

# ECONOMICS

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Paper 9708/11  
Multiple Choice

Question Number	Key
1	C
2	B
3	A
4	C
5	A
6	C
7	B
8	B
9	B
10	C

Question Number	Key
11	D
12	B
13	C
14	A
15	C
16	B
17	D
18	A
19	C
20	A

Question Number	Key
21	C
22	B
23	C
24	A
25	D
26	A
27	C
28	A
29	D
30	B

## General comments

Overall performance across individual questions varied significantly. Candidates dealt with both macroeconomic and microeconomic questions equally well. Only 6 questions out of 30 were answered successfully by more than 70 per cent of candidates **Questions 1, 7, and 14**, were answered most successfully (81 per cent or above).

## Comments on specific questions

### **Question 1**

This question was answered correctly by 87 per cent of candidates. This question required basic knowledge recall. In this case, the overwhelming majority of candidates understood that a switch from nationalisation to privatisation would take place when an economy transitions from planned to free market.

### **Question 2**

29 per cent of candidates were able to answer **Question 2** correctly. This question required basic knowledge recall relating to understanding the key characteristic of a 'free' good. In this question, the good referred to was whether tap water was a free good. The provision of tap water would automatically require the use of scarce resources hence option **B** was the correct option because it stated clearly that tap water was not a free good because it would require the use of scarce resources.

### Question 5

This was answered correctly by 23 per cent of candidates who chose option **C**. This question was dealt with the least effectively on this paper. The question was based on a supply of and demand for diagram for electric light switches used in houses. The diagram clearly shows an increase in demand for these switches, a rise in their price and a subsequent extension of their supply. It was very important to note that in the stem of the question it is pointed out that the options relate to something which would **not** cause this shift. Option **C** was correct because removing a sales tax on electric switches would cause a supply shift not the demand shift indicated in the diagram. All the remaining options might have caused an increase in demand for light switches.

### Question 15

26 per cent of candidates were able to correctly answer **Question 15** (option **C**). 33 per cent chose option **A** and 33 per cent chose option **B**. The question required candidates to use a chart draw a definitive conclusion. Option **A** was incorrect because it relied upon the normative concept of being 'helped'. It was not possible to deduce this from the charts. Option **B** was incorrect because the chart related to per cent changes not absolute changes, therefore it was not possible to determine what had happened regarding total change in number. Option **C** was correct because it was possible to refer to the chart to show that the upward trend in low pay had clearly been converted to a downward trend in the previous 20 years.

### Question 29

Candidates also found this question difficult. Only 29 per cent chose the correct option **D**. The question required candidates to understand the link between interest rates and their impact on a balance of payments deficit. Candidates appeared to have been misled by the stem which required an effect which would **not** represent a valid reason for raising interest rates to reduce a balance of payments deficit. Option **D** was correct because it is not valid to assume raising interest rates would put a downward pressure on exchange rates.

# ECONOMICS

Paper 9708/12  
Multiple Choice

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

## General comments

Questions 1, 2, 3, 4, 5 and 18 were answered most successfully. Most of these questions tested topics listed early in the syllabus. Questions 9, 15, 23, 26 and 27 were each answered correctly by fewer than half the candidates; three of these were on international aspects of the syllabus.

## Comments on specific questions

### Question 1

This question represented an easy start to the paper, with 97 per cent of candidates answering it correctly.

### Question 9

This was answered correctly by the 49 per cent of candidates who knew that any straight-line supply curve that passes through the origin of the diagram indicates constant unitary elasticity of supply and who therefore chose option D.

### Question 15

The key to this question was D (chosen by 46 per cent of candidates) because, other things being equal, the introduction of the maximum price at a lower level than the equilibrium price would cause quantity supplied to decrease. It would also cause quantity demanded to rise, but there would be excess demand at the maximum price, so it cannot be concluded that consumption would rise. Option B, though popular with candidates, was therefore wrong.

### Question 23

When answering this question, most candidates realised that trade creation in country X would be greater if the tariff that was being removed was large, but only 47 per cent of the total then worked out that price elasticity of demand of  $-1.4$  (Option **B**) would have a greater effect than one of  $-0.8$ , which represents a less elastic demand.

### Question 26

This proved to be the most difficult question on the paper. 24 per cent of candidates got it right; they were candidates who did well on the paper as a whole. The reasoning was that, as the exporter leaves the price of its goods unchanged in \$, there are no grounds to expect a change in the quantity demanded. The revenue from selling the good therefore remains unchanged in \$. However, the question asked what would happen to the revenue measured in sterling. The depreciation mentioned in the stem of the question has increased the value of the \$ relative to sterling, so an unchanged total of \$ arising from this export means that the revenue measured in sterling goes up – and this is true whether US demand for the good is elastic or inelastic. Hence the answer is **A**.

### Question 27

This was answered correctly by 45 per cent of candidates, who realised that the slope of the domestic supply curve (but not the domestic demand curve) would be relevant to the size of the producer surplus generated, and that that slope represented the price elasticity of domestic supply. They therefore correctly put **D**.

# ECONOMICS

Paper 9708/13  
Multiple Choice

Question Number	Key
1	A
2	D
3	B
4	D
5	C
6	C
7	B
8	C
9	D
10	B

Question Number	Key
11	B
12	D
13	B
14	A
15	B
16	A
17	B
18	A
19	B
20	A

Question Number	Key
21	D
22	A
23	C
24	B
25	C
26	A
27	C
28	C
29	B
30	A

## General comments

Overall performance across individual questions varied significantly. Candidates dealt with microeconomic questions more effectively than their macroeconomic counterparts. **Questions 3, 5, 6, 7, 11, 14 and 19**, were answered most successfully (80 per cent or above success for each response)

## Comments on specific questions

### Question 10

42 per cent of candidates were able to answer correctly. This question required candidates to use two supply and demand diagrams to interpret the relationship between two goods X and Y. The diagrams indicate that an increase in the demand for good X will lead to an increase in the supply of good Y. The latter part of the sentence is the key to identifying the correct option of **B**. An increase in the price of good X would only cause an increase in the supply of good Y when both goods are in joint supply.

### Question 16

This question was answered correctly by 40 per cent of candidates who chose option **A**. This question was dealt with the least effectively compared to all questions on this paper. Candidates were required to understand the links between a subsidy, the elasticity of supply and demand for a good and calculate the conditions where the cost to the government of applying this subsidy would be the **smallest**. Option **A** was the correct option. Given that the subsidy is a fixed amount, then option **A** when the demand and supply are both inelastic would mean the imposition of a subsidy would lead to the smallest increase in sales. This

would automatically mean that in these circumstances the total cost of applying the subsidy would be relatively small.

### Question 22

43 per cent of candidates were able to correctly identify option **A** to answer **Question 22**. This question required careful reading. The question required candidates to use the diagram to identify **two** changes, one related to output and the other related to the impact of this change in output on inflation. 37 per cent of candidates chose option **B** primarily because they focused solely on the change in output and failed to examine the impact on inflation. Option **A** was correct because it related to both changes.

### Question 28

This required candidates to understand factors which might cause a reduction in the rate of inflation. 45 per cent of candidates correctly identified option **C** which related a fall in inflation to the existence of a worldwide recession. A worldwide recession would mean falling incomes would reduce the demand for domestic exports thus reducing aggregate monetary demand. 28 per cent chose option **D**, this was probably due to the reference to an increase in direct taxation. However, it also stated in option **D** that this increase in direct taxation would be used to increase welfare payment which, in turn, would offset the negative impact on the rate of inflation. The question did ask what the most likely impact might be.

