ECONOMICS

<div>

Paper 9708/11

Multiple Choice (Core)

</div>

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

Key message

- Precision in the knowledge of definitions and assumptions is essential.

General comments

There was a 4.8% increase in candidates and the mean mark rose from 16.7 to 17.4. This improved performance was evident with the number gaining full marks rising from 3 to 12, while the number scoring 8 or less marks fell from 129 to 104. Five **Questions** (**4**, **5**, **8**, **16** and **19**) proved quite easy while no question was particularly difficult.

Comments on individual questions

Question 1 proved to be a difficult starter with only 31% selecting the correct key B, while 43% opted for D. The discrimination statistics suggested that this latter group included some candidates who did well in the rest of the test. The outcome of a decrease in the resources employed in services would be shown by a movement along the production possibility curve rather than a shift in its position.

The need for precision was illustrated in **Question 17**. While only 34% selected the correct option D, 51% preferred B. The operation of an effective maximum price will mean the existence of excess demand but the reluctance to supply will mean that consumption falls. This is a long running cause of difficulty in interpreting the actual effect of the imposition of maximum prices.

The type of task set in **Question 23** has been used for a number of years as a way to test the employment statistics section of the syllabus. It was surprising that it recorded the lowest level of correct responses (29%) in the whole paper. The fact that 32% went for A suggested inaccurate understanding of both measures. As a further 28% chose the incorrect key C it appears that this is a poorly understood topic for many.

The exchange rate diagram in **Question 28** was correctly interpreted by 30% of candidates who chose A but almost as many, 28% went for D which would cause a shift of the supply curve in the wrong direction.

The final case of a relatively low level of correct answers was **Question 30**. Devaluation was correctly identified as an expenditure-switching policy by 35% but 32% opted for increasing government spending. This is unlikely to be used to improve the trade position and so was being considered in the wrong context

ECONOMICS

Paper 9708/12
Multiple Choice (Core)

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

Key message

- Numerical problems on macroeconomic issues were a particular problem.

General comments

There was a 4% increase in candidates with a fall in the mean score from 18.4 to 17.8. The standard deviation widened with the number gaining full marks up from 5 to 7, while those scoring 8 or less marks rose from 215 to 581. Two **Questions, 4** and **6,** proved to be relatively easy while **Question 25** was found relatively difficult. **Question 27** worked poorly in terms of discrimination.

Comments on individual questions

Question 19 was a somewhat novel way of testing the benefits of trade. While the largest proportion of candidates (35%) opted for the correct key A, the even spread among the other options suggested the possibility of guessing. The question worked well in terms of its discrimination.

It is difficult to see why in **Question 23** 37% chose D as the correct option since the calculation needed was straightforward. The correct answer A was picked by 30% and required a similar style of calculation. Some candidates, who did well on the paper overall, incorrectly preferred option C. This seemed like a case of over-complication by candidates as there was insufficient information to arrive at this conclusion.

The distinction between nominal and real exchange rates has not usually been tested in a numerical way, as it was in **Question 24**. It was encouraging that 39% correctly chose key B but a concern that among the

37% who selected A there were some strong candidates. The real exchange rate remained unchanged because of the 10% change in the values both of the exchange rate and the rate of inflation.

The difficulty that candidates have in interpreting price indices was obvious in **Question 25**. The 48% who went for D opted for a fall in the price index, which is not the same as a fall in the rate of inflation. Only 23% realised that the rates of inflation were 2% in 2008, 3% in 2009 and less than 1% in 2010. This made 2010 the first year of a fall in the inflation rate, so B was the correct response.

The reasoning behind **Question 27** was that a deficit when imports and domestic production are the same is a difficult problem, as it may also mean loss of output and employment for the home country. On this basis 26% correctly chose key A. 51% opted for C, including candidates who overall performed well in the paper. Although the need for imports to produce exports causes some dependency, it also makes possible the ability to add value and earn export revenue that can offset the cost of imports. This prevents it being 'a particularly difficult problem'.

ECONOMICS

Paper 9708/13
Multiple Choice (Core)

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

Key message

- Interpretation of diagrams, including the standard demand curve, was a particular problem.

General comments

Although there was a significant increase in candidates from 100 to 156, this still left the total entry too small to allow statistically incontrovertible conclusions about performance. The mean score fell from 20.4 to 16.5. While full marks were gained by two candidates, the same as in the previous year, the number scoring 8 or below rose from 0 to 16. **Question 1** proved to be relatively easy while **Question 14** proved to be relatively difficult.

Comments on individual questions

Question 6 showed a straight line demand curve. Only 35% recognised that it had different PEDs at each price (option C). The 38% who chose B would have avoided their mistake had they used the diagram supplied to draw some different areas of consumer expenditure and then compare them to the proposition.

There has been occasional use of very simple equations and this was the case in **Question 8**. Although 42% chose the correct key C, some stronger candidates opted for D. This is hard to explain and may possibly have been the result of a calculation error.

© 2013

In **Question 10** option A was the most popular choice. However this overlooked the fact that a decrease in the demand for palm oil (sunflower oil is a substitute) would reduce output not only of palm oil but also of palm kernel cake. This would result in a price rise for the latter (key B).

As in an earlier question candidates did not make good use of the potential information in the diagram. In **Question 13** a comparison of the levels of consumer surplus at each price would allow changes in amount to be identified. This gives an increasing amount at each change and so key D was correct rather than the more preferred key B.

In **Question 14** many candidates appear unclear on the concept of net external benefit. More selected options B and C than picked the correct answer A. Net external benefit would be zero as both external cost and external benefit are $100 million. This question was found to be the hardest with the lowest facility (24%) on the paper.

The trading possibility curve appears in the AS syllabus in section 4. However to aid candidates it was thought best to define it in **Question 19**. The definition should have guided candidates to identify the production of the good in which there was comparative advantage, in this case good Y. This makes Key D correct as quantity TK would have been traded for additional good X. The most popular option B is incorrect as that combination makes no goods available to trade to increase availability of good X.

Question 24 involved net exports which are a component of aggregate demand. When they change the aggregate demand curve shifts. There is a movement along the aggregate supply curve, and not a shift in its position. This error was made by 42% of candidates who chose option B rather than option D. This is a common error made in microeconomic analysis.

ECONOMICS

> **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.

- Key concepts need to be thoroughly taught and learned across the whole syllabus.

- Question selection and accurate interpretation are essential for success.

- Diagrams need to be complete, accurate and used more often.

- The skill of evaluation needs to be given a higher priority in the preparation of candidates.

General comments

The candidates allocated their time well and there were very few unbalanced or incomplete answers. A few candidates demonstrated the knowledge and range of skills required for high grades. However, the overall standard was disappointing and most scripts displayed serious weaknesses which will need to be addressed if Centres are to improve the performance of candidates in the future. It was disappointing that key concepts such as social costs and, particularly, comparative advantage were not understood by many candidates.

A number of candidates made poor choices for their essay. Many of those who chose **Question 4**, on international trade, had little or no idea of comparative advantage and opportunity cost, resulting in very low marks. Candidates should only select questions where they know key concepts around which they can base their answers.

Allied to the above, too many candidates did not interpret the questions precisely. For example, few focused on 'correct price' in **Question 2**, while in **Question 1(c)** a number thought a reduction in export quotas would lead to a rise in exports.

Many candidates could have used diagrams more effectively. **Question 2** did not require the inclusion of diagrams but that did not mean they could not be used. Many of the explanations could have been enhanced with the use of diagrams showing, for example, marginal social and private costs and benefits. Too many of the diagrams were either inappropriately labelled, especially in responses to **3(b)**, while others had too few or no labels at all. Diagrams need to be properly labelled to earn full credit.

One of the key assessment objectives in the syllabus is evaluation. Hence, candidates are required to demonstrate this skill and in part **(b)** of the essays four marks are reserved for evaluation. There are some Centres where this skill has been developed and candidates often scored two or more marks for evaluation. However, such Centres were a small minority and in most cases candidates did not attempt to evaluate at all. This is a serious weakness and Centres need to address this as an urgent issue.

Comments on specific questions

Section A - Data Response

Question 1

(a)   Most candidates scored at least one mark. However, a lot of candidates were unable to interpret the graph accurately, so few earned full marks. Most candidates thought the upper black line

represented China's production, rather than the world total, even though the labelling on the diagram was clear.

(b) (i)   A few excellent answers but most were superficial saying only that the derived demand for REEs was growing because the demand for the final products was growing. The better answers gave the reasons for this growth, such as rising incomes, technological developments and energy conservation.

(ii)   The candidates who understood that social cost is equal to the sum of private cost and external cost, generally scored well, giving appropriate examples of each type of cost. However, a significant number of candidates thought social cost refers only to external cost, and such candidates usually scored nothing. This is a long-standing error and has been mentioned before in Examiners' reports.

