better responses were able to incorporate appropriate diagrams to link these concepts. The key to success lay primarily in the ability to explain the concept of diminishing marginal utility and, and more importantly, link this to price and explain how consumer equilibrium might be attained where the individual can equate the price of a product to its marginal utility and thereby maximise satisfaction, subject to an income constraint. It was then expected that learners would explain the relationship between price and demand for a normal good, and ultimately link this to the determination of a downward sloping demand curve. Answers varied quite significantly. Although most learners were able to describe the concepts of total and marginal utility and the idea of diminishing marginal utility, many were unable to complete the next step by identifying the consumer equilibrium condition and then linking this to a downward sloping demand curve.
- (b) There were four separate parts to this question. Learners were required to explain what a budget diagram represents and then to use this to show how a price rise and an increase income might impact on both a normal good and an inferior good. Also learners were expected to examine the impact on both types of good when price and income both rise at the same time. Therefore it was very important for learners to ensure that their responses were sufficiently carefully structured to ensure that each element of the question was addressed. In this respect answers varied quite widely. Very few responses managed to fulfil all the criteria to gain a Level 4 grade. The most common error related to drawing diagrams which depicted an inward shift of a budget line representing an inferior good, when an individual's income rose. This was a rather subtle part of the question and it was only the really clear, well informed learner who spotted the correct shift. Level 2 marks were frequently awarded and there were many instances of confusion regarding identifying the distinction between price effects and income effects on both normal and inferior goods. This part of the syllabus has been tested quite often hence it was surprising to note how many learners were still not adequately prepared to answer a question of this nature

### Question 3

- (a) This question provided learners with an opportunity to demonstrate a detailed knowledge of both short run and long run cost curves and their derivation. Some good answers were able to clearly distinguish between the two concepts and explain why one related to a short run scenario and the other related to a long run situation. A key distinguishing feature related to the extent to which learners could explain the U shape short run average total cost curve. Whilst most could distinguish between the short run and long run, attempts to explain why the short run curve would fall, were frequently only described at a superficial level. A similar situation applied to explanations of the upward part of the curve. Learners generally proved to be more successful when establishing the link between the two curves. The opportunity to provide good supporting diagrams and use these to explain each of the concepts was taken by many and to good effect. Many marks were awarded for clarity of exposition. Top marks were awarded to those who were able to establish a clear link between the short run and long run by drawing and explaining an appropriate diagram. Occasionally the long run average total cost 'envelope' curve went a little awry but overall analysis was clear and to the point.
- (b) There were some very good responses to this part of the question and many learners were able to gain high marks. It was pleasing to note the large number of learners who demonstrated an ability to construct accurate, relevant, supporting diagrams. Perfectly competitive and Monopoly market structures are part of mainstream microeconomic theory and represent a frequently tested part of the syllabus. It was clear that learner's had been well prepared to answer a question of this nature and this was invariably reflected by the number of Level 4 marks awarded.

Less successful responses usually contained only a very brief explanation and weak discussion of the distinction between the two types of market and/or a failure to adequately explain the short/long run differences.

### Question 4

Questions on the labour market are frequently tested but it is important for candidates that each question is unique to a particular exam paper. This question was no exception. The stated claim regarding the labour market needed to be read very carefully and reflected upon before attempting this question. Unfortunately there was a lot of evidence based on scripts read, that this was not done. Far too many candidates seemed to think that this was an opportunity to describe/discuss everything that they knew about the labour market. Successful learners retained focus upon the specific question by examining throughout, the contention stating that differences in wage rates paid in different occupations are caused entirely by differences in the elasticity of supply of labour. The key word to guide learner response was of course 'entirely'. This should have led to responses which examined reasons why the contention might not be accurate. Far too many responses only provided a very cursory treatment of the validity of the statement but did proceed to discuss as many aspects of labour market theory that they could think of. Clearly, this approach can only produce only very limited success.

