

ECONOMICS

Paper 0987/12
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2, 6, 7, 15, 16, 18, 20, 21, 26** and **29**. These questions were answered correctly by 75 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions that proved most challenging on the paper were **3, 5, 8** and **12**.

Comments on specific questions

Question 3

Question 3 was answered correctly by 18 per cent of the candidates who chose option **D**. 4 per cent chose option **A**, 45 per cent chose option **B** and 34 per cent chose option **C**. The US government (public sector) is involved and helium is a factor used in production. The US government has stocks of the factor so, as there is a supply of existing stocks to meet the demand, there is not an excess of demand over supply as stated in option **B**.

Question 5

Question 5 was answered correctly by 35 per cent of the candidates who chose option **A**. 11 per cent chose option **B**, 42 per cent chose option **C** and 12 per cent chose option **D**. In a market economy the equilibrium price clears the market (option **A**) but this is not always a satisfactory outcome as there can be market failures and thus it is not always an advantage that there is no government intervention (option **C**).

Question 8

Question 8 was answered correctly by 42 per cent of the candidates who chose option **D**. 16 per cent chose option **A**, 28 per cent chose option **B** and 14 per cent chose option **C**. For demand to be price-inelastic a fall in the price would result in a decrease in the total revenue. The change in price from \$6 to \$5 (option **A**), results in an increase in total revenue from \$18 to \$20. Similar calculations for the other price changes also show increases in total revenue. It is only the change from \$3 to \$2 that results in a decrease total revenue from \$21 to \$18 (option **D**).

Question 12

Question 12 was answered correctly by 34 per cent who chose option **D**. 20 per cent chose option **A**, 39 per cent chose option **B** and 7 per cent chose option **C**. The question concerns a subsidy given to a firm. The diagram shows a shift in the supply curve as a result of the subsidy. The new equilibrium output is shown by the intersection of the S_2 curve and the D_1 curve. The revenue to the firm would be OEKM (option **B**) plus the subsidy of EGHK (option **A**). The total revenue would, therefore, be OGHM (option **D**). Those who chose option **B** did not include the subsidy to the firm from the government.

* Please note that due to an issue with **Question 22**, this question has been discounted. Candidates' marks have been multiplied by a weighting factor so that the maximum mark for the question paper remains unchanged.

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<p>Paper 0987/22 Structured Questions</p>

Key messages

Candidates should remember that **Question 1** is a data response question. This means that they need to draw on information in the stimulus material in their answers. For example, when asked to ‘Explain two reasons why a government may privatise an industry’, the reasons needed to be found in the stimulus material. Having used their understanding of economics, to select two relevant reasons, candidates then had to use their economic knowledge to explain the reasons. There will be points in the stimulus material that can be drawn to answer the **Question 1(g)** and **Question 1(h)** parts. Candidates can widen out their answers to these question parts but what they write should not contradict what is in the stimulus material. For example, in this session, it would not have been appropriate to write that an argument for the Indian government increasing the tax on airline fuel is that the tax is currently low. This is because the stimulus material clearly states that ‘India has Asia’s highest airline fuel tax.’

The widest variation in performance in recent sessions has been on the **(d)** part of the optional questions. To achieve a good performance on the **(d)** part of the optional questions, candidates are advised to:

- read the question carefully
- think through the answer carefully
- define the key terms
- develop the points made – providing relevant links
- consider both sides.

General comments

There was a disappointing proportion of candidates who omitted a question part or who answered all four of the optional questions. The first of these actions obviously lost candidates marks but so, on most occasions, did the second as it resulted in candidates not devoting sufficient time to each question answered.

The performance on the first question continues to be generally good with a pleasing number of candidates providing strong answers particularly to **Question 1(g)** and **Question 1(h)**.

There was a relatively even spread of the optional questions selected. The best performance was on the **(b)** and **(c)** parts of the optional questions. A relatively high proportion of candidates provided good explanation and clear, logical analysis on these question parts. The performance on the **(a)** and **(d)** parts was more varied. The answers given to the **(a)** parts often lacked precision. A disappointing proportion of candidates wrote in general terms in their answers to the **(d)** parts. A number of these made points without providing any supporting economics. As in previous sessions, there was some confusion shown over the meaning of economic terms, particularly, productivity. Many candidates assume that productivity is the same as production. There were, however, some excellent answers to the **(d)** parts which showed a strong ability to apply economic theory to the consideration of current economic issues.