(c)   A large number of candidates thought 'reduction in export quotas' would lead to a rise in exports, even though the text gave figures to show the reduction. Those who interpreted the question correctly often scored two marks while there were several excellent answers getting full marks for reasons such as: controlling external costs, giving priority to home industries and forcing up the price of REEs.

(d)   This was a 'discuss' question which required candidates to address both sides of the argument and recognise the significance of 'rising global prices'. There were very few examples of answers which earned five or six marks. Some candidates failed to look at both sides of the argument even though the necessity of doing so in 'discuss' questions has been mentioned in Examiners' reports on many occasions. Those candidates who did examine both sides often failed to pick up on the significance of 'rising global prices', for example in attracting previously sub-marginal producers into the global market, or stimulating exploration for new deposits.

Section B - Essays

Question 2

This was the most popular question but there were few high mark answers due to the failure to see the significance of the term 'correct price' in both **(a)** and **(b)**, and the lack of evaluation. However many candidates used diagrams which enhanced their answers.

(a)   Most candidates earned two marks for an understanding of merit and demerit goods, based either on externalities or information failure. Very few demonstrated a clear understanding of 'correct price'. In the case of merit goods the demand curve should reflect both private and external benefits. For demerit goods the supply curve should reflect private and external costs. Many candidates offered only a partial explanation of why the free market will not arrive at the correct price for merit and demerit goods, and too many focused on quantity rather than price in their answers. There were a few very thorough explanations of why the free market price is sub-optimal.

(b)   Most candidates gained some marks but there were few marks of more than six. Many chose to look at a range of policies and often used diagrams to illustrate maximum and minimum prices and the use of taxes and subsidies. However, many candidates did not focus on 'correct price' and how the measures they described would help to achieve this. A more serious weakness was the failure to offer any evaluation in most answers. The evaluation needed to be about the effectiveness of the policies in achieving the correct price. Some candidates mentioned the disadvantages of the policies e.g. the expense of subsidies, which is not the same as effectiveness.

For example evaluative statements could have included:

'Taxes are less effective on goods with inelastic demand as very high tax levels are needed to reduce demand significantly.'

This could then have been developed further:

'High tax levels will encourage smuggling and the demerit goods will be sold at low prices so counteracting the high taxes levied by government'.

Other areas of evaluation could have included the problems of setting the appropriate levels of tax or subsidy to achieve the correct price, and the difficulty of changing consumer behaviour to overcome information failure.

Question 3

This was least popular question.

(a)   Most candidates scored half marks or more. The typical answer on unemployment mentioned both the claimant count and ILO Labour Force survey and identified at least one problem associated with their use. For inflation most candidates identified the RPI and the CPI as methods and elaborated to earn further credit. However, few candidates mentioned problems or other issues associated with their use such as regional price differences or the appropriateness of the 'basket of goods' to various social groups.

(b)   Almost all candidates demonstrated an understanding of aggregate demand and its components and were able to identify factors which would cause an increase in aggregate demand. Many focused on changes in consumption due to factors such as rising incomes, cuts in taxation and lower interest rates. The better answers also gave reasons for increases in the other components of aggregate demand. Diagrams were included by almost all candidates, as required by the question. However, many were incorrectly labelled as if this was a microeconomics question. The curves were often labelled D and S rather than AD and AS, while the axes should be labelled 'Price Level' and 'Real GDP' not 'Price' and 'Quantity'. The best graphs had correct labels and AS curve(s) with a steepening slope and a vertical slope beyond full employment level.

While most of the analysis was sound, once again there was barely any evaluation.

An example of a detailed evaluation would be;

'The impact of an increase in the AD would depend on the slope of the AS curve. At low levels of GDP where the AS curve is elastic there would be little or no impact on inflation as there are so many unused factors in the economy. Unemployment would fall considerably as more labour is employed to meet the higher demand. As the economy approaches the full employment level the AS curve becomes steeper and any increase in AD will have an increasing impact on inflation and a decreasing effect on unemployment. At full employment level the AS curve becomes vertical, and any further increase in AD will have no effect on unemployment as labour is already fully employed. But there would be a large effect on inflation as there is excess demand in the economy which cannot be met by increased production.'

Such a response would comfortably get all four evaluation marks, especially if there was an appropriate Keynesian AS diagram which illustrated these points. The use of SRAS and LRAS diagrams would also have been appropriate.

Question 4

This was the least well answered question with very few competent responses.

(a)   A few candidates demonstrated a knowledge and understanding of several benefits of specialisation and trade such as higher output, improved quality, economies of scale and their impact on economic welfare. Most candidates though, could only identify one or two benefits. For the application it was expected that most candidates would use a simple economic model, using tables of figures. In the event, very few used tables or attempted to demonstrate the gains from specialisation. Instead there were vague often repetitive points about unspecified benefits while others digressed into an examination of the problems of the division of labour.

(b)   The answers to **(a)** were weak but the responses to **(b)** were even weaker with a large number of candidates scoring no marks. It is difficult to understand why the candidates chose this question when they did not use a single economic concept in their answers. Very few candidates mentioned comparative advantage and opportunity cost. Most answers were vague, alleging that trade is never beneficial in this case. A good answer would have explained comparative advantage and domestic opportunity cost ratios, the key concepts for this answer. The candidate should then have shown how trade can be beneficial in these circumstances, using tables and/or graphs to

illustrate. The evaluation could be in the form of an explanation of circumstances in which trade would not be beneficial.

Examples of two simple evaluative points are:

'Trade would not be beneficial if there was no difference in the opportunity cost ratios of the two countries, as there would be no gains from specialisation.'

'Also trade would not be beneficial if it would involve high transport costs which could more than offset the gain from specialisation.'

ECONOMICS

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

Key messages

- It is essential that candidates read the question carefully and answer the question set rather than the one they had prepared for and expected. Candidates often produce answers to anticipated questions and score only a few marks for material of incidental relevance.

- Often candidates do not use their time effectively. For example this includes writing out the question in full. This practice should be discouraged. In addition some candidates provide a lengthy preamble at the beginning of their answers. These can provide a useful introduction, but they are often overlong and seldom produce much material that scores marks. Candidates are advised to focus on demonstrating the necessary knowledge and understanding and developing their analysis to score well.

- Diagrams form an essential part of the analytical framework in many areas of Economics. Where they are appropriate diagrams should be included as part of the analysis. They should be complete and drawn accurately.

- Evaluative comment on the essays was often superficial, sometimes vague and often absent. Essay questions will always contain marks for evaluative comment and candidates should be encouraged to make some judgement on the analysis contained in their answers.

General comments

The number of candidates entered for this examination continues to grow. Overall the performance was highly variable. There were some excellent scripts that showed very high levels of knowledge and understanding of the key economic concepts together with sound analysis and appropriate evaluative comment. Such scripts had sufficient depth and development of ideas and demonstrated the full range of skills to do gain a high mark. Unfortunately, some candidates seemed underprepared and failed to approach the required standard for success at this level.

Comments on specific questions

Section A – Data Response

Question 1

(a)   Most candidates scored both marks on this question; however, many candidates wasted time here. Many produced descriptive and over long answers. Candidates should always be guided by the mark allocation of each question. Ignoring this and producing lengthy answers results in a significant opportunity cost in terms of the time that is foregone in answering other questions.

(b)   A pleasing number of candidates produced correct diagrams to show the impact of an increased demand for palm oil on the market for palm oil and the market for palm kernel cake. In order to do this it was necessary to recognise the 'joint supply' relationship between the two products. Disappointingly, however, many candidates provided confused analysis based on the idea that the two goods were either 'substitutes' or 'complements'. Such approaches usually produced similar diagrams for both products that resulted in the same outcome in terms of equilibrium price and quantity in the two markets. Confused analysis was also provided by those candidates who produced rather complex and incorrect 'combined' diagrams that showed the impact of the change on the single market for palm oil and palm kernel cake. In addition, marks were lost by a large number of candidates who were able to produce accurate diagrams but were less competent in

explaining what was happening in the diagram, leaving the reader to do a lot of the work. Conversely some lost marks by using inaccurate or incomplete diagrams – common errors being to only show one curve so that no equilibrium points were indicated or showing the shifting curves but not indicating the change in price and/or quantity that resulted.

Many candidates understood the concept of 'labour productivity', but a disappointingly large number still confuse productivity with total production. This clearly undermined their ability to score highly on **Questions 1(c)** and **1(d)**.

(c) (i) Many candidates failed to read this question sufficiently carefully and tried to calculate labour rather than land productivity. Such candidates were usually credited with a single mark if it was clear that they understood that productivity was a measure of the ratio between factor input and output, but for both marks it was essential that the correct measure was provided.

(ii) Those candidates who fully understood the meaning of productivity were usually able to calculate the productivity of land in Indonesia's palm oil industry and conclude that productivity had risen between 1995 and 2008 Some candidates lost a mark because although they provided the correct calculation and arrived at an accurate figure for changes in land productivity in palm oil production in Indonesia, they did not use these figures to conclude that land productivity had risen over this time period.