As has been the case over recent years, candidates who were familiar with and could successfully apply Marginal Revenue Product theory as opposed to solely relying upon basic supply and demand analysis were able to gain much higher marks. This failure to proceed beyond basic supply and demand analysis of labour market issues was the main reason for poor performance.

### Question 5

- (a) Marks for this question varied quite widely. This was a straightforward question where learners were required to show an understanding of what economist's mean by an inflationary gap, using a verbal explanation combined with an appropriate supporting diagram. The quality of the supporting diagrams often provided the key to a subsequently successful outcome. Although many diagrams were accurate and the inflationary gap was clearly depicted, there were many attempts which demonstrate only a vague, superficial grasp of the concept. It was essential to show the relationship between aggregate monetary demand and real GDP at **the full employment level** of real GDP. It would then be possible to base a verbal explanation upon the diagram. A significant number failed to establish this and as a result tended to substitute an informed explanation with a vague generalisation based on a weak explanatory link between the full employment level of output and excessive aggregate monetary demand.

- (b) Responses to this part of the question were much more effective. The question allowed learners a whole range of options with respect to which policies they felt a government might use to reduce an inflationary gap. The majority recognised that both monetary and fiscal policies, such as interest rate changes, changes in the money supply, direct tax increases and government expenditure cuts could be used.

Good answers supported their policy choices with diagrams and extended the range to include possible exchange rate policies as well as direct controls. Additional marks were also gained for evaluating the likely success of chosen alternative policies. Less successful answers failed to get beyond stating policy options and perhaps providing a brief outline of how they might work in practice. The key command word in the question was **Discuss** therefore it was assumed that learners would provide some sound evaluative discussion combined with accurate analysis to gain a Level 4 mark.

#### Question 6

Many learners chose to answer this question. The question was taken from a frequently tested part of the syllabus and it was clear from the quality of the responses that learners had been well prepared for such a question. However, like all questions, it was specific in nature and as such required careful reading before attempting a response. The question basically had two parts and it was essential to address both parts to gain higher level marks. Weaker responses focused on an assessment of whether a country could be classified as developed based solely on the value of its GDP. Thus, although there were some excellent responses to this part of the question which covered a wide range of pertinent issues, marks were lost for entirely ignoring the need to assess whether ‘the higher the GDP the better it is for the country’. This was a fundamental error and it serves to further underline the need to read every part of the question before attempting an answer. This key requirement is stressed regularly in almost all Examiner Reports but it is, in what is still a significant number of cases, ignored.

#### Question 7

- (a) There were a number of excellent attempts to answer this part of the question. Concepts of efficiency are considered to be another mainstream part of microeconomic theory and as such represent another frequently tested part of the syllabus. This part of the question required learners to demonstrate knowledge and understanding of both productive and allocative efficiency and link, especially the latter, to different types of market failure. Many answers gained marks for providing detailed, accurate explanation of productive efficiency. A familiarity with this type of efficiency appears to frequently in evidence and it was unusual for learners to fail to gain any marks for this part of the question. Attempts to explain the concept of allocative efficiency were less impressive. Better responses were able to identify the Price=MC rule and explain why this would apply, as well as describing verbally the condition for Pareto Optimum and supporting this with an illustrative diagram. There were still many examples of confusion however, some responses indicating the profit maximising output where MR=MC was consistent with allocative efficiency. The weakness with respect to responses to part (a) related to the frequent omission of any discussion incorporating examples of market failure. Learners who failed to do this invariably failed to gain a Level 4 mark.
- (b) This question required some ability to examine and assess the effectiveness of one policy, that is, the use of taxation to overcome market failure. Far too many responses lacked the required depth of analysis. Although marks were gained for demonstrating how the use of taxation was supposed to work in practice, the core of the response needed to be based around a discussion of different ways of dealing with market failure. Good answers recognised the importance of the need to identify the specific type of market failure under consideration before recommending any particular policy prescription. For example, a significant number of learners examined the type of market failure commonly associated with the limited provision of merit goods. On this basis they then proceeded to explain why taxation would not be the ideal solution but the use of subsidies might be. There were of course a whole range of types of market failure related to monopoly market structure, provision of public goods and demerit goods which might have been examined and which would have given learners the opportunity to describe and discuss alternative methods. It was expected that good responses would also provide a relevant conclusion about the effective use of taxation as a means to address all types of market failure.