# ECONOMICS

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Paper 9708/21  
Data Response and Essay

## Key messages

- Candidates need to ensure they focus on the particular ‘command’ or ‘directive’ word that is being used in a question, such as ‘**explain**’, ‘**consider**’ or ‘**discuss**’.
- It is important candidates understand that in the second part of the ‘**discuss**’ questions in **Section B**, a certain number of marks can be awarded for ‘**evaluation**’. There is often a clue in the question to guide candidates towards this, such as in **Question 2(b)** which required candidates to discuss whether knowledge of price elasticity of demand or income elasticity of demand would be of greater use to a business that produces cars or in **Question 3(b)** which required candidates to discuss whether supply side policies would be successful in increasing the quantity and quality of the factor enterprise in a modern economy or in **Question 4(b)** which required candidates to discuss whether protectionist policies would be the most effective way to correct a current account deficit on the balance of payments in an economy.
- It is also important that candidates understand the usefulness of relevant examples in their answers, even when these are not explicitly asked for in a question, such as in **Question 3(b)** where they were asked to discuss the success of supply side policies in a particular context.
- Candidates need to ensure that diagrams are correctly drawn and clearly and accurately labelled. There were, unfortunately, a number of examples of poor labelling and, in some cases, no labelling at all. A diagram was required in **Question 1(c)**, **Question 3(a)** and **Question 4(a)**, but there were other questions where diagrams could have been used to good effect to support an answer.
- It is important that candidates read questions very carefully to avoid making an error in their answer. For example, in **Question 1(c)**, some candidates wrote about a maximum price rather than a minimum price, while in **Question 1(e)**, some candidates wrote about a minimum price rather than a maximum price. In **Question 2(b)**, some candidates wrote about cross elasticity of demand, in addition to price elasticity of demand and income elasticity of demand, even though this was not required in the question, while in **Question 3(b)**, some candidates wrote about monetary policies and fiscal policies in relation to increasing the quantity and quality of enterprise in a modern economy, even though this was not required in the question. In **Question 4(a)**, some candidates wrote about factors that could bring about an appreciation, rather than a depreciation, in the value of a country’s exchange rate in a freely floating exchange rate system.

## General comments

A diagram was explicitly required in one of the questions in **Section A**, **Question 1(c)**, and in two of the questions in **Section B**, **Questions 3(a)** and **4(a)**, but despite these instructions, some candidates did not include one.

It was obvious in some answers that candidates had not looked closely at the ‘command’ or ‘directive’ word being used in the question. It is important that candidates do recognise whether they are being asked to ‘**explain**’, ‘**consider**’ or ‘**discuss**’ something.

It is also important that candidates focus on whether there is any additional guidance provided in a question, such as in **Question 3 (b)**, where candidates were required to discuss whether supply side policies would be successful in increasing the quantity and quality of the factor enterprise in a modern economy. Some candidates simply wrote about different supply side policies in general without any specific reference to the factor enterprise.

## **Comments on specific questions**

### **Section A**

#### **Question 1**

##### **Compulsory Data Response**

- (a) Most candidates were able to correctly explain how a product's price acts as a signal of its scarcity by referring to the fact that a rise in price/higher price would indicate scarcity. However, relatively few candidates then went on to develop the explanation in terms of how this would have an impact on the reallocation of scarce resources in an economy.
- (b) Most candidates were able to explain one possible reason why the Government of Iran might have decided to raise the minimum price of fuel in 2019, such as to reduce the demand for fuel, to improve the country's current account on the balance of payments, to increase the profits of producers/suppliers, to reduce pollution or congestion or to increase the government's tax revenue. However, relatively few candidates then went on to develop the explanation, such as in terms of where the extra tax revenue might be spent or in relation to nudging people in Iran towards a greater use of public transport.
- (c) Many candidates were able to explain, with the help of a diagram, how an effective minimum price would affect the market for a basic food, such as rice in Haiti. They explained that a minimum price would be likely to increase producer incomes, but that it would also be likely to lead to a situation of excess supply. Some of the diagrams were of a good standard but, unfortunately, some were poorly drawn and/or poorly labelled. Some candidates drew the minimum price line below, rather than above, the equilibrium, while some did not clearly show the two price positions on the vertical axis and the three quantity positions on the horizontal axis. A few candidates used a macro, rather than a micro, diagram where the vertical axis was labelled 'price level' rather than 'P' and the horizontal axis was labelled 'real output' rather than 'Q', while the 'D' and 'S' curves were labelled 'AD' and 'AS'.
- (d) A number of candidates did make quite a good attempt to consider whether government action to smooth price fluctuations through the use of stocks helped the workings of the price mechanism. They considered how government action could help to stabilise a market by buying stocks when there was excess supply and selling stocks when there was excess demand, and then considered how this could distort the market by not allowing prices to reflect changes in the conditions of demand for, and supply of, a product. There was some good discussion of the different functions of the price mechanism, in relation to rationing, signalling and the transmission of preferences. A number of candidates made no attempt to offer a conclusion, even though it was a '**discuss**' question.
- (e) Many candidates made quite a good attempt to discuss whether maximum price controls would always be effective in controlling inflation in an economy. They discussed how maximum price controls would keep down prices and costs in an economy, helping to control cost-push inflation, and then went on to discuss how lower prices could help to stimulate demand, contributing to demand-pull inflation. A number of candidates did not offer a conclusion, even though it was a '**discuss**' question.

### **Section B**

#### **Essays**

#### **Question 2**

- (a) In this part of the question, candidates were required to explain two factors that could determine the price elasticity of demand for a particular brand of car and how this price elasticity of demand might change over time. Most answers demonstrated a sound knowledge and understanding of the concept of price elasticity of demand, explaining what it was and giving the formula for its measurement. The candidates then went on to explain two possible factors that could determine the PED for a car, such as the availability and price of substitutes, the price of a car relative to income and the extent of brand loyalty. Many candidates simply offered this static explanation

without considering how this might change over time. Also, some candidates wrote about PED in general without any specific reference to cars.

- (b) In the second part of the question, candidates were required to discuss whether knowledge of price elasticity of demand or income elasticity of demand would be of greater use to a business that produced cars. There were some good answers that offered a clear analysis of these two elasticities in relation to a business that produced cars, although some answers were generic and did not contain any analysis that was specifically related to car production. There was a very clear 'steer' in the question, which focused on whether knowledge of one rather than the other would be of greater use to a business that produced cars but, despite this, most candidates provided little, if any, evaluation, even though four marks were available for evaluation in addition to the eight marks available for analysis.

### Question 3

- (a) In this part of the question, candidates were required to explain, with the use of a diagram, how the production possibility curve of an economy could be affected by a decrease in the quantity of labour, but an increase in the quality of labour available. Most candidates were able to explain how a decrease in the quantity of labour available would shift the PPC to the left and an increase in the quality of labour available would shift the PPC to the right. These explanations were supported by diagrams which clearly showed these shifts. However, some of the diagrams were poorly drawn, with the PPC failing to touch the two axes in many cases. The labelling of the diagrams was also poor in many cases, with the two axes labelled as 'P' and 'Q' rather than as 'Good A' and 'Good B' or as 'Consumer goods' and 'Capital goods'. Some candidates even labelled the two axes as 'Quantity of labour' and 'Quality of labour'. A few candidates drew a demand and supply diagram, rather than one showing a production possibility curve.
- (b) In the second part of the question, candidates were required to discuss whether supply side policies would be successful in increasing the quantity and quality of the factor enterprise in a modern economy. There were a number of good answers that demonstrated a sound analysis of the likely success of a range of different policies, such as higher expenditure on education and training and greater deregulation and flexibility in markets, and then went on to consider possible limitations of such policies, such as the fact that they were likely to take a long time to show an impact. Unfortunately, some candidates wrote about only the quantity of the factor enterprise, without any consideration of its quality, while other candidates wrote about the advantages and limitations of supply side policies in general without any reference to the factor enterprise. There were eight marks available for analysis and four marks for evaluation, but the quality of the evaluation was rather limited, with candidates writing very little on whether supply side policies were likely to be successful in increasing both the quantity and quality of the factor enterprise.