Strangely, some candidates compared productivity in Indonesia with productivity in Malaysia and failed to score. Others did not achieve all the marks available because they had the formula for calculating productivity upside down.

(d) Most candidates recognised that the data provided gave an incomplete understanding of changes in productivity in palm oil production in Indonesia. The most popular answer was that information concerning changes in the quantity and quality of the labour employed would provide a better understanding but many others recognised that information concerning other factors of production, especially capital would also be helpful. High scoring answers emphasised that the increase in productivity shown in the data could have resulted from investment in new, more efficient capital goods, more skilled labour or improved technology.

(e) This was generally well answered, although a large number of candidates lost marks because they ignored the directive word, 'discuss'. Most candidates were able to outline two policies that might be used to prevent the ill effects of palm oil production. Most popular choices were indirect taxes, legislation and tradable permits. Those candidates who explained how these were designed to work were awarded due credit. For full marks however the discuss instruction required them to go further. Some candidates for example gained marks for discussing the likely effectiveness of such policies. For example, some candidates explained that indirect taxes may be ineffective because it is difficult to place an accurate monetary value on the negative externalities that result from palm oil production. This means that it is difficult to judge the amount of indirect tax that should be imposed to offset the negative externality. Others stated simply that legislation might be expensive in terms of the costs of monitoring compliance.

Common mistakes were referring to broad macroeconomic policy instruments such as fiscal policy. Such answers did not go beyond the broad assertion that tax rises would be a good idea, although it was not usually explained how this might work.

In this question many candidates were guilty of rubric infringements. The question clearly required discussion of **two** policies. Many candidates mentioned four or five policies. In such circumstances only two policies can be credited, so again there is an opportunity cost incurred.

Section B – Essays

Question 2

(a) Although most candidates were able to show the effects of an increase in costs on equilibrium price, a smaller number were able to provide a clear explanation of the statement, 'in a free market price rations scarce goods', as required. Many provided only vague explanations of scarcity and were unclear on the rationing function of price. As a result only a small number of candidates gained full marks for this part of the question.

(b) Many candidates failed to recognise that to do well on this question it was necessary to provide clear analysis of how price controls work. Those who did generally provided very sound analysis here and gained good marks for this assessment objective. Evaluation was generally not strong on this question however with many candidates failing to go further than outlining some of the drawbacks of price controls rather than assessing the likely overall effectiveness of such policies.

Sadly some candidates misinterpreted this question and chose to explain the justification for government intervention where market failure exists in the case of public, merit and demerit goods. Others wrote about different economic systems and inevitably scored few marks.

Question 3

(a) Candidates generally were able to state the components of aggregate demand but very few were able to define each one with accuracy. There is particular misunderstanding amongst candidates about the meaning of investment expenditure. Few made reference to expenditure by firms on capital goods but instead talked about foreign direct investment or the amount of money firms had in bank deposits. Most candidates were able to produce a diagram showing a shift in the aggregate demand curve to show the price level rising but only the better candidates explained the significance of the aggregate supply curve and whether unemployed resources existed. It was disappointing to see the large number of candidates who placed aggregate demand and supply curves on diagrams with micro-axes that referred to price and quantity.

(b) There was good analysis of the internal and external effects of inflation by better candidates but few were able to make a reasoned judgement on which should concern governments more. Evaluative judgement was extremely limited and often failed to go beyond simple comments such as, 'the government should be concerned with both equally'. It was hoped that candidates might make some judgement based for example upon the degree of openness of the economy or the rate of inflation in an economy relative to the rate in other economies.

Some candidates were unable to distinguish internal from external effects and provided rather confused responses as a result. Others failed to include all essential aspects of the analysis. For example some suggested that an external effect of inflation was that it would lead to a decline in the exchange rate without explaining why this would occur. Often such approaches led to candidates providing largely irrelevant answers based upon detailed analysis of the Marshall-Lerner condition and the J-curve effect. Unsurprisingly, in the absence of more directly relevant material such approaches scored poorly.

It was disappointing to see the large number of candidates who wasted a large amount of valuable time explaining the causes of inflation.

Question 4

(a) Most candidates had only a narrow understanding of the meaning of the term 'protection' in the context of international trade. Many suggested that this was any measure adopted to restrict imports and some went on to add that this was done to give an advantage to domestic industries. This explanation is incomplete since it excludes from the meaning of protection any policies designed to boost exports such as export subsidies as well as the range of policies clearly designed to help domestic industries resist foreign competition such as fuel subsidies. A more complete explanation of the term would be any policy that interferes with market forces in order to give an advantage to domestic industry faced with foreign competition.

The second part of this question was answered much more successfully. Most candidates showed good knowledge and understanding of a range of methods of protection such as tariffs and quotas. Often candidates made good use of relevant diagrams here.

(b) The main weakness here was a tendency amongst some candidates to produce a standard essay question on the arguments in favour of protection. Such approaches usually lost the required focus on the effects on consumers and producers and scored poorly. Some excellent answers were produced here however that explained why, for example, the outcome of protection would be that consumers would pay higher prices for goods and services and face reduced choice and that producers would be likely to benefit as a result of the reduced completion from abroad. Some very successful evaluative comment was provided in response to this question. Some for example

© 2013

argued that protection could be justified if it allowed comparative advantage to emerge in the case of infant industries. Others referred to this case but argued that such protection makes home producers inefficient and they explained that it was often very difficult to remove protection once it is in place. This simple, yet effective evaluative comment was rewarded with good marks.

ECONOMICS

Paper 9708/23
Data Response and Essay (Core)

Key messages

- Knowledge and understanding of the core economic concepts is essential for a good mark. Sometimes it is clear that understanding of concepts amongst some candidates is incomplete. It would appear that often emphasis is placed upon memorising material rather than understanding it. This can mean that candidates are unable to respond appropriately to all questions and marks are low as a result. Candidates should always try to understand the concepts. This will allow sound performance across the range of assessment objectives.

- Diagrams are an essential part of the analytical framework in many areas of Economics. Some candidates provided diagrams that were incomplete and inaccurately drawn. Candidates are advised that where they are appropriate diagrams should be included as part of the analysis but they should be complete, drawn accurately and always have an accompanying explanation.

- Candidates lost marks because evaluative comment on some essays was often superficial, sometimes vague and often absent. Essay questions will always contain marks for evaluative comment and candidates should be encouraged to make some judgement on the analysis contained in their answers.

General comments

The standard of answers from most candidates was very pleasing with strong evidence that the essentials of Economics were well grasped. Many candidates performed well across the range of assessment objectives and gained a high score. Data handling skills showed a distinct improvement in this session but common weaknesses remain amongst some candidates. It is disappointing that these appear in successive examination sessions.

Comments on specific questions

Section A – Data Response

Question 1

(a) (i) This question required candidates to demonstrate their data handling skills and most did well. Most were able to identify differences in the change in the nominal price and in the real price of gold over the period and gain both marks. As in previous years however this data-handling question resulted in some candidates providing overlong and descriptive answers that were a waste of valuable time and meant that less time was available for the other questions. Candidates should always be guided by the mark allocation for questions and design their answers accordingly. It should also be pointed out that the question required a comparison of the differences in price changes. This meant that comment on similarities in price change were superfluous and did not score.

(ii) Careful examination of the data reveals that the statement, 'the price of gold has never been higher', is true only in terms of the price in nominal terms. In real terms the price was higher in 1980. Candidates needed to recognise this and refute the statement. Most candidates had the necessary understanding and confidence to state that, in real terms, the statement was incorrect and scored full marks. Only a small number misinterpreted the data and failed to challenge the statement. Others failed to grasp the point of the question and gave rather confused answers as a result.

(b)   This question required candidates to calculate the price elasticity of supply of scrap gold between 2003 and 2009 and then to state whether supply was elastic or inelastic. In order to do this candidates needed a good understanding of the key concept together with the ability to apply the formula to the data provided to reach a conclusion. Most candidates scored well here. Most had a firm grasp of the concept and used it well to calculate the coefficient and conclude that supply was inelastic. Those who failed to score full marks were either underprepared with insufficient understanding of the subject or made simple errors in application that reduced their score.

(c) (i)   In order to score both marks on this question candidates needed to interpret the data that was provided with accuracy. This was done well by most candidates who found little difficulty in identifying the changes in the sources of the supply of gold between 2001 and 2009. A small number of candidates failed to read the question carefully and described the changes in the total gold supply over the period.

(ii)   Candidates found this question difficult and few gained full marks. Figure 2 showed that scrap gold increased in the overall supply, while gold from mining barely altered and central bank sales fell. A range of possible reasons were acceptable. For example, it could be argued that scrap sales increased in the light of the economic downturn in 2008-2009 as households need to convert gold assets into cash. A further reason might be that the quantity of scrap gold on the market increased as the nominal price of gold rose after 2001. Although some candidates argued along these lines, many candidates failed to offer a plausible reason for the changes identified. Disappointing marks were the result.