# ECONOMICS

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Paper 9708/42

Data Response and Essay (Supplement)

## Key Messages

- Many candidates were able to present sufficient material to indicate that they had understood the theory behind the question. The disappointing thing is that they did not use this theory to relate their knowledge to the particular question asked. Very little extra is required from a candidate, who, having presented a good account of the theory, is able to suggest how it might be used in the particular application in the question. The better candidates did do this of course.
- On a number of questions below it will be seen that the factor that limited the marks of candidates is that they did not focus on the question sufficiently well, and did not use their evidence to come to a conclusion. Rather, they left the reader to draw his or her own conclusion. It is imperative if the highest mark is expected, that, when a question asks for a discussion, the argument of that discussion is concluded. However, only the best then presented a conclusion to their work.

## General comments

There was a good standard of answer to the questions on this paper and candidates. The common faults in the answers were no different to those of previous years. Although attention has been drawn to these in the past, they are worth mentioning again.

Other common, repeated faults were the use of badly drawn, or inaccurately explained, diagrams, the use of prepared material on a topic that is not related to the question asked, and the failure to check that the sheets of the answer pages are placed in the correct order and labelled. Often candidates tie sheets together incorrectly and some of the sheets have no indication what the question is, so, the Examiner having decided to which question the answer relates, is sometimes uncertain in which order that particular sheet should go within the answer. The faults, however, should not detract from the overall impression that the standard of responses was commendable.

## Comments on individual questions

### **Question 1**

- (a) From the data given candidates could have commented that the Philippines' economy had a large dependency on foreign income, appeared to have low average wage rates and possible high unemployment. It might be in a recession. Most candidates were able to use the data to answer this question.
- (b) The weakness of many of the answers to this section was that there was no direct comparison of the paragraph and the table. Instead there was simply a re-statement of what was mentioned in the paragraph or a re-presentation of the statistics in the table in a narrative form. Candidates could have used the information to produce some evidence that the paragraph was not supported by the table. For example, Mexico forecasts in 2007 were not good; Mexico's prediction for 2008 was incorrect; in most areas the increase was not around 33%; the World Bank's prediction of a slowing in growth of income sent home in 2008/9 was incorrect from the figures given. (However, candidates could have suggested in opposition to this that there were only selected countries in the table and the Bank figure was an overall average). Candidates could also have stated that the table did support the paragraph in that Mexico is the third largest recipient of the countries given. It was expected that an overall conclusion should have been drawn which was that, on the whole, the text and data do not really agree with each other.

- (c) Many candidates were able to suggest that the migrant labour might be beneficial to the receiving country because the labour is cheaper. They also suggested that the foreign labour may replace local labour which may cause problems and the cheap labour may not encourage innovation and investment.
- (d) From the information given it is uncertain whether the home country has an overall benefit. It depends on what happens to the money earned and on whether the loss of labour is significant, or whether the loss of labour can be replaced by capital. Production may be reduced as workers go abroad. Alternatively production may go up as money sent home is used for investment or because the income spent causes increases in demand. Candidates were able to use the information to present some of these arguments but few came to a conclusion.