### Question 4

- (a) In this part of the question, candidates were required to explain, with the use of a diagram, two factors that could bring about a depreciation in the value of a country's exchange rate in a freely floating exchange rate system. Most candidates were able to correctly explain what was meant by a freely floating exchange rate system in terms of a rate determined by the demand for, and the supply of, a currency without any intervention by a government, although some candidates got mixed up with a fixed exchange rate system. Most candidates were also able to draw a diagram to show such a system, although the labelling of the vertical axis proved a problem for many candidates, labelling it simply as 'Price' rather than as the price of one currency in terms of another or 'Exchange rate'. Candidates were generally able to explain two factors that could bring about a depreciation in the value of the exchange rate, causing a decrease in the demand for the currency, such as when fewer exports were sold, or an increase in the supply of a currency, such as when more imports were bought. There were some good answers in relation to interest rates and rates of inflation in different countries. Some candidates misread the question and wrote about an appreciation, rather than a depreciation, in the value of a country's exchange rate.
- (b) In the second part of the question, candidates were required to discuss whether protectionist policies would be the most effective way to correct a current account deficit on the balance of payments in an economy. Most candidates were able to analyse some of the various advantages and limitations of such protectionist policies as tariffs, quotas, embargoes, excessive administrative burdens and export subsidies, but only a minority of candidates offered a sound evaluation in terms

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of exercising some judgement on which of the policies would be likely to be the most effective way to correct a current account deficit on the balance of payments.

# ECONOMICS

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Paper 9708/22  
Data Response and Essay

## Key messages

- Questions may be drawn from any part of the applicable syllabus, and it is essential that candidates are prepared across the whole range of the syllabus. This is particularly essential for the compulsory data response **Question 1**.
- Knowledge and understanding must be accurate, clear, and relevant to the question being answered. Vague knowledge and understanding will gain little or no credit.
- Application is only rewarded when the knowledge and understanding is accurate and correctly used to answer the question. Candidates should avoid unnecessary descriptions/explanations of e.g., economic concepts and theories which may be correct but are not clearly applied to the set question.
- Analysis involves an assessment rather than a series of unexplained assertions statements. This involves e.g., an assessment of the strengths and weaknesses/usefulness of economic theory/concepts and policies where relevant. Simple or unexplained assertions will receive little or no credit.
- Summative statements/paragraphs do not necessarily result in evaluation marks being awarded. Evaluation must be based on accurate analysis which is assessed to present **an answer to the question**. One mark is generally reserved for a justified conclusion where appropriate.
- Finally, candidates should be encouraged to spend time reading the questions and carefully noting the mark allocations. This should avoid spending unnecessary time and effort e.g., on low mark questions and presenting accurate yet irrelevant material within the answer and instead focusing on the requirements of the question itself.

## General comments

- A full range of marks was in evidence and pleasingly there were some very good marks.
- As the key messages suggest, apart from obvious errors, the main differentiation lay in whether answers were overly assertive or well explained.
- There were some obvious difficulties at times with the diagrams necessary to answer **Questions 1d** and **1e** as detailed in the subject specific comments below. Candidates need to remember that to be effective, diagrams should be clearly labelled according to the type of curve, the appropriate axes, and any changes as the result of movements or shifts should be clearly shown. They must also be legible and clear. Above all, they must be accurate and explained as necessary because standalone diagrams will not be rewarded unless specifically requested. Even in those circumstances, only few marks will be allocated as shown on the published mark scheme.
- As always, the best route to a high mark, is to fully explain points that are made, ensure that the points made are relevant and accurate and form balanced judgements that fully draw on analysis to answer the questions set as appropriate. It is always highly unlikely that any marks will be given for one sided responses for evaluation to **part b** of essay questions.

## Comments on specific questions

### **Section A Data Response**

#### **Question 1**

- (a) There were several possible causes discussed within the extract that could have been used and many candidates did make simple references to them. However, a simple reference to either an increase in supply and/or a fall in demand was insufficient without an underlying cause being identified. Those who had read the data carefully answered this well. Candidates need to be reminded to make full use of the data, where appropriate, when answering **Question 1**.

- (b) Several demand factors may have been referred to, but these had to be appropriate to explain why maize prices had risen despite the increase in supply. Consequently, the demand factor had to refer to a change in the factor itself e.g., a rise in income **and** the fact that the increase in demand exceeded the increase in supply e.g., creating a shortage. Most candidates were able to gain the first mark relatively few recognised the fact that although increasing, supply was unable to match the increase in demand. Some candidates suggested a rise in the minimum price as a demand factor which was incorrect unless accompanied by an explanation that this may lead to an increase in demand by the government to purchase excess supply. A minority of candidates incorrectly discussed supply factors such as wage costs.
- (c) The question referred to a specific part of the data i.e., extract 2, which gave only two valid reasons i.e., the sustained weakness in Zimbabwe's currency and the sharply reduced harvest. Most candidates referred accurately to these albeit occasionally in a vague manner. However, some candidates selected reasons not contained within the extract which were not relevant or, selecting information from the extract that would reduce prices e.g., increasing producer subsidies. Where correct reasons were identified, the most common cause of missed marks was the inability to clearly explain why this would increase the price of maize e.g., a shortage or increase in the price of imported maize on which Zimbabwe was dependent.
- (d) Both the data and the question made it clear that this was an increase in an existing minimum price rather than the introduction of one. Unfortunately, many candidates simply drew a diagram showing the impact of a new minimum price and the resulting surplus rather than an increase in the price and the increase in quantity supplied. This meant that full marks were rarely obtained. Other common problems were a lack of accurate labelling and clear illustration of the increase in quantity supplied. A few candidates also showed the impact of a maximum price. The third mark was reserved for an explanation as to why production would be encouraged and whilst many (who had recognised this was a rise in the minimum price) did so, there are still many candidates who merely describe the diagram in words and therefore omitted any reference to the incentive created.
- (e) Many candidates wrongly identified this question as one that required an explanation of the impact of a subsidy on consumer and producer surplus and consequently often gained only a maximum of 1 mark for showing the shift in the supply curve and the fall in equilibrium price. The question was focused on the benefits to both the producer and the consumer and therefore required a diagram showing the incidence of the subsidy i.e., the impact on the price paid by the consumer and the effective price charged by the producer. Only a minority of candidates recognised this and produced an accurate diagram. The discussion then required an assessment of the changes in each case and the significance of elasticities to form a judgement about whether the benefits were equally shared or not. Again, this was not particularly well answered with often vague comments that it depended on PED without any explanation. Once again, there were examples of incorrect labelling of diagrams including supply and demand curves the wrong way round, the changes in price being incorrectly labelled or omitted entirely. Candidates need to be reminded that whether diagrams are required or not in a question, where used they must be clear and accurate to gain any credit.
- (f) Many candidates were able to produce good responses to this question and were able to explain the benefits of a maximum price for poorer households and the drawbacks of such a policy. Answers were often less effective in assessing whether the drawbacks could be overcome e.g., by government policy and thus forming a balanced conclusion. The least successful answers tended to assert outcomes such as shortages, illegal markets etc., without explaining what they were or why they might arise i.e., as a result of a fall in supply and a rise in demand. Candidates need to be reminded that assertions cannot be rewarded as application or analysis and that they must be accompanied by relevant explanation. Also, unless the question requires an assessment or comparison with other policies, e.g., this question may have asked whether a maximum price was the best policy, then the discussion of alternative policies is irrelevant and will not be credited e.g., the use of subsidies.

## Section B Essays

### Question 2

- (a) This was both the least popular question and tended to be weakly answered and/or answered in a very general way. Clear knowledge and understanding of both the broad and narrow definitions of

money as in the syllabus were extremely rare and although most candidates had some idea of what contactless payments are, the understanding was often superficial. Application to the functions of money rarely went beyond a limited understanding of what the four functions actually are, and these were often confused with the characteristics of money. Better answers tended to focus on the impact on the means of exchange and the store of value as the former would be affected mainly by the acceptability and availability of technology whereas the latter would be affected by the need to store money in bank deposits to facilitate the exchange. Simple answers e.g., there would be no effect were not credited without a reasonable explanation.

- (b) Most candidates had a reasonable knowledge and understanding of monetary policy although there was occasional confusion with fiscal policy. Also, the question did not require a discussion of alternative policies so the introduction of a discussion of e.g., supply side policy was irrelevant and not credited even in evaluation. Some **part b** essay questions do require alternatives to be discussed e.g., this question may have asked candidates whether monetary policy was likely to be the most successful policy, but this requires careful reading of the question. Candidates also need to be reminded that knowledge and understanding is not credited in **part b** essay questions. Answers need to be analytical and therefore require explanations e.g., in this question a knowledge and understanding of what is meant by monetary policy is essential but the impact on AD and more crucially the price level (needing to increase to cure deflation) gains the credit. Sadly, the link between monetary policy and AD (and also AS) was often made but the development showing the impact on the price level was often either weak or missing meaning marks were quite low. Likewise, evaluation requires an assessment of both sides of the analysis to be relevant and must clearly address/answer the question, but this was rarely evident. The best answers always had clear explanations of points made together with an assessment of the shortcomings of the policy leading to a balanced evaluation.