(d)   In order to score well here it was not necessary to have a detailed knowledge of the gold market. Candidates needed to consider the information provided in the data and compare the characteristics of the gold market with those of the consumer good market. The best scoring answers gave a balanced view that explained similarities such as the fact that both the gold and the consumer market are subject to the influences of supply and demand and then went on to identify differences between the two markets. These include the fact that the central bank influences the supply and demand for gold and that gold is demanded as a consumer good, but also as a capital good and a financial investment. This was a high mark allocation question so some degree of depth and development was essential for a high mark. Those who scored poorly here tended to provide only superficial points that were not fully developed.

Section B – Essays

Question 2

(a)   For a good mark on this question it was necessary to have a good understanding of the production possibility curve. Most candidates had a basic idea of the production possibility curve but some produced diagrams that contained inaccuracies or provided incomplete explanations. As a result candidates could not access all available marks on this part of the question. Candidates then had to use the curve to illustrate the two economic concepts as required. Most were able to attempt this, but the quality of application varied. Many provided answers that made excellent use of the curve as required and gained full marks. Those who lost marks gave answers that had some confusion in their accounts. Some, for example, while attempting to illustrate opportunity cost became muddled as they moved along the curve and their arithmetic measure of the sacrifice of one good as more of the other good was produced was often inaccurate. Such errors were few however as most candidates showed a very firm grasp of the essential concepts together with the ability to apply the concepts as required.

(b)   This part of the question was also done well and many candidates gained a high mark. Successful answers showed a good understanding of how choices are made in free market and centrally planned economies and looked at the outcome of these choices for consumers. There was considerable emphasis on the likelihood of market failure in free market economies in terms of the production of negative externalities and the non-production of public goods, the over-production of demerit goods and the under-production of merit goods. Most thought that this represented an example of how centrally planned economies would make choices that would benefit consumers. Many answers were less strong on the weaknesses of centrally planned economies in terms of responding to price signals from consumers. In addition, not all candidates made evaluative comment here in terms of a concluding statement that answered the question. Nevertheless, on the whole this was a well-answered question.

Question 3

(a)   This question required a demonstration of knowledge and understanding of the concept of cross elasticity of demand followed by application of the concept to show how goods may be classified as substitutes or complements. Most candidates recognised the essential concept and were able to demonstrate understanding. Most were able to go on to apply the concept and some good scores were achieved. A number of candidates did get confused however when attempting to explain why substitutes have a positive coefficient and complements have a negative coefficient. The muddled accounts suggested that such candidates had attempted to learn which coefficient applied to which good rather than trying to understand it. Successful candidates were able to explain why for example substitutes such as butter and margarine have a positive coefficient through a successful demonstration of shifts in the demand curve for one good as the price of the other changes. They scored good marks.

(b)   Many candidates found this part of the question difficult. Many were aware that the incidence of an indirect tax will fall mainly on the consumer if demand is price inelastic, but were unable to provide the required analysis to explain this. Many diagrams were provided that were incomplete or inaccurate and marks were lost as a result. The same comment applies to candidates' attempts to assess how consumer surplus would be affected. Many candidates had only an incomplete idea of the concept, so this aspect of the question was often given only superficial treatment. Marks were often disappointing as a result.

Question 4

(a)   In response to this question candidates needed to be quite clear on the meaning of a deficit on the current account of the balance of payments. Some candidates remain uncertain of the components of the current account and this was evident in their responses to this question. Others appear to have the required knowledge but lose marks because they use terms carelessly. One common error for example, is to assert that a deficit occurs when the volume of imports exceeds the volume of exports. It is essential that candidates have the required underpinning knowledge. In addition accuracy in use of terms aids understanding and means that candidates are better able to produce clear and high scoring answers.

(b)   Most candidates were able to explain how tariffs can correct a current account deficit and many produced an appropriate diagram to aid their analysis. This, together with their explanation of how a change in a country's exchange rate could correct a deficit provided the material for an assessment of the relative merits of each approach. Disappointingly, evaluative comment was very limited here and few gained good marks for this assessment objective. There appeared to be a reluctance to compare the relative merits of each and only the better scripts provided a conclusion. Candidates should note that all essay questions have marks awarded for evaluation and those who do not attempt to make some reasoned judgement will lose marks as a result.

ECONOMICS

Paper 9708/31

Multiple Choice (Supplement)

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

General comments

The average score achieved by candidates on this paper was 53.6%. This was marginally higher than the 52.7% achieved on the corresponding paper in 2012. All but three of the thirty questions had facility and discrimination scores which were within the test design limits. **Questions 22** and **27** proved to be easy, while the last question, **Question 30**, was found particularly difficult with a facility score of 0.24, which is just below the 0.25 'guessing level'. There were a further four questions, **Questions 5**, **7**, **17** and **24** where more candidates opted for one of the incorrect distracters rather than the correct key.

Comment on individual questions

In **Question 5** a firm's cost-minimising level of output corresponds to the lowest point on its LRAC curve, but at every point on the curve the firm will be producing its current output at minimum cost. Most candidates failed to make this distinction.

In **Question 7**, over half of the candidates thought that average fixed costs remain constant as a firm's output increases.

To answer **Question 17** candidates had first of all to determine the value of the multiplier and then to work out how big an increase in investment was needed to close the gap between the equilibrium output and full-employment output. Only 32% managed this successfully, while 35% opted for C.

The 47% of the candidates who opted for C in **Question 24** failed to recognise that anything which impacts directly or indirectly on the well being of individuals or society will be of concern to social cost-benefit analysis.

In **Questions 22** and **27**, candidates were asked to identify some basic characteristics of developing and developed countries. Most candidates found this relatively simple with only 18% in **Question 22** and 15% in **Question 27** failing to answer the question correctly.

Question 30 was the only question which posed a major problem not only for the weaker candidates but also for a good many of the stronger candidates on the paper overall. The fact that 49% wrongly opted for C, suggests that the impact of cyclical changes on government budgets, and what is needed to allow automatic stabilisers to work and to achieve balanced budgets, is an area of the syllabus which requires more attention.

ECONOMICS

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

Paper 9708/32

Multiple Choice (Supplement)

</div>

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

General comments

The overall performance of candidates on this paper was once again highly commendable. The mean percentage score of 63.6% was almost 5% points higher than the 58.8% recorded on the corresponding paper in 2012. All but three of the questions had facility and discrimination scores within the test design limits. Two of these questions, **Questions 11** and **20**, were answered correctly by over 80% of the candidates. The facility score in **Question 18**, on the other hand, was equal to the 0.25 'guessing level', and there were two questions, **Questions 14** and **26**, where the statistics suggest that a good many candidates resorted to guesswork.

Comment on individual questions

It is not very difficult to work out that a switch from sales revenue maximisation to profit maximisation is likely to benefit a firm's shareholders at the expense of its customers, and so it is not entirely surprising that 85% of the candidates answered **Question 11** correctly.

Although **Question 14** had a facility score of 0.40, large numbers of candidates opted for each of the distractors. One suspects that the problem here was a lack of familiarity on the part of candidates with the concept of X-inefficiency, with the result that most candidates ended up resorting to guesswork.

Question 18 seems to have created serious difficulties for the majority of candidates. Only a quarter of the candidates answered the question correctly and the discrimination score was also very low. 39% of the candidates wrongly opted for C, and 29% for B. Despite the extensive coverage of quantitative easing (QE) in the media over the last couple of years it seems clear that most of the candidates had very little understanding of how the policy is supposed to operate. Candidates may also have been unsure about the

distinction between narrow and broad money. Very little use has been made of these concepts in MCQ papers mainly because the relevant definitions vary both between countries and over time but the topic is part of the syllabus.

The fact that 80% of the candidates answered **Question 20** correctly was heartening since the identification of injections and leakages in terms of sectoral surpluses and deficits is not extensively covered in A level texts.

In **Question 26**, 35% of the candidates opted for C rather than the correct answer, D. Quotas are imposed on the volume rather than the value of imports. Since profit margins are likely to be somewhat higher on higher value products than on lower value products, contrary to what was implied by C, producers are likely to respond to the imposition of quotas by upgrading rather than downgrading their products.

ECONOMICS

> **Paper 9708/33**
>
> **Multiple Choice (Supplement)**

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

General comments

As this paper was taken by only 47 candidates, a statistical analysis of candidates' performance, particularly in relation to individual questions, would not be particularly meaningful. However, for the record, the overall mean percentage score was 42.2%%. This is considerably below the score achieved by candidates on the corresponding paper in 2012, but given the small number of candidates, any such comparison is not statistically significant.

There were three **Questions, 7, 17,** and **19** which candidates found particularly difficult.