The area of the syllabus that candidates seemed to find most challenging was international trade and globalisation. A number of candidates struggled on **Question 1(e)** and some showed confusion over the effects of a fall in the foreign exchange rate on **Question 4(d)**.

Comments on specific questions

Section A

Question 1

This was generally well answered with most candidates attempting all the question parts and considering both sides in **Question 1(g)** and **Question 1(h)**.

- (a) When undertaking a calculation, it is important that candidates get the right size of figure in terms of e.g., thousands, millions or billions. In this case, some candidates recognised that the loss had to be calculated by deducting costs from revenue but then gave \$7 as the answer instead of \$700 million or \$0.7 billion.
- (b) Most candidates were able to identify the two substitutes for air travel mentioned in the stimulus material. A small proportion of candidates wrote at greater length than required, explaining the nature of substitutes and why travel by trains and travel by ships may be substitutes for air travel. The command word for this question was 'identify' and so candidates did not need to explain.
- (c) In the answer to this question, explanation was needed. The majority of candidates were able to identify from the stimulus material that Air India had 100 per cent of the market in 1984. Some went on, as required, to explain what this meant.
- (d) Most candidates were able to identify two reasons from the stimulus material. The two most popular reasons identified were to raise revenue and to increase efficiency. Explanations of why a government may want to raise revenue were particularly strong.
- (e) A number of candidates found this a challenging question. Some appeared to be unaware of the nature of the current account of the balance of payments. These candidates wrote in general terms, mentioning that China had a positive balance while India had a negative balance. A small proportion of candidates confused the current account of the balance of payments with the government's budget balance.

Those candidates who did well on this question recognised that India had a current account deficit and compared this position with that of the other countries. An example of a good answer is:

India has the largest deficit in the current account. This may be due to import expenditure exceeding its export revenue. But even though India has the largest deficit in \$s, Kenya has a larger deficit as a % of GDP.

In contrast to India, China and Russia have a current account surplus. China has the most surplus on the current account. It may be because it is exporting more goods and services (surplus in trade in goods and services) or more primary and secondary income. But its current account % of GDP is only 1.4% which is less than Russia which has 2.2%.

- (f) This was a well-answered question. Good use was made of the information in the stimulus material and good links were provided from, for instance, an increase in the number of tourists to higher total demand and then to higher output and higher employment. Some candidates, however, tried to answer another question. They wrote about how the airlines could have become more successful.
- (g) The average standard on this question was again good. The vast majority of candidates provided a two-sided answer. The strongest answers built on the information provided by applying relevant economic theory. For example, some candidates developed the point about reducing market failure by exploring how a higher tax on airline fuel could improve the environment. An example of a good answer is:

The government should increase tax on airline fuel as it will increase tax revenue which will improve the government's budget. As a result, the government could spend more on education and healthcare which could increase living standards. This will also reduce market failure as a higher price of flights will decrease demand for flights. This will reduce external costs including air pollution.

On the other hand, India's air passengers are among the most price-sensitive in the world which means there is high price elastic demand. If prices are increased, demand for flights will decrease by a larger percentage and therefore will reduce airlines' revenue. Costs of production will increase which could lower corporate tax revenue as well. Increasing tax on airline fuel may also reduce exports and may lead to a deficit in the balance of payments as cost of transporting exports will increase and therefore demand for exports will decrease.

- (h) There were some interesting answers to this question. There was some good application of the influences on a person's choice of occupation to the question of whether more people will apply to be pilots for Indian airlines in the future. These answers both drew on information from the stimulus material and included other potential influences. An example of a good answer is:

It is said that India may have the third largest airline industry by 2025. This means that there will be a high demand for pilots. A pilot is a highly specialised and reputable job as more people would try to become pilots. The high demand means they will be offered high wages and so will enjoy high living standards. The prediction of India's success in the future airline industry means there may be high job security. The working conditions will be of a high standard thus attracting more people to become pilots.

However, pilot training is very long and requires many years of high level of education which may discourage some people. The possible danger involved in being a pilot may scare some from becoming a pilot. It is also a highly specialised occupation which means people may become bored doing the same task over and over again.

Section B

Question 2

There was a wide spread of performance on this question. The best answered question part was **Question 2(b)**.