### Question 3

- (a) The question required candidates to use a production possibility curve to explain and demonstrate the concepts of scarcity, choice, and opportunity cost. A diagram was not required but one was often produced and generally, these were accurate although labelling remains a problem for some candidates e.g., using P and Q. This was a very popular question and marks were generally extremely pleasing. Most candidates were able to demonstrate knowledge and understanding of the concept of a PPC, mainly through an accurate diagram and the concepts of scarcity, choice, and opportunity cost. The main errors occurred with candidates who attempted to explain them through the perspective of an individual firm or household. Application to the PPC was often less convincing – the question asked for the three concepts to be demonstrated through the curve. The reasons were principally because many candidates adopted an ‘all I know about the PPC’ approach which led to the reproduction of diagrams showing positions within the curve, outside the curve and on the curve but without clear application to the question. Of the three, opportunity cost was often best demonstrated but choice was rarely referred to as a movement along the curve and was frequently just linked to opportunity cost. Scarcity was also often demonstrated in a vague way as being outside the curve instead of simply explaining that the extent and presence of the curve itself represented the scarce resources available to an economy. Consequently, a mark of 6/8 was a common score.
- (b) This question produced a great number of one-sided answers that examined the difficulties in adopting supply side policies but were unable to analyse possible ways of overcoming them. Also, some candidates suggested that policies adopted by individual firms e.g., training, were examples of supply side policy. This may be so if encouraged by government, e.g., via grants or subsidies, but this would need to be clearly explained by the candidate. Also, simple knowledge and understanding of supply side policy in general needed to be explained in the context of expanding the productive capacity of the whole economy to receive any credit and furthermore developed to explain the difficulties of doing so. The discussion then needed to focus on how these particular difficulties could be overcome and many candidates simply either ignored this or discussed alternative policies which were irrelevant in this context unless it was clear how this would overcome the specific difficulties of the supply side policies highlighted. This meant evaluation was not possible and led to many marks of 4 maximum.

#### Question 4

- (a) This was the second most popular question after **Question 3** and was generally well answered. Most candidates were able to define a floating exchange rate and the meaning of an exchange rate although the latter was often vaguely expressed. The most common problem was simply to refer to an exchange rate as one currency compared to another and omit any reference to their price or value. Application was generally sound although occasionally over-elaborated and developing into unnecessary evaluation. In a floating exchange rate, the value is determined by the demand and supply of the currency as most candidates recognised. Applying this knowledge was not always fully successful in the context of the question as the most likely scenario would be that the demand for exports and therefore demand for the currency would fall accompanied by an increased demand for imports and hence an increased supply of the domestic currency. Mostly this was clear but occasionally either the demand or supply factor (normally the latter) was ignored. The other main omission was the development from a fall in demand/increase in supply on the value of the currency. However, overall, most candidates did achieve a mark of 7 or 8 out of 8.
- (b) Historically, questions about the terms of trade have not always been answered well. The main reason has been a confusion between balance of trade and terms of trade. Pleasingly, this only affected a relatively small number of scripts. The main cause of low marks was a tendency to rely on definitions and assertions which are not valid analysis without explanations and application to the question. However, there were some very good answers that clearly explained both the advantages and disadvantages with due regard to the price elasticity of demand for both imports and exports. Evaluation does remain less convincing though and candidates do need to be reminded of the need to answer the question and form a balanced judgement regarding whether the advantages are likely (or not) to overcome the disadvantages.

# ECONOMICS

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Paper 9708/23  
Data Response and Essay

## Key messages

- Questions may be drawn from any part of the applicable syllabus, and it is essential that candidates are prepared across the whole range of the syllabus. This is particularly essential for the compulsory data response **Question 1**.
- Knowledge and understanding must be accurate, clear, and relevant to the question being answered. Vague knowledge and understanding will gain little or no credit.
- Application is only rewarded when the knowledge and understanding is accurate and correctly used to answer the question. Candidates should avoid unnecessary descriptions/explanations of e.g., economic concepts and theories which may be correct but are not clearly applied to the set question.
- Analysis involves an assessment rather than a series of unexplained assertions/statements. This involves e.g., an assessment of the strengths and weaknesses/usefulness of economic theory/concepts and policies where relevant. Simple or unexplained assertions will receive little or no credit.
- Summative statements/paragraphs do not necessarily result in evaluation marks being awarded. Evaluation must be based on accurate analysis which is assessed to present **an answer to the question**. One mark is generally reserved for a justified conclusion where appropriate.
- Finally, candidates should be encouraged to spend time reading the questions and carefully noting the mark allocations. This should avoid spending unnecessary time and effort e.g., on low mark questions and presenting accurate yet irrelevant material within the answer and instead focusing on the requirements of the question itself.

## General comments

- A full range of marks was in evidence and pleasingly there were some very good marks.
- As the key messages suggest, apart from obvious errors, the main differentiation lay in whether answers were overly assertive or well explained.
- As referred to specifically in **Questions 2(b) and 4(b)**, unless specifically requested, diagrams will not receive standalone credit. To be creditworthy, diagrams must not only be fully accurate, but both their relevance and use must also be fully explained. There is evidence that some candidates still include unexplained and occasionally irrelevant diagrams in the hope of gaining marks.
- Finally, as always, the best route to a high mark, is to fully explain points that are made, ensure that the points made are relevant and accurate and form balanced judgements that fully draw on analysis to answer the questions set as appropriate. It is always highly unlikely that any marks will be given for one sided responses for evaluation to **part b** of essay questions.

## Comments on specific questions

### **Section A Data Response**

#### **Question 1**

- (a) The main concern here was a lack of clarity as to what is meant by the term opportunity cost. Most candidates were able to identify a relevant opportunity cost but frequently, this occurred after a lengthy, almost irrelevant discussion about costs in general that gained 1 mark maximum. Better answers were relatively short, focused on a concise understanding of what the term means together with a relevant example. Two-mark answers do not require the length of answer often seen to this question.

- (b) (i) Many candidates simply calculated the absolute cost difference which led to an answer of sugar cane. However, the question focused on which product group most disadvantaged Pakistan's farmers and consequently, candidates needed to work out the relative cost difference between the products leading to the correct answer of maize. Correct responses numbered around 50 per cent of those attempting this question.
- (ii) This question asked candidates to focus on the impact on Pakistan's trade in agricultural goods and this required an assessment of the impact on this particular section of the current account. Sadly, most candidates only focused on the impact of subsidies on India and/or the derived lack of competitiveness of Pakistan's agricultural goods and thus gained a maximum of 1 mark. Very few developed this further to explain the probable fall in Pakistan's exports of such goods or the impact on its imports. The likelihood of a deficit in the trade balance of such goods was hardly ever referred to. Candidates need to be reminded of the need to both explain and develop answers to the question set and also to avoid assertions.
- (c) Most candidates were able to draw an appropriate and accurate diagram to show the impact of the sales tax on price and quantity. However, some candidates continue to make basic errors, e.g., incorrect labels, confusing supply, and demand, shifting the supply curve to the right as if for a subsidy etc. A minority simply did not know what the diagram should look like at all which suggests a lack of preparation. Sadly, the lack of development to explain the significance of elasticities or even the size of the sales tax itself was quite common and answers simply described the diagram rather than analyse the possible effects on the market. This led in most cases to a mark of 2 maximum. Again, where a diagram is used, candidates should not simply describe it if analysis or discussion is required as this would mean that further development is needed, as in this case for a mark of 4.
- (d) Most candidates were able to identify two ways and gain 2 marks. However, problems included the selection of two types of protectionism which only counted as one distinct way and therefore one mark and variations on subsidies/grants being offered which were not really following the requirement of the question. The main issue was once again the lack of developed explanation (as opposed to assertion) showing why these methods would aim to support Pakistan's farmers. Candidates need to explain, in this case, exactly how these measures would support/assist the farmers and often this was vague or a simple statement which could not be rewarded for the extra mark/s.
- (e) This question appeared to confuse most candidates. Many interpreted it as being a comparison between different countries, principally between India and Pakistan, and so focused on a discussion of the benefits and drawbacks of free trade. Some candidates focused on costs of production rather than opportunity costs. The question in fact concerned a discussion as to whether any country who had lower opportunity costs in any other area of production should still pay subsidies to their farmers with higher opportunity costs. Consequently, answers were often weak and at best simply focused on the possible importance of farming for employment and in maintaining a possibly strategically important industry rather than the downsides. Better answers did discuss the importance of comparative advantage, but such answers were rare and tended to compare different countries as referred to above. As a result, marks were generally very low and evaluation almost non-existent.