Comment on individual questions

Candidates do seem to have problems interpreting cost diagrams and only 6 managed to work out the correct answer to **Question 7**. The vast majority failed to distinguish between total and average costs and wrongly supposed that a firm's average fixed costs will remain constant as its output increases.

Only 7 candidates answered **Question 17** correctly while 18 incorrectly opted for C. The focus on AD/AS analysis has undoubtedly meant that less attention is nowadays paid to the more traditional Keynesian multiplier analysis. In this case, to work out the answer, candidates were required to determine the value of the multiplier and then to calculate how big an increase in investment was needed to close the gap between the equilibrium level of output and full-employment output. However this proved a challenge for most of the candidates.

Question 19 was a standard question however it was answered correctly by only 8 of the candidates. The majority clearly failed to recognise that interest rates and bond prices are inversely related.

Candidates also struggled with some of the other questions, notably **Questions 16**, **25** and **26**. In **Question 16**, most of the candidates failed to appreciate that a positive private sector financial balance (S > I) constitutes a leakage from the circular flow of income. Most candidates are probably aware that a change in expectations regarding inflation will cause a shift in the short-run Phillips Curve. One suspects that the problem in **Question 25** arose from a failure on the part of candidates to realise that the accompanying diagram was simply an alternative way of depicting the Phillips Curve relationship.

Finally, it was surprising that as many as 34% of the candidates in **Question 26** classified anti-trade union legislation as an example of 'fiscal policy'.

ECONOMICS

Key messages

- The last two Examiner Reports highlighted the continuing inability of learners to provide clear, accurately labelled, supporting diagrams. It is very pleasing to note lots of evidence to suggest that this weakness has been addressed to some degree. The frequent use of diagrams to aid economic analysis and their importance in relation to examination success is an integral part of the examining process, hence learners should be encouraged to use diagrams and ensure that they are accurate and correctly labelled. Reference to diagrams and their importance, will be contained within individual question comments set out below.

General comments

The overall standard of performance was good and there many examples of first class outcomes. There appeared to be greater disparities between Centres rather than within Centres in this session but generally, there is some evidence of a continuing positive trend with regard to the average percentage mark and percentage pass rate.

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. The successful learners were able to build upon their knowledge of basic economic principles and extend and deepen the breadth of their responses to ensure that the additional marks were gained to attain grades A/B

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 Examiner Reports. There are a number of explanations for this failure but, in the light of many of the responses; it seems that the fundamental requirement to read each part of the question carefully before attempting an answer is still not being put into practice by many learners. This failure has often proved costly in relation to not all the marks being accessible.

The short answer data response questions in **Section A** were generally well received by learners and questions were generally answered more effectively than their longer, essay type counterparts in **Section B**. Learners were able to consistently gain high marks for this part of the paper. Learners also were able to demonstrate good writing skills in **Section B** and indicate a high level of exam preparedness.

Comments on specific questions

Section A – Data Response

Question 1

(a)   This question was answered well. Learners had to show an understanding of the meaning of 'macroeconomic changes' and 'microeconomic decisions' and then use the text to identify the two and link the two groups of changes and decisions. Responses were invariably clear and accurate and use the information well. Many gained full marks for this part. Less effective responses either focused on only part of the question or failed to provide sufficiently detailed explanation of the links between the two elements.

(b)   Marks were available for providing both accurately labelled diagrams and a supporting explanation. This part of the question produced a wide range of answers and worked extremely well to

discriminate between weak, average and very good learner responses. It was expected that learners would provide a diagram to illustrate the situation facing the monopoly producer before and after the effects of the recession. Some produced, good accurately labelled diagrams showing the pre-recession situation and also how this might result in an inwards shift of the demand (AR) curve. Marks were gained for this. However, it was also expected that the diagram would also show the new profit maximising output, due to the change in the position of the marginal revenue curve. Very few managed to do this and, as a result, very few gained maximum marks. Supporting explanations also varied quite widely, although the majority did establish some link between the recession, subsequent fall in demand and possible fall in the firm's profits

(c) There were some very good answers to this question. It was clear that learners were familiar with this part of the syllabus and could apply the relevant theory to the scenario outlined in the question. Four marks were available, full marks were gained for linking the nature/type of good/service in question to a specific range of values of income elasticity of demand and for elaborating this link. For example, stating that leisure is generally associated with luxury and the value of income elasticity of demand for luxury goods would greater than one, that is elastic.

(d) This question required a clear understanding of the difference between fixed costs and variable costs, and, and more importantly, to be able to analyse the potential impact on firms operating in recession of different firms operating with different proportions of each of these costs. There is no definitive answer to this question acceptable answers would show that there could be a number of different scenarios, each of which might justify a different conclusion. Good answers recognised this and attempted to locate alternative scenarios which would produce different conclusions. Responses were able to do this by firstly establishing the difference between the two types of cost and then explaining how a recession might impact on these companies in different ways, depending upon their respective proportion of each cost. Marks were gained for referring to the lack of flexibility facing firms with a high proportion of fixed costs. Additional marks were gained for pointing out problems associated with having a high proportion of variable costs and explaining why firms would shut down in the short run if they could not cover their variable costs.

Section B – Essays

Question 2

There were three separate parts to this question. Firstly, learners were required to examine the contention that it is important that an economy makes the most efficient use of its resources. Explanations of each type of efficiency were required combined with an explanation why the attainment of efficiency is important. Learners demonstrated a high level of understanding in relation to this part of the question and produced some very detailed, carefully set out answers which invariably gained high marks. It was clear that learners had been well prepared to answer a question relating to this part of the syllabus. It was also pleasing to note that **both** of the main concepts of efficiency were explained in detail.

The second element required learners to examine the view that efficiency was only attainable if a firm increased its size. There were some good attempts to discuss this possible link through an explanation of economies of scale and their impact on unit costs. Very good answers recognised that there are possible negative effects of growth linked to diseconomies of scale and also that some small firms, by their nature, were able to operate more efficiently than some of their larger counterparts.

Finally, a discussion of the role of government regulation in promoting more efficient outcomes was expected. This part was frequently ignored or dealt with in a cursory manner. Level four marks would require a clear consideration of each stage of the argument plus a reasoned conclusion.

Question 3 (a)

Questions relating to the labour market are a frequently tested part of the syllabus and on this basis it was clear that many candidates had been well prepared to answer a question of this nature, in the sense of being familiar with much of the relevant theory. Answers did nevertheless, require learner's to focus on the specific question.

Part **(a)** responses were generally good and often demonstrated a clear understanding of the theory of a perfectly competitive labour market. The importance of recognising the assumptions necessary to frame the model was not lost. Higher marks were gained for showing the relationship between marginal revenue

product and a downward sloping demand for labour curve facing each firm. Good responses explained, based on their assumptions, why the supply of labour would be perfectly elastic at a wage rate determined by the market. Some implied that there was a link between the market and firm whilst the really good answers provided diagrams to link wage determination in the market to the wage taker on the part of the firm. Less effective answers focused upon supply and demand analysis supported by generalised comment rather than theory based upon specific assumptions.

Question 3 (b)

This was a straightforward question which required learners to identify why labour markets in practice might differ from the perfectly competitive model. One approach was to question each of the assumptions relating to the perfectly competitive model and then explain why this might not be the case in the 'real world'. Whilst this would gain marks, more marks were available for those who were able to use precise economic theory to explain imperfect market situations. Complete reliance on supply and demand analysis meant that many learners failed to gain a high mark for this part of the question.

Better responses referred to the role of Trade Unions, the government and monopsonists and provided suitable, accurate supporting diagrams. Weaker attempts simply wrote everything they knew about the operation of labour markets. This invariably led to a lower mark because the answer usually lacked focus and tended to 'wander' off the point. It was pleasing to note that significant number of accurate diagrams used to explain how a monopsonist might exploit labour. In the past, this particular diagram has frequently been drawn and/or /labelled inaccurately.

Question 4

There were some excellent responses to this question. Questions relating to the use of indicators to measure living standards are asked frequently and it was clear that learner's had been well prepared to answer a question of this nature. Answers were often well structured and contained a comprehensive and detailed coverage of the key elements required. Many were aware at the outset that it was necessary to use GDP per capita to allow for population differences and to use 'real GDP' figures to avoid the distortive effects of inflation.

Good answers then proceed to identify and discuss a wide range of factors which might question the use of GDP as an accurate indicator of changes in living standards. Reference to the following: income distribution; types of expenditure, for example military expenditure; available leisure time; negative externalities, gained marks respectively. In addition, learners were also aware that GDP does not tell us anything about infant mortality; access to education and health care or longevity.

As well as incorporating the above, the higher level responses pointed to the existence of alternative measures such as HDI and MEW and explained why these might provide a more useful measure of changes in living standards. Overall, the level of response to this question was impressive.