### Question 2

- (a) Most of the candidates who answered this question were able to explain the difference between total utility and marginal utility. They were also able to illustrate the principle of diminishing marginal utility. Better candidates were then able to use this information to explain how a demand curve was constructed. Weaker candidates left the reader to decide how the demand curve was formed. The best candidates not only explained the principle, illustrated how a demand curve was formed, mentioned the equilibrium position of the consumer but also attempted to apply the analysis to the example in the question. Even though the elasticity is unitary the principle can still be applied.
- (b) The biggest weakness of the answers to this question was that candidates assumed that diminishing returns related to the consumer. Their answer thus contained quite a bit of repetition from their answer to **Section A**. Those who did put diminishing returns in the correct context presented very good explanations of both the concept of diminishing returns in the short run and the concept of economies of scale in the long run. The flaw in some of these answers was that candidates tended to elaborate the types of economy of scale and lost the focus of the question. They did not really discuss whether there was any contradiction between the law of diminishing returns and the concept of economies of scale. This was a pity as all the building blocks necessary for such a discussion were presented. They were just not used to draw the, all important, conclusion. Inevitably this limited the mark the candidate was able to achieve. It is mentioned below in the comments to other questions that when a discussion is asked for, it is expected that candidates present, at some point in their answer, a conclusion from the evidence they have given. Such a 'conclusion' does not, of course, have to be the final paragraph. An answer can state at the start what the candidate seeks to prove and this statement can be taken as the conclusion, with the candidate presenting the evidence to support the initial statement.

### Question 3

- (a) There were a number of very good answers to the first part of the question. Many candidates demonstrated a sound grasp of oligopoly as a market structure, included a clear diagram and an explanation of the kinked demand curve. A number of candidates were able to explain clearly how the market resulted in price rigidity, although answers were generally less clear on why prices fluctuated more in perfect competition. There was some useful discussion of a range of characteristics of oligopoly, including price leadership, collusion and non-price competition.
- (b) Generally candidates demonstrated a good understanding of the market structures of monopolistic competition and monopoly. For some, however, it was not always clear whether the use of 'monopolistic' was referring to monopoly or monopolistic competition. This made it difficult to follow their argument. The majority of candidates were clear about the differences between the two markets in the long-run, but there was some confusion in relation to economic efficiency. A number of candidates did not really address the issue of 'public interest'. Some candidates adopted a very one-sided approach to monopoly, failing to point out their possible advantages, perhaps in terms of economies of scale leading to lower costs and prices or the potential benefits of a natural monopoly. A number of candidates used appropriate diagrams, but these were not always drawn accurately. Some candidates did not offer any conclusion. As was mentioned for **Question 2**, this inevitably limited the mark that they were able to achieve.

#### Question 4

Although many candidates presented a good assessment of the argument given in the question, some tended to focus more on models of wage determination rather than on an explanation of wage differentials. A number of candidates limited their answer to considerations of demand and supply without using the concept of marginal revenue product (MRP), and some who did use MRP simply mentioned it in passing without really offering a thorough explanation. Some candidates seemed to give a general prepared answer on wages without focusing specifically on the particular question being asked. They failed to include any discussion of the effect of product value on factor reward. Better answers did include a consideration of the existence of imperfect markets and useful comments on such areas as monopsony, trade unions and government intervention were made; other candidates, however, simply assumed that there would always be a perfect market.

#### Question 5

A number of answers to this question had a similar fault to the answers for **Question 4** in that the candidates appeared to offer a prepared answer on public sector involvement in an economy without really focusing on the role of banks as providers of investment funds. Other candidates, however, did make a genuine attempt to reflect upon the various elements of the question and to consider the implications of the lack of funds on the level of economic activity and the rate of unemployment. There was some intelligent deliberation of other possible sources of funds, such as retained profit. A number of answers offered a useful contrast between short-term and long-term unemployment and took into account the relevance of different types of unemployment, such as the contrast between frictional, structural and cyclical unemployment.

**Question 6** was a popular question, and often answered in combination with **Question 7**.

- (a) This biggest weakness of the answers to this section was that they were characterised by general comments that considered differences between developed and developing economies without focusing on explanations of population and employment structures. The better answers did explain the differences in birth rates, death rates and fertility rates and how these differences caused differences in the shapes of the population structures. The population structures were then linked to relative sizes of working populations against non-working populations to give dependency ratios.