## Section B Essays

### Question 2

- (a) This was a fairly straightforward question that was very popular with candidates. The main reason why such goods are over and under consumed are a result of information failure and the perceived desirability of consuming them. Better answers were distinguished by a clarity of language in terms of economics and clear explanation. However, economic language and explanation were occasionally very vague, and this was reflected in the lower marks obtained. It is far better to explain as fully and clearly as possible in economic terms where possible.
- (b) Once again better answers were differentiated by the level of explanation presented. Diagrams (unless specifically requested by the question) will not gain marks in themselves and certainly not as analysis in a **part b** question. Consequently, even an accurate diagram e.g., illustrating a shortage, is simply knowledge or an assertion unless the candidate explains why a shortage would probably arise. Such an approach, i.e., presenting clear explanations, provided they are accurate

and relevant, will always gain more credit. However, there were some good answers although evaluation was often less well done and focused on a summary rather than answering the specific question asked.

### Question 3

- (a) The question asked candidates to simply explain the difference between a progressive direct tax (meaning an explanation of a proportional or regressive direct tax was irrelevant) and a regressive indirect tax with an example of each. Most candidates who attempted this had a reasonable understanding but often spent time on unnecessary detail such as e.g., government policies on redistribution etc. There was also often a lack of clarity that a direct tax was paid on income/profits etc. by the income earner whilst a regressive tax was paid on sales/spending and was passed on e.g., to the purchaser. Answers that followed this clear path, leading to a valid example of both and further elaboration regarding the burden of taxation and the relationship between the MRT and ART gained full marks. However, this precise form of answer was rare and most had a scattergun approach with too much irrelevancy and an omission of the information to fully answer the question.
- (b) Once again, the main weakness with many responses was a lack of explanation. For example, most candidates suggested that by lowering AD, e.g., by raising direct taxes, inflation would fall. The process through which this might happen was often asserted rather than explained i.e., through the interaction of AD and AS which led to little, or no credit given. Some good answers were in evidence but again, the focus of the question was not always clear. Alternative policies were irrelevant as the question required an assessment of which policy between the identified two was likely to be the most effective in reducing inflation. Consequently, evaluation was often weak.

### Question 4

- (a) Meaningful assessment of candidate performance on this question is very difficult as it was attempted by only a few. The terms of trade topic does seem to be relatively inaccessible to many candidates and of the few who attempted to answer this question, there was the usual confusion with Balance of Trade despite on occasions a correct formula being presented. On occasions, the application was accurate regarding the significance of inflation rates but when analysing the impact of a decline in the exchange rate, confusion was obvious by discussions around elasticities, MLC, J curve etc. which affect BOT not TOT. Full marks were rare for what should have been a fairly straightforward question.
- (b) Most candidates recognised that the answer needed to focus on the benefits and drawbacks of imposing tariffs. As ever, the importance of clear explanation was vital in obtaining higher analysis marks. Also, the use of (predominately) the diagram showing the impact of tariffs, must be explained to gain credit. Marks were generally depressed as a result of a lack of explanations throughout and consequently valid evaluation was rare.

# ECONOMICS

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Paper 9708/31  
Multiple Choice

Question Number	Key
1	D
2	B
3	A
4	B
5	A
6	A
7	C
8	D
9	B
10	A

Question Number	Key
11	B
12	D
13	C
14	B
15	C
16	B
17	D
18	D
19	B
20	C

Question Number	Key
21	B
22	B
23	C
24	C
25	C
26	D
27	D
28	D
29	D
30	C

## General comments

The questions for which most candidates selected the correct answer were **3, 4, 5, 7, 10, 13, 14, 16, 20, 23** and **27**. These questions were answered correctly by 70 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **11, 17** and **26**. These questions were answered correctly by 30 per cent or fewer of the candidates. The rest of the questions gave results which were well within the levels expected.

## Comments on specific questions

### **Question 11**

This question was answered correctly by 20 per cent of the candidates who chose option **B**. 10 per cent chose option **A**, 21 per cent chose option **C** and 49 per cent chose option **D**. At the given level of output the lowest level of average cost would be a point on the long-run average cost curve. To move to this point from the point on the short-run average cost curve would involve an increase in the size of the firm but the average costs would fall because of economies of scale.

### Question 17

This was answered correctly by 20 per cent of the candidates who chose option **D**, 10 per cent chose option **A**, 18 per cent chose option **B** and 52 per cent chose option **C**. The original equilibrium quantity of labour would be where the marginal wage line cuts the marginal revenue line, but the wage at that point would be given by the average wage line. Fixing a minimum wage at OW would mean that the wage would be above the original wage. The quantity of labour employed where that wage, W, intersects the marginal revenue line is to the right of the original quantity. Thus, wages and employment rise (option **D**). Those who chose option **C** may have thought that the original wage was determined by the marginal wage line and not by the average wage line.

### Question 26

This question was answered correctly by 22 per cent of the candidates who chose option **D**, 51 per cent chose option **A**, 14 per cent chose option **B** and 13 per cent chose option **C**. Given the marginal propensity to consume, when the government increases its expenditure by \$1000 income would rise by \$1250. The increase in tax revenue is calculated from the increase in income. Marginal propensity to tax is 0.3, so tax would increase by \$375. Those who chose option **A** may not have taken into account the extra increase in income created by a multiplier based on the marginal propensity to consume.

# ECONOMICS

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Paper 9708/32  
Multiple Choice

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

## General comments

The questions for which most candidates selected the correct answer were **3, 5, 11, 15, 16, 17, 19, 20, 21** and **28**. These questions were answered correctly by 70 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **2, 4** and **26**. These questions were answered correctly by 40 per cent or fewer of the candidates. The rest of the questions gave results which were well within the levels expected.

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

## Comments on specific questions

### Question 2

This question was answered correctly by 30 per cent of the candidates who chose option **A**. 13 per cent chose option **B**, 9 per cent chose option **C** and 48 per cent chose option **D**. The free market equilibrium would be where the marginal private benefit equalled the marginal private cost, point G. At that point the marginal external cost would be the difference between the marginal private cost and the marginal social cost, EG. (Option **A**). Those candidates who chose option **D** selected the external cost but at the incorrect output.

#### Question 4

This was answered correctly by 30 per cent of the candidates who chose option **A**. 50 per cent chose option **B**, 18 per cent chose option **C** and 2 per cent chose option **D**. The majority of candidates recognised that the marginal utility is calculated by the change in the total utility. Marginal utility is 5 between units 1 and 2 and rises to 6 between units 2 and 3. After unit 3 it declines. Between units 3 and 4 it is 5. The question asked *after* which level of weekly consumption does the diminishing marginal utility first occur. It occurs *after* unit 3. (option **A**). Those candidates who chose option **C** may well have been considering the change in average utility.

#### Question 26

This question was answered correctly by 27 per cent of the candidates who chose option **A**. 57 per cent chose option **B**, 2 per cent chose option **C** and 14 per cent chose option **D**. In the first two columns **A** and **B** have the same changes. Both would be likely to cause economic growth to increase but in **B** there is no change in the population whereas in option A the population has fallen. The increase in economic growth per capita in option **A** would, therefore, increase.