Question 5 (a)

This question emphasised knowledge and recall and focused upon a frequently examined part of the syllabus. Answers were generally good. Many learners were able to demonstrate a high degree of familiarity with a range of key characteristics associated with both developed and developing economies. Thus, it was relatively easy to locate the kind of distinctions between the two types of economy that the question required. Some very detailed responses included references to: differences in the levels of national income per capita; education; health; infrastructure; type of economic structure i.e. primary, secondary, tertiary distinction; infant mortality rates and population structure/growth. Other relevant distinguishing features referred to were also rewarded. Better responses focused on the distinction between the variables rather than simply listing variable linked to each type of economy.

Question 5 (b)

Part **(b)**, in contrast to the first part of the question, required learners to think carefully about the specific nature of developed and undeveloped economies much more carefully and then apply their knowledge and understand to examine different policies relating to industrial development in rural areas. Learners achieved varying degrees of success in relation to this part of the question. The question discriminated effectively. Answers needed to focus on the relationship between different economic structures and their effect on subsequent policy making. References to the need for developing economies to create jobs, economic growth and address the urban/rural imbalance gained marks and references to the need for more developed

economies to consider the rural environment and the possible negative externalities associated with industrial development in rural areas also gained marks. Additional marks were gained for extending the discussion to include the potential impact in the light of the existing urban/rural population distribution, as well as the benefits gained by operating in an urban environment with a more advanced infrastructure.

Question 6 (a)

Learners were required to show the relationship between a fall in interest rates and the level of investment and how this might ultimately affect the level of national income. There were two elements to this part of the question. An explanation using a Marginal Efficiency of Capital curve to illustrate and explain why a fall in interest would stimulate investment would gain marks. An accurate, clearly labelled diagram plus some comment linking the rate of rate of interest and the differing rates of return associated with different levels of investment gained high marks. Learners were then expected to discuss the effect of an increase in investment on the level of national income. This part of the section was not dealt with effectively. Far too many answers failed to proceed beyond general descriptive comment. It was surprising to note that a significant number of answers failed to develop their explanation of the impact of investment on income by explaining the added effect of the multiplier. This prevented many learners gaining a mark beyond Level 2 for this part of the question.

Question 6 (b)

Many learners were clearly well prepared to answer a question relating to Keynesian liquidity preference theory. Good answers identified each of the three motives for demanding to hold assets in the form of cash. Transactions and Precautionary motives were explained clearly. Further marks were gained for explaining why these two types of motive produced 'active balances' and which were relatively interest inelastic. Although explanations of the Speculative motive were less well done there did appear to be a basic understanding of the nature of the relationship between interest rates, the price of government bonds and the decision to either hold cash or purchase long term government securities. Again, additional marks were given for recognising that this motive would generate 'idle balances' which would be relatively interest rate elastic. Weaker responses concentrated upon using Keynesian theory to explain interest rate determination. This is not what the question required.

Question 7 (a)

Learners frequently gained vey high marks for this part of the question. Many answers referred to at least four types of unemployment including: structural; cyclical; frictional and seasonal. Supporting diagrams and examples were provided and marks were gained accordingly. Some responses did not refer to the type of unemployment by specific title but they did provide reasonable explanation of factors which could cause job loss. For example an increase in the rate of inflation which might reduce the demand for exports or the introduction of new technology substituting for labour. Any valid explanation of a possible cause of unemployment was recognised and rewarded.

Question 7 (b)

This part required a more discursive approach to ensure high marks and this was not always recognised by those attempted an answer. Many responses remained confined to explaining why a fall in the level of unemployment should be the main macroeconomic aim of a government. Marks were gained for describing the negative effects of a high level of unemployment which includes reference to loss of output, loss of tax revenue and the need for increase government expenditure on social welfare. However, it was expected that learners would proceed to examine and compare and contrast alternative macroeconomic aims of governments. A good discussion would have considered the potential conflicts associated with trying to achieve these aims at the same time. For example the trade off between low levels of unemployment and inflation or the possible negative effects on the balance of international payments of attempts to stimulate growth to reduce the level of unemployment. Answers which incorporated some of the above, in a discursive manner based on reasoned argument, were able to gain level four marks.

ECONOMICS

| Paper 9708/42 |
| Data Response and Essays (Supplement) |

Key messages

- Candidates need to read the question carefully and direct their knowledge to the particular phrase and question asked.

- Evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes.

- It is important that candidates fully address the command word used in a question.

General comments

There were some good answers to this paper and those candidates are to be congratulated on the use of their studies to achieve such marks. It has, however, been mentioned in previous reports that candidates risk not achieving as high a mark as their knowledge would allow them simply because they do not read the question carefully and do not use and direct their knowledge to the particular phrase and question asked. No further knowledge would be required to achieve a higher mark in these circumstances; a re-organisation and a better presentation of the material is all that is required. For example, in **Question 3**, candidates often did not explain clearly how the theory might be 'adapted'. Two different versions of the theory were presented and the reader was left to deduce what had changed. In **Question 5**, part **(a)** candidates omitted any reference to occupational structure, and in part **(b)** candidates did not draw a conclusion to their argument nor relate their answer to the question about unemployment and international trade. **Question 6** asked about an increase in unemployment – candidates did not comment on how any change in employment might occur. They merely described different types of unemployment in a static situation. It would take little ingenuity to adapt such knowledge and postulate how a change might have occurred that caused a particular type of unemployment. Lastly, evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes – such a statement can be a preface to the answer rather than an addendum but it needs to be made somewhere. All too often candidates merely presented material and left the reader to decide what the candidate believed.

Comments on specific questions

Section A - Data Response

Question 1

(a) Candidates were expected to recognise that collusion is an agreement between firms; maybe to fix prices, maybe to fix output by quotas, maybe both. It could be an agreement on restricting advertising. It is most likely to occur when there are a small number of firms, where it is easy to monitor and/or where products are similar. A number of candidates began their answer with a tautology, stating that 'collusion is a collusion between firms'. Most candidates mentioned an agreement but a surprising number did not answer the second part of the question which asked when collusion is most likely to occur.

(b) Many candidates answered this question without any reference to Table 1. Instead they made general statements about price fixing or price discrimination. Better candidates used the table to analyse some changes to suggest whether Procter and Gamble had benefitted from price fixing. They cited, for example, that earnings in 2010 were down compared with 2009, but they rose between 2006 and 2000; that the dividend rose throughout the period; that sales fluctuated but the overall trend was up. The best candidates commented that it was difficult to come to an overall

conclusion, for example because there is no information about prices, only about overall earnings, which may be partly the result of cost changes.

(c) This section was answered well by most candidates. They were not required to restrict their answer to the case of Procter and Gamble and were able to consider the advantages of integration, for example, the benefits of ordering, the supply chain, improvements in administration, economies of scale, specialisation and the use of resources.

(d) For this section it was important that candidates used the information in the article. There was some good analysis of the article and relevant conclusions were drawn. Candidates recognised that although earnings were down in the last year, they may have been down even more if there had been no collusion. The collusion may, therefore, be regarded as being against the public interest. However, better candidates recognised that there was no information about cost saving, nor about rivals' prices/profits/ costs and, therefore, that there was not enough evidence to conclude that collusion was definitely against the public interest in contrast to other firms' behaviour. Further evidence was also used to weaken the argument that Procter and Gamble was working against the public interest and was indeed working in favour of the public interest. This included the facts that Procter and Gamble invests in research, that it gets top place in a stated list for its innovations, that it has brand names that are popular with the public and that its packaging was reduced to avoid waste.

Section B - Essays

Question 2

(a) Many candidates explained the term utility and elaborated the principle of diminishing marginal utility as they were asked. However, while many also stated the equi-marginal utility equation it was not always developed to explain how a change in the price of one good would lead to a re-allocation of consumer expenditure to restore the equilibrium.

The question also required candidates to analyse how a change in income might affect the allocation. This part of the question was often not answered while other candidates confused a change in income with a change in the price of a good – although of course such a change would affect real income. As a result, too much time was spent developing the idea of income and substitution effects while the effect of an income change on the demand curve was omitted. The better candidates did develop an explanation but in terms of budget lines rather than a demand curve. Very few tried to analyse how a change in income would have a different effect on the demand for a normal good than for an inferior good.

(b) This section usually resulted in descriptive answers of various measures, typically progressive taxes, transfer payments and subsidies. The more rigorous answers suggested support and training to get people into work or into better paid jobs; they also analysed the effect of minimum wage legislation. The most notable weakness was the lack of any evaluation or assessment of how well the various measures might achieve the objective of a more equal income distribution.

Question 3

This question was answered by most of the candidates from some Centres but ignored completely by the candidates from other Centres. Some who answered the question repeated, often haphazardly, all they could remember about wage theory frequently spending too much time on economic rent and transfer earnings. More relevant answers began by developing an explanation of the marginal revenue productivity model in perfect competition. These reports have stressed in the past that, while it is possible to answer such questions as this with reference only to demand and supply diagrams and analysis, the higher marks are awarded to candidates who use marginal revenue productivity analysis. Relatively few, however, produced a clear, comprehensive and well-organised explanation. Since governments and trades unions were mentioned in the question many candidates simply wrote about these institutions fixing minimum wages.