Many candidates failed to mention employment structures or treated them superficially. It was expected that candidates would comment on the relative importance of the employment in different sectors making a reasoned conclusion regarding the proportion of those employed in primary, secondary or tertiary sectors. Some candidates did do this. They were then able not only to link developing economies mainly with employment in agriculture, mining and fishing but also to explain how as economic growth takes place and populations become better trained, educated, and more mobile, there is a transition to manufacturing and tertiary services which are prevalent in developed economies.

- (b) Most candidates were able to illustrate that the problems of overcrowding, unemployment and pollution existed in both developing and developed economies. In discussing overcrowding the best answers considered overcrowding as a symptom of increasing population, pressures on economic resources resulting in inadequate infrastructures (water, sanitation, transport) and insufficient housing to cope with increasing populations. Good answers identified causes such as rural-urban migration to find work in developing economies and the economic effects of urbanisation and immigration in developed economies.

Unemployment was best explained by those who considered the effects of falling aggregate demand in all types of economy and highlighted the recent world financial crisis which aggravated the problem of unemployment in, for instance, the developed economies of the Euro zone and the USA. As a result, they were able to explain how this reduced demand for raw materials, manufactures and services such as tourism which had increased unemployment in developing countries and had decreased world trade.

Likewise, pollution was correctly identified as a problem symptomatic of population pressure and the growth of economic activities to increase outputs across all sectors of the world economy. Better answers briefly explained external costs and the links of negative externalities. They gave examples such as the problems of environmental degradation through resource exploitation and problems of urban living such as traffic congestion caused by increased car ownership and industrial pollution.

As indicators, therefore, good answers concluded that the problems being experienced were not significant in determining whether a country is developed or developing. It is important in discussion questions such as this that candidates do draw a conclusion from the evidence that they provide. It is still common to find answers which do not synthesise the argument presented by forming a conclusion.

### Question 7

- (a) Weaker answers were confined to descriptions of the characteristics of money without reference to an individual's preference for liquidity, the demand to hold money, in the Keynesian analysis.

Better answers explained the need for active balances for transactions and precautionary motives, both of which are interest-inelastic. The speculative motive was best explained in terms of uncertainty of future interest rates and whether to invest (buy bonds) or hold on to money. Thus good candidates explained the inverse relationship between interest rates and price of bonds to demonstrate that the speculative demand for money was interest-elastic.

- (b) It was important for candidates to be aware that an answer of some substance was required in view of the mark allocation of 15 for this section which required both analysis and discussion.

Many of the weaker answers failed to interpret the question properly. They tended to examine only the causes of inflation and possible courses of action by governments rather than consider the limitation of inflation as one of the four macroeconomic aims of government. At best, such candidates merely listed the other aims, besides the control of inflation, of full employment, economic growth and balance of payments equilibrium.

Better answers demonstrated a clear understanding that price stability in an economy might only be achieved at the cost of adversely affecting other macroeconomic targets. Examples were provided of conflicts between one macro policy and another. A common example stated was that in attempting to curb inflation and stabilise prices in the short run through contracting fiscal and monetary policies, there was a risk of increasing unemployment as output fell.

Likewise, if the government pumped too much money into the economy and investment and output were boosted, the subsequent price increases could adversely affect the balance of payments if exports were price elastic and imports remained price inelastic.

A conclusion which explained the difficulties of trying to meet all macro policy targets at once was rewarded. As has been mentioned above, when a question asks candidates to discuss an issue or to consider an argument it is expected that the answer will form a conclusion of the evidence presented.

# ECONOMICS

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Paper 9708/43

Data Response and Essay (Supplement)

## General Comments

This report is based upon a relatively small cohort of 183 candidates. The overwhelming majority of learners (98%) were examined across ten Examination Centres based in New Zealand. The overall performance was very impressive. A significant number of scripts gained a grade A/B grade and it was pleasing to note the high quality of written English demonstrated across all Centres.

It was clear generally that learners had been well prepared for this examination and learners were frequently able to demonstrate a sound grasp of economic theory, as well as an ability to apply this theory to address practical economic problems.