- (a) Some candidates confused a free good with a public good. Others wrote in too generalised terms, referring, for example, to products that are provided to consumers free. Some mentioned that free goods are produced without cost. This was too imprecise. Labour, for instance, may be given without charge in some organisations. The key point is that free goods do not involve an opportunity cost and they do not require resources to produce them.
- (b) The best answers here recognised that the secondary sector covers manufacturing and construction while the tertiary sector covers services. These answers gave a relevant example of both sectors with car production and education being popular choices. Some candidates, however, mistakenly wrote about the private and public sectors and some confused the secondary sector with the primary sector.
- (c) Over time, candidates have got better at drawing production possibility curves. This time, most candidates did label the axes correctly and most did draw a second curve to the right of the original one, indicating the outward shift by an arrow, or less commonly by letters. A very small proportion of candidates did not draw the curves to the axes and a number drew a demand and supply diagram rather than a PPC diagram.

The strength of the written analysis varied. The strongest answers recognised that an increase in the quality of a country's resources increases its ability to produce goods and services.

- (d) Some candidates revealed confused thinking. Some wrote that more women entering the labour force would reduce unemployment. They did not recognise that before entering the labour force, people are not unemployed, they are economically inactive. A number of candidates suggested there is a fixed number of jobs by mentioning that having fewer workers in the future will reduce unemployment. Candidates should recognise that the number employed is influenced by both the demand for and supply of labour.

Other candidates wrote that having fewer children will increase people's disposable income and increase their spending. This showed a misunderstanding of the meaning of disposable income and did not recognise that parents spend money bringing up children.

A number of candidates just stated some possible advantages and disadvantages of a fall in a country's birth rate without explaining them. Some candidates did, however, produce perceptive, well-developed answers. An example is:

If there is a fall in the birth rate, this may benefit the economy as there will be a reduction in the young dependency ratio. Workers will have to support fewer children. The government may spend revenue saved on spending on fewer children on spending which will increase economic growth by providing subsidies to firms or investment in infrastructure.

If the fall in the country's birth rate is due to the emancipation of women, this will mean they will add to the labour force. This will increase the productive capacity of the economy and lead to economic growth as there will be more availability of labour.

If the birth rate falls by more than the death rate, the population may decrease. It may reach the optimum population which may increase output per head. A lower population may also reduce the depletion of scarce resources

However, a sustained decline in a country's birth rate may result in a high elderly dependency ratio. The size of the labour force may decline and so reduce the output the country can produce. The average age of workers may increase and older workers may be less efficient as they may be out of date with advances in technology.

Question 3

The best answered part to this question was **Question 3(b)**. Some candidates were uncertain about the determinants of price elasticity of supply and there was a wide variation on the performance on **Question 3(c)** and **Question 3(d)**.

- (a) The two most popular determinants of price elasticity of supply identified were production time and ability to store the product. However, a relatively high proportion of candidates identified determinants of price elasticity of demand. Some mentioned factors that influence supply rather than specifically the factors that determine the extent to which supply adjusts to a change in price.
- (b) This was generally well-answered. Many candidates recognised that ending child labour would enable children to gain a better education which would increase their skills. There were some good comments on the possible effects on children's health and job opportunities for adults.
- (c) There were some good answers which showed a strong understanding of economies and diseconomies of scale. A number of candidates, however, confused average costs and total costs. These candidates wrote that as output increases, firms have to employ more workers and use more raw materials. From this, they concluded that their average costs would rise. While it can be determined that total costs would increase, whether average costs would rise would depend on whether total costs rise by more than output. Other candidates appeared to think that higher profits would reduce average costs. These candidates did not recognise that profit is the difference between revenue and costs rather than a determinant of costs.
- (d) Some candidates wrote in general terms that output, employment and exports might increase. Stronger answers explained how specialisation could influence output and the international competitiveness of the country's agricultural products. There were also some good comments on the possible quality of employment and income earned in the agricultural sector as well as the possible opportunity cost involved in a country allocating more of its resources to agriculture. An example of a good answer is:

The economy would benefit from allocating more resources to agriculture because agriculture is labour-intensive, so there would be more job opportunities available which in turn would reduce unemployment. In addition, the country may become more specialised in agricultural products where it has an advantage, so the quality of its agricultural industry products increases. The agricultural industry would expand and it may be able to take advantage of economies of scale such as technical economies of scale which would decrease costs of production. This would enable price reductions in agricultural products. All of these factors can increase the country's exports of agricultural products and so improve the current account balance. Moreover, increased production and specialisation in agricultural products would ensure that the country is not overly dependent on imports of important agricultural products such as food from other countries.