Stronger candidates did analyse market imperfections more fully and produced diagrams and some analysis of monopsony and bi-lateral monopoly. Sadly, there was often no real link to the context of the question and a focus and explanation of how the theory might be 'adapted' was notable by its absence.

Question 4

(a)   The purpose of the first part of the question was to require candidates to explain why economic growth and inflation might occur at the same time. Candidates needed to show that they understood what the question meant by a rapid rate of economic growth and a high rate of inflation and then to explain why these two situations could occur simultaneously. Good answers demonstrated that candidates understood that economic growth involved an increase in aggregate demand, which caused an increase in national income in the form of real gross domestic product. There would be an expansion of productive potential and a shift of the production possibility curve to the right. A number of candidates distinguished between actual growth and potential growth, and many explained the component parts of aggregate demand. Their answers demonstrated that they understood that if aggregate demand was in excess of aggregate supply it could cause inflation. There was often a good use of appropriate diagrams to support the explanation.

(b)   The purpose of the second part of the question was to ask candidates to discuss what policies might be used by a government to control the rate of inflation in an economy. The better answers to this question discussing policies from both a demand-side and a supply-side perspective. On the demand side, candidates included both fiscal policies, including reducing the level of government spending and increasing taxation, and monetary policies, including both reducing the money supply and increasing the rate of interest. On the supply side, candidates instanced policies such as increasing competition in markets to bring about a greater degree of efficiency. Poorer answers did not demonstrate what effect the policies might have but simply listed alternative policies; others confused expansionary and contractionary approaches. Better answers discussed the various advantages and disadvantages of the policies before concluding which of the policies would be likely to be the most effective. It is important that candidates do fully address the command word used in a question.

Question 5

(a)   The purpose of the first part of the question was to ask candidates to explain what changes might occur both to the age distribution and to the occupational structure of a population as an economy changed from a developing one to a developed one. In considering the changes in the age distribution of a population, candidates mentioned the likely changes in the birth rate, the death rate and the infant mortality rate. The better answers commented on the fact that the average age of a population would increase as an economy changed from a developing to a developed status. In explaining the changes in the occupational structure, candidates suggested that there would be a movement away from employment in the primary sector towards employment in the secondary and tertiary sector. Unfortunately, some candidates did not read the question carefully and wrote either about the changes in the age distribution or about the changes in the occupational structure, but not about both.

(b)   The purpose of the second part of the question was to ask candidates to consider whether information about a high rate of unemployment and a dependency on international trade was sufficient to indicate whether that country could be classed as developing or developed. Most candidates suggested that both of these situations could apply to either a developing or a developed country and that other information would be required in order to decide whether a country was developing or developed. There was some good discussion of the other criteria that could be used to reach such a judgement. Better candidates drew their argument to a conclusion.

Question 6

(a)   The question required an analysis of what might cause an increase in unemployment. Most candidates dealt with equilibrium unemployment and analysed situations relating to frictional, structural, seasonal and regional types of unemployment.

Better answers recognised that the fundamental cause of longer-term unemployment was linked to the business cycle and explained how job losses were linked to disequilibrium between aggregate demand and aggregate supply. The best answers analysed and contrasted Keynesian demand-deficient theory with that of supply side policies, explaining how the latter had been recognised as a valid solution to long-term unemployment through retraining, the use of up-to-date technologies and a curbing of the powers of trade unions to increase wages.

(b)   Some of the better attempts discussed the effects of unemployment on the economy through an analysis of its different impacts on individuals, firms, governments and the economy. The obvious socio-economic impacts on society were explained – loss of earnings, low self-esteem, family breakdown and increasing crime culminating in a falling standard of living. The impact on government finances was usually explained involving loss of tax revenues (fewer in work) but increased spending on welfare benefits for the unemployed. They concluded that increasing unemployment affected all forms of planned government expenditure and tended to increase budget deficits, and added to government debt.

The best answers concluded that potential outputs of goods and services that might have been enjoyed by consumers were lost forever due to unemployment. This "cost" to the economy represented the difference between actual and potential GNP which tended to widen during economic recessions. Hence governments needed to take an active management of the macroeconomy on both demand and supply sides.

Question 7

When attempting a discursive subject such as this question about efficient resource allocation, candidates must heed the advice printed in the syllabus concerning command words. To discuss an opinion "arguments for and against should be considered leading to a conclusion". Candidates are also advised that when discussing an opinion they should "support it with evidence".

Better answers used this kind of framework to explain how the market works under private enterprise based on the price mechanism, consumer sovereignty and profit maximisation. To judge whether this economic system was efficient both productive and allocative efficiency needed to be explained.

Most candidates explained adequately that economic efficiency was only obtainable under perfect competition for a firm making normal profit and producing where price equals marginal cost (allocative) and at the lowest minimum average cost (productive).

Fewer candidates adequately explained the reality of imperfect competition where, say, a monopoly maximises profit where marginal cost equals marginal revenue but charges price above marginal cost and supplies where total average cost is above its minimum point. Such a situation would not achieve either allocative or productive efficiency.

Many used labelled diagrams to illustrate these differences and to explain the abnormal profit that could be made in imperfect competition. The best answers developed the argument further to explain how a market system rarely leads to social efficiency because the marginal social benefits do not equal marginal social costs. They explained that due to profit seeking, firms in all forms of imperfect competition are concerned only with private costs even though many activities incur external costs which fall on third parties. To illustrate this, examples of negative externalities were provided and these were contrasted with positive externalities where marginal social benefit exceeds marginal social costs.

Sound conclusions were given by the better candidates who also explained that a purely market system would never provide public goods at the most desirable or optimal levels. Therefore, a mixed economy, they suggested, was essential, with government involvement, to deal with market failure because of the "free rider" principle arising from non-excludability and non-rivalry of some goods and services. Arguments were usually made for government provision of merit goods, such as health facilities, and discouragement of the consumption of demerit goods, such as cigarette smoking, through indirect taxes and direct controls.

ECONOMICS

> **Paper 9708/43**
>
> **Data Response and Essays (Supplement)**

Key messages

- The last two Examiner Reports highlighted the continuing inability of learners to provide clear, accurately labelled, supporting diagrams. It is very pleasing to note lots of evidence to suggest that this weakness has been addressed to some degree. The frequent use of diagrams to aid economic analysis and their importance in relation to examination success is an integral part of the examining process, hence learners should be encouraged to use diagrams and ensure that they are accurate and correctly labelled. Reference to diagrams and their importance, will be contained within individual question comments set out below.

General comments

The overall standard of performance was good and there many examples of first class outcomes. There appeared to be greater disparities between Centres rather than within Centres in this session but generally, there is some evidence of a continuing positive trend with regard to the average percentage mark and percentage pass rate.

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. The successful learners were able to build upon their knowledge of basic economic principles and extend and deepen the breadth of their responses to ensure that the additional marks were gained to attain grades A/B

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 Examiner Reports. There are a number of explanations for this failure but, in the light of many of the responses; it seems that the fundamental requirement to read each part of the question carefully before attempting an answer is still not being put into practice by many learners. This failure has often proved costly in relation to not all the marks being accessible.

The short answer data response questions in **Section A** were generally well received by learners and questions were generally answered more effectively than their longer, essay type counterparts in **Section B**. Learners were able to consistently gain high marks for this part of the paper. Learners also were able to demonstrate good writing skills in **Section B** and indicate a high level of exam preparedness.

Comments on specific questions

Section A – Data Response

Question 1

(a) This question was answered well. Learners had to show an understanding of the meaning of 'macroeconomic changes' and 'microeconomic decisions' and then use the text to identify the two and link the two groups of changes and decisions. Responses were invariably clear and accurate and use the information well. Many gained full marks for this part. Less effective responses either focused on only part of the question or failed to provide sufficiently detailed explanation of the links between the two elements.

(b) Marks were available for providing both accurately labelled diagrams and a supporting explanation. This part of the question produced a wide range of answers and worked extremely well to discriminate between weak, average and very good learner responses. It was expected that

learners would provide a diagram to illustrate the situation facing the monopoly producer before and after the effects of the recession. Some produced, good accurately labelled diagrams showing the pre-recession situation and also how this might result in an inwards shift of the demand (AR) curve. Marks were gained for this. However, it was also expected that the diagram would also show the new profit maximising output, due to the change in the position of the marginal revenue curve. Very few managed to do this and, as a result, very few gained maximum marks. Supporting explanations also varied quite widely, although the majority did establish some link between the recession, subsequent fall in demand and possible fall in the firm's profits

(c)   There were some very good answers to this question. It was clear that learners were familiar with this part of the syllabus and could apply the relevant theory to the scenario outlined in the question. Four marks were available, full marks were gained for linking the nature/type of good/service in question to a specific range of values of income elasticity of demand and for elaborating this link. For example, stating that leisure is generally associated with luxury and the value of income elasticity of demand for luxury goods would greater than one, that is elastic.