# ECONOMICS

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Paper 9708/33  
Multiple Choice

Question Number	Key
1	A
2	B
3	C
4	B
5	D
6	C
7	D
8	D
9	B
10	D

Question Number	Key
11	C
12	D
13	B
14	B
15	D
16	B
17	B
18	A
19	A
20	D

Question Number	Key
21	D
22	B
23	C
24	B
25	B
26	D
27	A
28	D
29	C
30	A

## General comments

The questions that the candidates found most challenging were **6, 19, 20** and **21**.

## Comments on specific questions

### Question 6

This question was answered correctly by 51 per cent of the candidates who chose option **C**. 10 per cent chose option **A**, 16 per cent chose option **B** and 23 per cent chose option **D**. In the diagram the income effect is shown by a movement between the two parallel budget lines. Those who chose options **B** and **D** selected a movement between parallel budget lines. Option **A** shows the change in the quantity of good Y that can be bought with a given income when the price of good Y changed. The substitution effect is shown by a movement along a given indifference curve, from point T, the initial equilibrium, to point S. (Option **C**)

### Question 19

This was answered correctly by 43 per cent of the candidates who chose option **A**. 19 per cent chose option **B**, 20 per cent chose option **C** and 18 per cent chose option **D**. The difference between the terms net and gross reflects the amount of depreciation, or the amount of capital that has been used. (Option **A**). GDP does not have to be calculated using the income method (option **B**), double counting can be a problem (option **C**) and imports as well as exports need to be considered in NNI (option **D**).

### Question 20

This was answered correctly by 52 per cent of the candidates who chose option **D**. 14 per cent chose option **A**, 24 per cent chose option **B** and 10 per cent chose option **C**. This question asked what was **not** a good reason to question the accuracy of a comparison of living standards between a developed and a developing economy. Options **A**, **B** and **C** can all present problems and are legitimate reasons for questioning the accuracy of any comparison. Purchasing power parity should be used when making any comparison so questioning its use is **not** a good reason.

### Question 21

This question was answered correctly by 29 per cent of the candidates who chose option **D**. 49 per cent chose option **A**, 4 per cent chose option **B** and 18 per cent chose option **C**. People who are not looking for employment or who do not wish to work are not classified as unemployed. To be classed as unemployed the person must be without a job but want to work, have actively sought work in the last four weeks and are available to start work in the next two weeks or are out of work, have found a job and are waiting to start it in the next two weeks. The parent, the teacher and the steel worker (options A,B and C) are not seeking work so are not counted as unemployed.

# ECONOMICS

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Paper 9708/41  
Data Response and Essays

## General comments

Many candidates presented well-balanced and clearly structured answers, accurately related to the question and enhanced by relevant examples and applications where appropriate. It is important that candidates refer to the question throughout the writing of the response and particularly when making an evaluative comment.

As in previous papers, the key weakness in some of the answers was that the candidate did not direct their response precisely to the question asked. This was particularly evident in **Question 6** where candidates discussed GDP broadly without clear reference to 'real' and 'per capita'. Economic development was not defined and crucially too many candidates did not address 'the extent' of a positive impact upon economic development, denying potential access to a Level 4 grade. **Questions 4b, 5a**, and 7, explicitly requested the use of diagrams. Candidates failing to produce a correctly labelled and relevant diagram would not gain marks beyond L2 for these questions. It is possible to attain high marks without the use of diagrams where the use of supporting diagrams is not stated in the question. However, candidates should be prepared to develop a diagram if it is relevant to a question. Diagrams can help achieve strong analysis marks and support evaluation. There were opportunities to use diagrams. For example: question 2 private/social costs and benefits; **Question 3(a)** monopoly diagram indicating a limit price; **4(a)** to illustrate a trade union's ability to change MRP in both a perfectly competitive labour market and an imperfect labour market.

## Comments on specific questions

### **Section A**

- (a) This question required candidates to use the information comparing Romania's economy with the European Union as a whole. The majority of candidates gained a mark each for stating faster growth rate and lower unemployment. Few candidates mentioned poor infrastructure, low ranking.
- (b) Candidates were expected to use the information from the source to explain Romania's rapid economic growth. The majority of candidates stated increased earnings from the high-tech sector as well as the attraction of low labour costs for foreign companies. Some candidates mentioned the stimulating effects of tax concessions and increased minimum wage. Surprisingly few candidates were able to explain the reasons for rapid growth via the multiplier effect due to an increase in foreign investment.
- (c) Most candidates were able to describe the changes in the Romanian workforce and gain 2 marks. Better responses went on to consider **both** the benefits and costs of these changes although a number of candidates focussed only upon the benefits of the changes.
- (d) The majority of candidates were able to explain what is meant by a budget deficit and gain 2 marks. Few candidates addressed the likelihood of reducing the deficit. For example, taxes depending upon elasticity of demand for products. Also, a minimum wage increase in the public sector is likely to have a short run increase in the deficit with long run changes in the deficit being more uncertain.

## Section B

### Question 2

This was a popular question and there were some good, balanced responses which considered both the negative and positive externalities of building a new hospital. When all the costs and benefits have been considered, a government has to decide whether the net benefit justifies the decision by comparing this with the opportunity cost. Surprisingly few candidates recognised the difficulty in placing a monetary value on externalities and thus estimate the future benefits in real terms. Weaker candidates provided generic responses failing to use the context of building a new hospital.

### Question 3

- (a) This question required that candidates demonstrate an understanding of the profit maximising strategy of a monopoly and how limit pricing might work. Many candidates produced a diagram to illustrate limit pricing although there were some good explanations without the use of a diagram. Better responses discussed the 'extent' part of the question recognising that some monopolies will not necessarily want to ensure maximum profits in the long run focussing instead on other long run goals such as sales/revenue maximisation or growth of market share.
- (b) A number of candidates applied the kinked-demand curve in support of oligopoly market collusion. Few candidates addressed why not all market structures would produce the ideal conditions to promote collusive behaviour. The question required a consideration of the view that collusion will occur only in a certain type of market structure and better responses identified and discussed at least two market structures other than oligopoly. To access L4 marks a conclusion addressing the question should be provided. A few candidates recognised that oligopoly firms will still compete with each other through non price means such as advertising and product differentiation. Also recognising that many collusive agreements break down because of cheating or not keeping to the agreed rules.

### Question 4

- (a) This was a popular question and there were some competent responses with analysis that recognised the determinants of MRP and how this relates to the demand for labour. Correctly labelled and constructed diagrams were often well applied to establish the links between MRP, Trades Unions and higher wage rates.
- (b) The majority of candidates used correctly drawn and labelled diagrams to distinguish clearly between transfer earnings and economic rent. Links between the elasticity of supply labour and transfer earnings and economic rent were evident in better responses. To attain Level 4 marks, discussion relating to the extent of the impact, supported by a relevant conclusion was required. A significant number of candidates failed to provide evaluative comment about factors other than the elasticity of supply which might influence the pay of each type of labour, e.g. street cleaners benefitting from Trade Union activity or changes in government policy with regard to the pay of workers in the public sector. Similarly, famous sports people may experience a fall in pay levels as a result in the fall in demand to watch individual players or the result of a general decline in the demand to watch a professional sport.

### Question 5

- (a) This was not a popular question although there were some correctly constructed supply and demand diagrams illustrating the Keynesian theory of the liquidity trap of interest rate determination. The importance of the liquidity trap to government policy makers during a recession was less well developed with better responses considering alternative measures, mostly with the use of fiscal policies such as increased government spending. Some candidates failed to provide a conclusion and therefore were unable to access L4 marks.
- (b) The majority of candidates argued that commercial bank lending is one of the main sources of commercial banks' profits and that an important aim of central bank policy is to control the money supply in order to meet its target rate of inflation. Increases in interest rates leading to less borrowing from the commercial banks is likely to lead to a fall in commercial banks' profits. Thereby concluding the two aims in the statement in the question are not compatible. Fewer candidates discussed the extent to which both aims can be achieved together, arguing that the demand for

bank loans might be interest rate inelastic and therefore higher interest rates are likely to lead to an increase in commercial banks' profits, so the two aims might be compatible.

### Question 6

This was a popular question and there were some clear explanations of RGDP per capita as well as a clear definition of economic development. Too many candidates did not address 'the extent' of a positive impact upon economic development, denying potential access to a Level 4 grade where at least two negative and two positive impacts were required. A conclusion was expected as to the relative impacts to determine the overall extent of growth on economic development.