It should also be noted that there were many instances of good examination practice which clearly suggested that previous Examiner's Reports had been read, noted and, and more importantly, acted upon. For example, many learners provided some excellent, clearly labelled diagrams which served to support their written responses rather than confuse, which has often been noted on past papers. Moreover, there were frequent examples of learners recognising the need to provide a conclusion based on previous argument. This added significantly to the overall impression that learners had not only been well prepared regarding demonstrating detailed knowledge of the subject matter but also were sufficiently well organised to present this knowledge in a carefully structured articulate manner.

The data response question focused on microeconomic issues and focused upon an area of business economics which was very relevant and up-to-date, as well as being related to an aspect of life which one would assume that the typical learner would be thoroughly familiar with. This latter aspect, it appears, served many learners well with respect to overall performance and many gained relatively high marks for this section of the paper

## **Question 1**

- (a) Most candidates gained both marks for this question. Marks were gained for recognising that people might purchase virtual goods either to impress friends, to speed up the game or simply as a matter of convenience. Any two points would have gained full (2) marks.
- (b) (i) The majority of responses to this part were able to give a reasonably clear outline of some of the key indicators which could be used to determine whether a firm is small or large. Better candidates were aware of the need to proceed beyond simply providing a list of indicators and they were able to demonstrate that in some cases one would need more than basic numbers to form any accurate conclusion. For example, having an 80% (large share) of a tiny market would not be consistent with the title 'large firm' Many learners were able to demonstrate this level of thought process and therefore gain a maximum of four marks
- (ii) This question served as an effective discriminator whereby the full range of marks were awarded reflecting a wide ranging quality of responses. The wording of the question should have given learners some clue as to the nature of the required response. Basically, the question was attempting to elicit responses which demonstrated an ability to read the source material carefully then think about this in the light of the specific question, and finally produce a measured response. There were some excellent responses which initially used the evidence to build up a case to support the contention that firms that sell virtual goods might be large and then developed their discussion further, by identifying a lack of evidence and used this to question whether it was possible to produce any kind of definitive conclusion. Less effective responses decided that, based on the available evidence, these firms had to be large. Hence, although these responses were rewarded, they failed to gain maximum marks

- (c) This part gave candidates the opportunity to demonstrate their understanding of what is generally considered to be a mainstream part of introductory microeconomics, relating to a firm's costs. There were various ways possible to learners to gain maximum marks for this question but it was expected that answers should discuss the changes in fixed and variable costs in relation to this specific type of firm and to use the source material to guide their responses. The majority of responses were able to gain marks for explaining and distinguishing between fixed and variable costs. Applying the concepts to the business organisations in question was less well done. Weaker responses decided that when the business expands that both fixed and variable costs might fall. It became clear that these learners were referring to average fixed and average variable costs whereas the question clearly referred to the effect on **total** fixed and **total** variable costs. This should serve as another reminder to all learners to read every part of the question before attempting an answer.
- (d) The use of the command word 'discuss' provided another pointer to learners attempting this question indicating the need to use the evidence from the source material to present the case for and against the firm's decision to spend money advertising virtual goods on the Internet. There were some very good, mature, well argued responses to this question. Learners frequently gained high marks because they were willing to use evidence to construct a discursive response and attempt to form a valid conclusion. Less effective responses tended to focus on the benefits of advertising virtual goods on the Internet but with only a very brief/non-existent reference to potential problems. This response would generally fail to gain more than half marks. Also some candidates discussed advertising in general and lost marks for not recognising the need to examine the wisdom of advertising virtual goods on the Internet and for not using the source material to inform the discussion.

## Question 2

This question required some very careful thought and a clear grasp of its precise nature before 'putting pen to paper'. Unfortunately the overwhelming proportion of learners who attempted this question failed to put these requirements into practice. Fortunately, only a relatively small number of learners chose to answer this question, therefore its apparent difficulty did not create widespread problems.

The main problem appeared to revolve around a failure to read the question carefully and therefore fully understand how to respond in a suitably comprehensive manner.