(d)   This question required a clear understanding of the difference between fixed costs and variable costs, and, and more importantly, to be able to analyse the potential impact on firms operating in recession of different firms operating with different proportions of each of these costs. There is no definitive answer to this question acceptable answers would show that there could be a number of different scenarios, each of which might justify a different conclusion. Good answers recognised this and attempted to locate alternative scenarios which would produce different conclusions. Responses were able to do this by firstly establishing the difference between the two types of cost and then explaining how a recession might impact on these companies in different ways, depending upon their respective proportion of each cost. Marks were gained for referring to the lack of flexibility facing firms with a high proportion of fixed costs. Additional marks were gained for pointing out problems associated with having a high proportion of variable costs and explaining why firms would shut down in the short run if they could not cover their variable costs.

Section B – Essays

Question 2

There were three separate parts to this question. Firstly, learners were required to examine the contention that it is important that an economy makes the most efficient use of its resources. Explanations of each type of efficiency were required combined with an explanation why the attainment of efficiency is important. Learners demonstrated a high level of understanding in relation to this part of the question and produced some very detailed, carefully set out answers which invariably gained high marks. It was clear that learners had been well prepared to answer a question relating to this part of the syllabus. It was also pleasing to note that **both** of the main concepts of efficiency were explained in detail.

The second element required learners to examine the view that efficiency was only attainable if a firm increased its size. There were some good attempts to discuss this possible link through an explanation of economies of scale and their impact on unit costs. Very good answers recognised that there are possible negative effects of growth linked to diseconomies of scale and also that some small firms, by their nature, were able to operate more efficiently than some of their larger counterparts.

Finally, a discussion of the role of government regulation in promoting more efficient outcomes was expected. This part was frequently ignored or dealt with in a cursory manner. Level four marks would require a clear consideration of each stage of the argument plus a reasoned conclusion.

Question 3 (a)

Questions relating to the labour market are a frequently tested part of the syllabus and on this basis it was clear that many candidates had been well prepared to answer a question of this nature, in the sense of being familiar with much of the relevant theory. Answers did nevertheless, require learner's to focus on the specific question.

Part **(a)** responses were generally good and often demonstrated a clear understanding of the theory of a perfectly competitive labour market. The importance of recognising the assumptions necessary to frame the model was not lost. Higher marks were gained for showing the relationship between marginal revenue product and a downward sloping demand for labour curve facing each firm. Good responses explained,

based on their assumptions, why the supply of labour would be perfectly elastic at a wage rate determined by the market. Some implied that there was a link between the market and firm whilst the really good answers provided diagrams to link wage determination in the market to the wage taker on the part of the firm. Less effective answers focused upon supply and demand analysis supported by generalised comment rather than theory based upon specific assumptions.

Question 3 (b)

This was a straightforward question which required learners to identify why labour markets in practice might differ from the perfectly competitive model. One approach was to question each of the assumptions relating to the perfectly competitive model and then explain why this might not be the case in the 'real world'. Whilst this would gain marks, more marks were available for those who were able to use precise economic theory to explain imperfect market situations. Complete reliance on supply and demand analysis meant that many learners failed to gain a high mark for this part of the question.

Better responses referred to the role of Trade Unions, the government and monopsonists and provided suitable, accurate supporting diagrams. Weaker attempts simply wrote everything they knew about the operation of labour markets. This invariably led to a lower mark because the answer usually lacked focus and tended to 'wander' off the point. It was pleasing to note that significant number of accurate diagrams used to explain how a monopsonist might exploit labour. In the past, this particular diagram has frequently been drawn and/or /labelled inaccurately.

Question 4

There were some excellent responses to this question. Questions relating to the use of indicators to measure living standards are asked frequently and it was clear that learner's had been well prepared to answer a question of this nature. Answers were often well structured and contained a comprehensive and detailed coverage of the key elements required. Many were aware at the outset that it was necessary to use GDP per capita to allow for population differences and to use 'real GDP' figures to avoid the distortive effects of inflation.

Good answers then proceed to identify and discuss a wide range of factors which might question the use of GDP as an accurate indicator of changes in living standards. Reference to the following: income distribution; types of expenditure, for example military expenditure; available leisure time; negative externalities, gained marks respectively. In addition, learners were also aware that GDP does not tell us anything about infant mortality; access to education and health care or longevity.

As well as incorporating the above, the higher level responses pointed to the existence of alternative measures such as HDI and MEW and explained why these might provide a more useful measure of changes in living standards. Overall, the level of response to this question was impressive.

Question 5 (a)

This question emphasised knowledge and recall and focused upon a frequently examined part of the syllabus. Answers were generally good. Many learners were able to demonstrate a high degree of familiarity with a range of key characteristics associated with both developed and developing economies. Thus, it was relatively easy to locate the kind of distinctions between the two types of economy that the question required. Some very detailed responses included references to: differences in the levels of national income per capita; education; health; infrastructure; type of economic structure i.e. primary, secondary, tertiary distinction; infant mortality rates and population structure/growth. Other relevant distinguishing features referred to were also rewarded. Better responses focused on the distinction between the variables rather than simply listing variable linked to each type of economy.

Question 5 (b)

Part **(b)**, in contrast to the first part of the question, required learners to think carefully about the specific nature of developed and undeveloped economies much more carefully and then apply their knowledge and understand to examine different policies relating to industrial development in rural areas. Learners achieved varying degrees of success in relation to this part of the question. The question discriminated effectively. Answers needed to focus on the relationship between different economic structures and their effect on subsequent policy making. References to the need for developing economies to create jobs, economic growth and address the urban/rural imbalance gained marks and references to the need for more developed economies to consider the rural environment and the possible negative externalities associated with

industrial development in rural areas also gained marks. Additional marks were gained for extending the discussion to include the potential impact in the light of the existing urban/rural population distribution, as well as the benefits gained by operating in an urban environment with a more advanced infrastructure.

Question 6 (a)

Learners were required to show the relationship between a fall in interest rates and the level of investment and how this might ultimately affect the level of national income. There were two elements to this part of the question. An explanation using a Marginal Efficiency of Capital curve to illustrate and explain why a fall in interest would stimulate investment would gain marks. An accurate, clearly labelled diagram plus some comment linking the rate of rate of interest and the differing rates of return associated with different levels of investment gained high marks. Learners were then expected to discuss the effect of an increase in investment on the level of national income. This part of the section was not dealt with effectively. Far too many answers failed to proceed beyond general descriptive comment. It was surprising to note that a significant number of answers failed to develop their explanation of the impact of investment on income by explaining the added effect of the multiplier. This prevented many learners gaining a mark beyond Level 2 for this part of the question.

Question 6 (b)

Many learners were clearly well prepared to answer a question relating to Keynesian liquidity preference theory. Good answers identified each of the three motives for demanding to hold assets in the form of cash. Transactions and Precautionary motives were explained clearly. Further marks were gained for explaining why these two types of motive produced 'active balances' and which were relatively interest inelastic. Although explanations of the Speculative motive were less well done there did appear to be a basic understanding of the nature of the relationship between interest rates, the price of government bonds and the decision to either hold cash or purchase long term government securities. Again, additional marks were given for recognising that this motive would generate 'idle balances' which would be relatively interest rate elastic. Weaker responses concentrated upon using Keynesian theory to explain interest rate determination. This is not what the question required.

Question 7 (a)

Learners frequently gained vey high marks for this part of the question. Many answers referred to at least four types of unemployment including: structural; cyclical; frictional and seasonal. Supporting diagrams and examples were provided and marks were gained accordingly. Some responses did not refer to the type of unemployment by specific title but they did provide reasonable explanation of factors which could cause job loss. For example an increase in the rate of inflation which might reduce the demand for exports or the introduction of new technology substituting for labour. Any valid explanation of a possible cause of unemployment was recognised and rewarded.

Question 7 (b)

This part required a more discursive approach to ensure high marks and this was not always recognised by those attempted an answer. Many responses remained confined to explaining why a fall in the level of unemployment should be the main macroeconomic aim of a government. Marks were gained for describing the negative effects of a high level of unemployment which includes reference to loss of output, loss of tax revenue and the need for increase government expenditure on social welfare. However, it was expected that learners would proceed to examine and compare and contrast alternative macroeconomic aims of governments. A good discussion would have considered the potential conflicts associated with trying to achieve these aims at the same time. For example the trade off between low levels of unemployment and inflation or the possible negative effects on the balance of international payments of attempts to stimulate growth to reduce the level of unemployment. Answers which incorporated some of the above, in a discursive manner based on reasoned argument, were able to gain level four marks.