### Question 7

A clear explanation of what is meant by a budget deficit and how an increase in this deficit might impact on key macroeconomic variables was expected. Also a clear explanation of positive and negative output gaps with supporting diagrams was required. The most commonly used diagrams were production possibility curves, aggregate demand and aggregate supply analysis and the economic cycle showing potential and actual growth. Some candidates produced correctly labelled diagrams but failed to identify the positive and negative output gaps. Others failed to explain a budget deficit, relying upon an implied understanding in the narrative of their response. It is good practice to always define/explain key terms which are mentioned in any question. Better responses used diagrams to explain that a government is highly unlikely to increase its budget deficit if the economy is experiencing a positive output gap. There were fewer relevant evaluative comments evident. Some candidates did comment that the extent of a positive effect of an increase in a budget deficit will depend upon the cause of the output gap. It will be less effective if the gap is caused by structural unemployment rather than cyclical unemployment. Further comments suggested that the use of large budget deficits to close a negative income gap might create additional problems such as higher interest rates, high inflation in the long run or negative effects on the balance of payments. Such evaluative comment enabled access to L4 marks.

# ECONOMICS

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Paper 9708/42  
Data Response and Essays

## Key messages

- It is worth re-iterating the Key Messages of previous reports.
- Candidates generally demonstrated that they understood the relevant theory and the best candidates were able to articulate the analytical aspects within the context of the question. Others failed to fully develop the analytical aspects of the question or to apply it to the context of the question.
- Many questions contained the trigger word 'Discuss'. This term required an argument or debate within the answer and the drawing of a conclusion to access the higher levels in the mark scheme. Many answers were one sided or left the Examiner free to draw his/her own conclusions.
- Candidates are reminded that a thorough reading of the question is necessary to pick out the full breadth of the question. This is especially true of the questions without sub-divisions.

## General comments

- The level of English shown by candidates was of its usual high standard. Many answers were again of a high standard in response to the questions.
- The common faults were as in previous examinations, but they are worth repetition.
- The use of badly drawn, or inaccurately labelled diagrams, or even perfectly presented diagrams without any reference to them in the essay re-occurred as did the use of pre-learned answers that did not match the question which had been set. These comments, however, should not detract from the impression that the standard of response was high.
- A number of candidates wrote at great length. In many examples these responses were poorly directed towards the question set. Candidates who can produce a relevant, concise and well directed answer will always be fully rewarded.

## Comments on specific questions

### Question 1

Candidates are reminded the paper is titled in part 'Data Response' which implies that reference should be made to the data/text where relevant or specified in the question.

- (a) Many candidates correctly identified the increase in productive capacity, some illustrated this with a diagram or used the text to enhance their response.
- (b) (i) Structural unemployment was identified and explained by many of the candidates, which enabled them to continue in **part (ii)** to identify supply-side policies as the primary solution to this form of unemployment. The best answers developed their explanation of one or more forms of supply-side policy.
- (c) The best responses explained the impact of an overvaluation of the currency on the relative prices of imports and exports and the implication of this on their demand. Better responses went further and discussed the impact on the balance of payments and aggregate demand/unemployment.
- (d) Most of the candidates identified 3 of the objectives of the fund. The better candidates then used these as the starting point for an analysis of how these policies might benefit the development of Guyana. Credit was given for a conclusion.

## Question 2

This was the most popular question.

- (a) The best answers defined the term externality and applied it in the context of the differences between marginal private benefit and marginal social benefit and marginal private cost and marginal social cost. These definitions were applied as the question asked to the consumer and the producer accompanied by relevant examples. Most candidates drew accurate diagrams which were used correctly to develop the answer.
- (b) The good answers showed that candidates had read the question carefully and analysed alternative forms of market failure to externalities, such as monopoly, public goods, inequality, or unemployment. Where these were also accompanied by relevant diagrams, the answer received an appropriate reward. Candidates who mis-read or misunderstood the question repeat their response for part (a) for little reward.

## Question 3

- (a) Strong responses saw the execution of three-part strategy, definition of the terms, analysis of the law of diminishing returns (LDR) and the consequence of the LDR on the cost of marginal and average output. Good answers also showed the relationships with accurately drawn diagrams. other answers showed only a partially execution of this strategy.
- (b) Only the best candidates were able to analyse both the requirements for the ability to operate a policy of price discrimination to relate the presence of these requirements to different forms of competition. Many candidates' answers were restricted to either an analysis of price discrimination or forms of competition.

## Question 4

This was another popular question.

The crucial aspect of this question was contained in the word 'extent' which required the candidate to determine the relative importance of marginal revenue product (MRP) in wage determination. Candidates who analysed marginal revenue product theory and explicitly stated this was the basis of the demand for labour made a good start to the question. The relevance of factors affecting supply provided the other half of the demand and supply equation. Those who went on to consider other features of the labour market such as trade unions and monopsony added to the quality of the answer. Evaluation of the assumptions of MRP or whether the outcomes of wage determination always occurred on the MRP curve led to candidates scoring very well.

## Question 5

This was the least popular question.

- (a) Candidates who explained the three Keynesian demands for money and related those demands to the rate of interest had successfully completed the first stage of the answer to this part of the question. Those who recognised and explained the effect of the supply of money in determining the rate of interest were then able to comment on the reason(s) for the lowness of interest rates. Many candidates did not attempt the full breadth of the question and went no further than the three Keynesian demands or explained the effect low interest rates on monetary.
- (b) An analysis of the monetary transmission mechanism and the effect of low interest rates on resolving the problem of cyclical unemployment was a good starting position for a response. Candidates who offered an evaluation of the low interest rate policy and the need for an alternative approach showed good development. Answers which then analysed the effect of fiscal policy on cyclical unemployment together with relevant evaluation were rewarded.

## Question 6

- (a) Candidates who clearly defined the terms internal and external value of the currency in terms of the cost of living (inflation) and exchange rate had the basis for a well-developed response. Candidates could approach the rest of their answer either by analysing the effects of inflation on the exchange

rate or the effect of changes in the exchange rate on the cost of living had fulfilled the question's requirements.

- (b) Most candidates identified three or more key macroeconomic aims of a government and the best candidates chose two or more pairs of the aims and analysed how they may or may not be achieved simultaneously. Other candidates identified fewer aims or analysed fewer comparisons reducing the impact of their responses.

### Question 7

This was the second most popular question.

The question required a clear strategy. A clear definition of what a multinational corporation (MCN) is together with an example(s) was a good start. Candidates also had to clearly show an understanding of the difference between the home country and the overseas countries in which they operate. This separation needed to be maintained throughout the answer. Those who used the multiplier to analyse the impact of investment in overseas countries on employment and national income were suitably rewarded. Other sources of analysis were available to those who saw the impact of MNC through the lens of inflation/balance of payments. A significant number of answers lacked analysis or were restricted in breadth. Only the best provided any evaluation and a conclusion.

# ECONOMICS

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Paper 9708/43  
Data Response and Essays

## General comments

Responses to this paper were generally consistent with those of recent years. It was clear that the majority of candidates were able to provide some good, well-structured analysis. Although it was more noticeable in this session that a significant number of candidates were not able to use their analysis effectively to form a judgement. This lack of sufficient, developed evaluative comment relating to specific essays, frequently led to a good level 3 grades rather than higher marked level 4 grades.

There was also a clear distinction between performance regarding the Data Response section of this paper and the **Section B** essay questions. The former was dealt with much more effectively. Many scored high marks on **Section A** and, to some extent, this compensated for the failure to provide critical analysis in many of the **Section B** essays.

Diagrams that were considered to be an essential part were generally accurate and clearly labelled. Although relatively few diagrams were necessary given the nature of the specific essay questions.

On a more general note, it was very pleasing to see quite a significant improvement in the quality of candidate's handwriting. Although this might not appear to be a significant issue and marks are certainly not deducted for poor handwriting, if handwriting is illegible then it clearly becomes impossible to read essays and potential marks may be subsequently lost.