The question specifically referred to the achievement of equilibrium in a **market**. A market would involve both supply and demand that is producers and consumers. Thus, although the question only made reference to potential problems relating to the demand side of the market, it was expected that learners would extend their answers to encompass issues relating to supply problems and possibly establishing a link between efficiency and utility. Although there were some very impressive attempts to discuss problems associated with the measurement of utility and difficulties surrounding its use to identify a possible equilibrium situation, many marks were lost due to failure to extend the argument sufficiently to allow an analysis of the market equilibrium rather than simply consumer equilibrium.

## Question 3

- (a) Many learners seized this opportunity to demonstrate a detailed knowledge of both short run and long run cost curves and their derivation. There were some excellent answers which were able to clearly distinguish between the two concepts and explain why one related to a short run scenario and the other related to a long run situation. The opportunity to provide good supporting diagrams and use these to explain each of the concepts was taken by many and to good effect. Many marks were awarded for clarity of exposition. Top marks were awarded to those who were able to establish a clear link between the short run and long run by drawing and explaining an appropriate diagram. Occasionally the long run average total cost 'envelope' curve went a little awry but overall analysis was clear and to the point. Weaker responses tended to focus on describing the long run position based on increasing/decreasing returns to scale whilst not being altogether clear when describing diminishing returns. The most frequent error related to learners confusing diminishing returns with diseconomies of scale. Hence some learners attempted to explain both concepts on the same long run average total cost diagram

- (b) This part of the question was dealt with particularly well. There were many impressive responses which dealt thoroughly with each part of the question and, as above, provided some excellent supporting diagrams. In particular, it was pleasing to note the significant number of learners who were able to depict diagrammatically how a monopoly firm might produce a 'deadweight welfare loss' and use this diagram to illustrate why Monopolies might create inefficient outcomes. Moreover, there were many instances where learners proceeded to discuss both additional problems associated with monopoly markets and then provide reasons why they should not always be discouraged. It was the latter which usually allowed the distinction between the basic pass level and the higher Level 3/4 mark. A conclusion was also expected and frequently provided.

#### Question 4

Although this type of question relating to the operation of the labour market is frequently asked and it is nevertheless very specific. It seems that learners are usually prepared to answer a question from this part of the syllabus but, unfortunately in many instances, learners fail to answer the specific question and in many cases simply provide what is often described as 'everything I know about the labour market'. In this respect the current cohort was no exception. Candidates were expected to examine the main contention which focused upon the extent to which the labour market could be described as a perfect market. A thorough discussion and analysis of wage determination in a perfect market using marginal revenue product analysis combined with the theory of the determination of the supply of labour was required, as a starting point.

The core of the response should have focused upon the extent to which actual labour markets might conform to this perfect model. Differences between perfect and imperfect labour markets should have been demonstrated as well as additional factors which frequently fail to be adequately theorised such as geographical location or gender issues.

There were lots of opportunities for learners to gain marks by highlighting why labour markets might not conform to the perfect model. Good responses questioned some the underlying assumptions and key issues such as the ability to accurately measure marginal productivity and then proceed to give lots of examples of situations when markets would not produce uniform wages in the long run. Marks were gained for references to the role of Trade Unions, governments and monopsony buyers.

Marks were also lost due to a failure to provide analysis beyond that of basic supply of and demand for labour without reference to marginal revenue productivity. In spite of frequent references to this weakness in previous Examiner Reports, it is disappointing to note how many learners are still losing a significant number of marks due to this basic error.

#### Question 5

- (a) Candidates were given a significant amount of scope within this question to demonstrate knowledge, understanding and application. Firstly the candidate had to show some understanding of what is meant by a budget deficit. This caused few problems and marks were gained accordingly. Given the topical nature of this question it was expected that learners would perform well when dealing with this part of the question. The outcome was somewhat mixed where better candidates took the opportunity to link the potential consequences of a budget deficit to a whole range of issues such as inflation, economic growth, crowding out, inefficiencies and waste of resources. Such comprehensive, detailed responses invariably gained high marks. However, some learners failed to progress beyond a few generalised comments relating to the negative effects of high interest rates or long term international debt. In these cases points were simply stated rather than explained or discussed.