On the other hand, agriculture is in the primary sector, so moving resources to it would mean that less resources are allocated to the secondary and tertiary sectors and so the overall revenue can decrease. Furthermore, jobs in agriculture are low paying which increases poverty and decreases living standards. Another point to take into account is that more production in agriculture and more people employed in agriculture can increase the level of seasonal unemployment in the country. Plus agricultural products are affected by factors such as weather which can cause uncertainty in their quality and supply.

Question 4

Most candidates answered **parts Question 4(b) and Question 4(c)** well. There was more variation on **parts Question 4(a) and Question 4(d)**.

- (a) Some candidates clearly identified two of the three resource allocation decisions, with the two most popular selected being what to produce and who to produce for.
- (b) There were some good answers to this question. Some of the strongest answers explained how a fall in the rate of interest or a rise in confidence may cause households to save less. A small proportion of candidates wrote about why households may save more. It is important that candidates read questions carefully.
- (c) Most candidates provided good analysis based on a strong understanding of the role of trade unions. There was some particularly good analysis of how collective bargaining may result in higher wages and better working conditions for workers. A small number of candidates wrote about trade organisations rather than trade unions.
- (d) Some candidates were confused about the effects of a fall in the exchange rate on export and import prices. Others did not go beyond the possible effects on the current account of the balance of payments to consider the effects on other aspects of macroeconomic performance. A number of candidates produced excellent answers by considering how an increase in the international price competitiveness of the country's products could not only benefit the current account balance but also economic growth and employment. These answers also examined the possible effects on inflation and why import expenditure may not fall. An example of a good answer is:

A fall in a country's foreign exchange rate is also known as depreciation. It is when the value of the currency falls due to lower demand and higher supply of the currency. Lower demand for exports, economic instability and lower interest rate may decrease demand for the currency.

Depreciation may help a country's macroeconomic performance. It will lower the price of exports and increase their demand. More exports will assist in producing more output and higher economic growth. Moreover, more exports will help the balance of payments to be in equilibrium. Higher output would increase demand for labour which will create employment and reduce unemployment. Dumping would be prevented as local industries would be safeguarded from cheaper imports.

On the contrary, higher employment would increase income. This will increase consumption. Higher total demand would lead to demand-pull inflation.

Moreover, if the demand for imports is inelastic, people may still buy them leading to more spending on imports. If import spending does fall, it could reduce competition and cause local firms to become inefficient. The fall in competition could cause local firms to increase prices to get more profits. Inflation could increase. The fall in the foreign exchange rate could also reduce competition. This could lower economic growth.

Question 5

Most candidates answered **parts Question 5(b) and Question 5(c)** well. There was more variation on **parts Question 5(a) and Question 5(d)**.

- (a) The two most common answers given were to increase progressive taxation and to provide more state benefits to the poor. Some answers given were too vague. For example, some answers mentioned the government could increase the income of the poor without identifying how this could be achieved.

- (b) This was a well-answered question. Most candidates were able to explain two advantages of a market economic system. There was some particularly good explanation of why such a system may result in low prices and why firms may be encouraged to produce what consumers demand. Unfortunately, some candidates wrote about the advantages of a mixed economic system.
- (c) There was some good analysis provided in the answers to this question. Most candidates seemed well-informed on the influences on life expectancy. There were good links provided between lower incomes, lower access to healthcare and lower life expectancy. There were also some up-to-date comments on the distressing spread of the recent pandemic.
- (d) A number of candidates who answered this question wrote about monetary policy measures rather than supply-side policy measures. Others wrote about the effects of increasing total supply without examining how the government could achieve this. There were, however, some excellent answers. Many of these were particularly good on examining whether or not increases in government spending on education and subsidies would reduce inflation. An example of a strong answer is:

Supply-side policies are the macroeconomic policies which influence supply in order to achieve government objectives.

Supply-side policies contain relaxation on indirect taxes, subsidy grants, deregulation, investment by government and training by government through vocational courses.

When supply increases, it leads to a fall in prices and an increase in economic growth. However, the impact of supply-side policies can only be achieved in the long run. The reduction in taxes and subsidy grants lower cost-push inflation. Secondly privatisation helps to reduce inefficient production and causes less wastage which lowers costs of production. Moreover, training through vocational centres develops and enhances skills of workers which help to produce good quality products at lower prices.

On the other hand, privatisation may lead to inflation. It may establish private sector monopolies which charge higher prices as demand for the products may be inelastic. Secondly, a subsidy could make firms inefficient and cause average cost to rise. Moreover, economic growth through supply-side policies would create employment opportunities. High employment would lead to high incomes, more purchasing power and more consumption, leading to an increase in total demand. As a result, demand-pull inflation will take place.