## Comments on specific questions

### **Section A**

- (a) This part of the Data Response required candidates to use a bar chart, which illustrated changes in use of Palm Oil in Europe, to identify trends in demand for different uses. Three marks were available for identifying three different trends. This question was dealt with very successfully. Almost 100 per cent of candidates were able to gain the full 3 marks.
- (b) Analyse was the key command word in **part (b)**. The majority of responses indicated that this had been recognised and marks were gained for establishing clear chains of reasoning linking the production of palm oil by developing countries to the reduction of poverty
- (c) The emphasis in **part (c)** was upon the need to effectively use evidence from the extract to explain how a change in fiscal policy might affect the economies of palm oil producing countries in Malaysia and Indonesia. The best responses demonstrated an understanding of the link between removing a subsidy and the price of biodiesel, which in turn, would eventually impact on lower demand for palm oil. Less focused answers simply explained the potential impact on incomes and employment and basically ignoring the cause of the impact.
- (d) **Part (d)** required a discussion. The key words in the question asking: 'to what extent do you agree with the advice'. This should have immediately signalled to candidates that two sides of an argument would be required with some attempt to form a judgement or draw a conclusion at the end of the response. The question was phrased to ensure that answers would have to rely heavily upon the text in the extract. A significant number of candidates were able to successfully provide two sides to their response and the better candidates also provided a conclusion which was clearly linked to the preceding argument. Up to half marks were awarded for each side of the argument and additional mark was available for a reasoned conclusion, up to a maximum of 8 marks. Responses tended to focus more upon the potential disadvantages associated with Indonesia

taking the advice of the IMF. This was probably due to the fact that the relevant material in the text was easier to find, compared to evidence that could have been used in support of the advice.

## Section B

### Question 2

Although the first part of this question has not been frequently tested in recent session, this was a very popular question. It was clear that many students had been well prepared to answer a question relating to cost benefit analysis. This was quite evident when considering the depth of the analysis provided. However, this question required to establish why cost benefit might be particularly important when a government has to decide how much of a public good to provide. Therefore, although many responses demonstrated a clear understanding of the key elements of cost benefit analysis plus the key characteristics of a public good, it was import to link why an understanding of one would be necessary to fully understand its use when deciding how much of a public good to provide. The two key elements related to the cost of providing a public good and the length of time for the project to be completed. Candidates who recognised this gained high marks

The second part of this question was generally dealt with effectively and quite thoroughly. Candidates were clearly well prepared to explain the two types of efficiency referred to in the question and few were unable to provide an accurate definition of pareto optimality. However, many failed to develop the different links between pareto optimality, productive and allocative efficiency. Also, marks were lost due to a failure to fully examine the difference between equity and efficiency. Although this distinction can be quite subtle, only the better candidates were able to full differentiate between the two terms. This was essential to gain a level 4 mark.

### Question 3

- (a) This question required an explanation of the close link between a high market concentration ratio and an Oligopoly market structure and then use this to consider how this might impact on the pricing policy of an Oligopoly firm. Those who attempted this question were generally successful regarding demonstrating an understanding of what is meant by a high concentration ratio and subsequently identifying this with an oligopolistic market structure.

It was expected that candidates would then proceed to provide an analysis of alternative pricing policies based on this type of market structure. Some very good responses explained Game theory, kinked demand curve and price rigidity and how these might affect pricing decisions, revenue and ultimately profits. High marks were awarded to those who not only considered alternative pricing policies but also developed their responses further by discussing non-price competition such as product differentiation and/or advertising.

- (b) Candidates understood the concept of limit pricing and how it could be used as a barrier to entry by a monopoly firm. It was also pleasing to note that supporting diagrams were accurate, clearly labelled and referred to appropriately in the supporting text. The key to a high mark for this question related to the extent to which this policy would benefit the consumer in the short run but possibly not in the long run. A significant number recognised that consumers would be likely to benefit due to lower price in the short run, because limit pricing will, initially, lead to monopolies lowering their market prices. The potential cost, i.e. through increasing prices due to monopolies increasing their market share was also generally understood and contributed effectively to some good analysis. Very good responses questioned whether prices might remain low in the long run due to the monopoly benefiting from a increase market share leading to dynamic efficiency which might lower costs and ultimately allow relatively low prices to be maintained even in the long run.

### Question 4

- (a) A relatively low number of candidates chose to answer this question. This was possibly due to the fact that questions relating to the 'net advantage of labour' have not been frequently asked on this exam. Although the topic is clearly identified in the syllabus. As a result the average mark tended to be significantly lower for those who attempted this question. Many responses focused almost entirely on factors which might affect the long term supply of labour. It was essential that candidates identify and consider the non-pecuniary elements, those who didn't do this lost marks. Most references to alternative policies focused on market forces such as tax reductions and/or

minimum wages. This was acceptable but references to training, new regulations regarding working conditions, were necessary to gain higher level marks

- (b) In contrast to **part (a)** there were many excellent answers to this question. Candidates were well prepared to answer this type of question on the labour market. Diagrams were invariably accurate, clearly labelled and relevant to the forthcoming analysis. The use of marginal product theory to demonstrate a clear understanding of what is meant by an increase in labour productivity was evident throughout most responses. Explanations of and the distinction between a perfectly competitive and a monopsony labour market were very good and gained marks for demonstrating competent analysis. A significant number of candidates were able to proceed to examine the impact of an increase in the impact of labour productivity in both types of market, compare the differences and form a judgement.

#### Question 5

- (a) Good answers focused upon an analysis of what constitutes export led growth and successfully applying this concept through the use of an accurate circular flow diagram. Diagrams provided varied quite significantly, from the very basic generic flow diagram involving households, firms, government, and financial institutions, to the more precise leakage/injections graphical presentation. The latter plus appropriate references allowed candidates who chose this approach to provide a more in-depth analysis and subsequently gain higher marks. It was also important for candidates to ensure that their response was set in the context of the specific question. In particular, candidates needed to focus upon a 'developed economy' when it is 'in a recession'. Responses which incorporated the specific context, invariably gained higher marks. Better responses also made some attempt to compare alternative policies which might enable a developed economy to move out of recession, rather than focusing entirely on export led growth, also gained additional marks.
- (b) Responses to this part of the question produced a fairly wide range of marks. The majority of candidates understood the links between new technology, productivity and, potentially, unemployment. It was understood that this type of unemployment is associated with the concept of structural unemployment and therefore more likely to be connected to a specific industry rather than the economy as a whole. Good answers recognised that there would be likely to be a difference between the short run effect and the long run effect. The substitution of capital for labour in the short run was generally understood. However, it was only the better responses which discussed the links between an increase in productivity, falling prices, an increase in a market demand and potentially therefore, an increase in the demand for labour in the long run. Recognising this possibility would have gained a level 4 mark.

#### Question 6

This question required candidates to examine the relationship between undeveloped economies, a high dependency ratio and low standard of living. This question was attempted by many candidates. This was probably due to the frequency of this type of question set which require a discussion around undeveloped economies and the standard of living. However, it should be noted that on this occasion, candidates were expected to focus to a significant extent on the role of a high dependency ratio regarding in the determination of the standard of living. Many responses failed to do this and provided a more general discussion centred around the causes of low living standards in undeveloped countries. Far too many candidates failed to provide any evidence of having understood what might be meant by a high dependency ratio, even though the meaning was self-evident in the question that was set.

Better responses proceeded to discuss problems associated with defining what we might mean by the 'standard of living'. As well as identifying such problems, it was expected that candidates would also discuss how far we can attribute a high dependency ratio to an explanation of low living standards. For example, many developed economies also have a high dependency ratio but at the same time enjoy a high standard of living. In addition, good responses made an attempt to compare this explanation with alternative explanations and then assess the relative contribution of each factor to a low standard of living. This would have formed the basis of a relevant conclusion based on the preceding analysis. Few candidates managed to achieve this.

### Question 7

Very low numbers of candidates answered this question. Those who did attempt to answer produced some very weak responses. Responses provided much generalised comment but singularly failed to address the specific question. Perhaps this part of the syllabus which requires an understanding of the role of fixed/floating exchange rates and their interaction with other macroeconomic variables such as unemployment, inflation and economic growth, might be examined in more detail.