- (b) This part of the question was very straightforward which allowed candidates to demonstrate their understanding of a wide range of issues relating to how governments might use tax increases or spending cuts to address budget deficits. There were varied responses to this part of the question. Some responses provided some cogent analysis with a clear discussion of how such measures might link to the problem identified. Very good responses made further attempts to evaluate the relative strengths/weaknesses of chosen responses and then come to some carefully considered conclusion based upon the effectiveness of each response. The key requirement in this part was to identify similarities and differences associated with each type of response. Those who focused upon this basic requirement invariably gained the highest marks. A surprisingly large number of responses appeared to ignore this basic request and proceeded to in general how spending cuts/tax increases might affect a budget. Once again this reinforces the need on the part of all learners to read every part of every question before attempting to write a response. Every exam session appears to demonstrate and underline that this essential requirement is still not being fully put into practice.

#### Question 6

- (a) This part of the question is a frequently tested part of the syllabus and it was clear that many candidates had prepared well for a question of this nature. There were many excellent responses to this question. Level 4 marks were much in evidence because candidates were able to identify at least four different types of unemployment, explain the nature of each type of unemployment and provide supporting examples to further illustrate further understanding.

Less effective responses either failed to examine which type of unemployment might be the most significant for their own country, or if they did examine this part of the question it was done in a very cursory manner, therefore higher level marks were lost.

- (b) Learner's needed to show a clear understanding of what economist's mean by the term 'tertiary sector' and why it is usually associated with a developed rather than a developing economy. This part of the question proved to be a very effective discriminator. Good answers were prepared to discuss the issues surrounding this question by showing some detailed knowledge of what kind of characteristics one would normally associate with developed/developing countries and then using this as a platform to decide how far one could accept the statement in question. Marks were gained for demonstrating a wide knowledge of associated characteristics and how well these might be used to contest the idea that the proportion of the working population engaged in the tertiary sector could be the main guide to the economic development of a country. Answers varied but this was expected. Some very good responses were able to identify a number of anomalies which would suggest that it would not be wise to accept the statement in its entirety. Perhaps the best example being New Zealand which is a highly developed and still has a reasonably high proportion of its working population engaged in the primary sector.

#### Question 7

This was a very straightforward question which proved to be very popular with a large number of candidates. Questions relating to the use of GDP figures as a means to determine standard of living, are frequently tested. There were some excellent answers to this question. Perhaps more than any other question, this demonstrated how well prepared many learners were. Marks were gained for recognising that the figures given were only absolute figures and that it was essential to produce real GDP figures to allow for price effects. Similarly, most learners were aware of the importance of using per capita GDP figures to allow for significant differences in population. Apart from these serious omissions from the statistics, learners were able to introduce a whole range of issues which would have to be considered before one could reach any valid conclusions relating to the identification of living standards between national economies.

Better answers went beyond describing potential problems and were able to discuss possible alternative measures such as HDI and MEW and, in some cases referred to the more recently discussed 'Happiness Index'. The better responses invariably attempted to incorporate a conclusion which attempted to summarise their preceding argument.

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Effective responses progressed beyond general description and provided a number of key indicators which are traditionally used to identify this distinction. GDP per capita and reference to the Human Development Index were good example of the use of appropriate indicators. Better candidates were able to elaborate further from these indicators to discuss these differences in some depth. For example references to life expectancy, infant mortality rates and levels of literacy all gained additional marks. Also marks were gained for recognising how the basic structure of each type of economy might differ depending upon the relative importance of each of the Primary, Secondary or Tertiary sector.

Less effective responses focused upon generalised comment relating to health, education or poverty but which did not provide any detailed comment. Also this type of response suggested that certain macroeconomics