

# ECONOMICS

**Paper 9708/11**  
**Multiple Choice (Core)**

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

## General Comments

There were 1438 candidates and the mean score was 14.92 with a standard deviation of 4.49. The highest candidate score was 28 and the general performance compared unfavourably with that of last year. Five questions proved relatively easy and four proved relatively difficult. This number of difficult items was higher than usual.

## Comments on specific questions

**Question 11** produced unexpected statistics. A majority of candidates opted for **D** rather than **C**. This identified a level of consumer surplus that would have existed had the consumers been able to buy the quantity they wanted at the government's maximum price. However the maximum price would result in insufficient supply in the market so a smaller amount of consumer surplus would have resulted.

The very even spread of responses to **Question 24** suggested a degree of guessing and weak understanding in the interpretation of the data. The correct response was **C** because a below average price rise was necessary to offset the higher values in the data. This did not necessarily mean that any prices **must** have fallen.

There were a number of questions in which more candidates selected the same incorrect option than picked the correct answer. Of these **Questions 11, 23** and **24** had positive distractors that indicated errors by candidates who generally performed well on the test. Two of these have been mentioned above.

In **Question 8**, the choice of **B** rather than **C** overlooked the increasingly inelastic nature of the demand curve when moving down its length. A problem with understanding of the elasticity of supply curves in

**Question 13** resulted in the selection of **B** rather than **D**. Both curves have unitary elasticity of supply. The illustration of the nature of elasticity in diagrams seemed to present particular difficulties to candidates this session.

In **Question 14**, only 16 % selected the correct key, **B**. This indicated a failure to recognise hospitals as merit (positive externality) goods.

The largest proportion of candidates opted for **B** in **Question 20**, while only 35% selected the correct response **A**. An ad valorem (percentage) tariff results in a divergence between the original and final curve. The parallel move in **B** illustrated a specific or unit tariff.

In **Question 23** the correct response, **A**, was the least popular. The most popular choice, **C**, overlooks the possibility that the unemployment may involve those who are new to the workforce rather than those already in it.

While most candidates recognised that the CPI would increase in **Question 25** only the stronger candidates understood that it would be at a decreasing rate, hence **C** was correct rather than **D**.

**Questions 5** and **12** proved to be the most accessible to candidates with a facility rate greater than 80%.

# ECONOMICS

Paper 9708/12  
Multiple Choice (Core)

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

## General Comments

There were 6335 candidates and the mean score was 16.72 with a standard deviation of 5.14. Three candidates scored full marks, while 154 candidates scored below the guessing level. The general performance compared unfavourably with that of last year. Six questions proved relatively easy and four questions proved relatively difficult. This number of difficult items was higher than usual.

## Comments on specific questions

**Questions 11** and **24** produced unexpected statistics. In the former a majority of candidates opted for **D** rather than **C**. This identified a level of consumer surplus that would have existed had the consumers been able to buy the quantity they wanted at the government's maximum price. However the maximum price would result in insufficient supply in the market so a smaller amount of consumer surplus would have resulted.

The very even spread of responses to **Question 24** suggested a degree of guessing and weak understanding in the interpretation of the data. The correct response was **C** because a below average price rise was necessary to offset the higher values in the data. This did not necessarily mean that any prices **must** have fallen.

There were a number of questions in which more candidates selected the same incorrect option than picked the correct answer. Of these **Questions 11, 23** and **24** had positive distractors that indicated errors by candidates who generally performed well on the test. Two of these questions have been mentioned above.

In **Question 14**, only 17 % selected the correct key, **B**. This indicated a failure to recognise hospitals as merit (positive externality) goods. A disappointing number thought that hospitals were non-excludable or approached the term 'essential service' uncritically.

In **Question 23** the correct response was **A**, while the most frequent choice was **C**. This overlooked the possibility that the higher unemployment might involve those who are new to the workforce rather than those already in it. The selection of **D** misunderstood the nature or composition of the labour force.

While most recognised that the CPI would increase in **Question 25** only the stronger candidates understood that it would be at a decreasing rate, hence **C** was correct rather than **D**.

**Questions 1, 2, 5, 9, 10** and **12** proved to be the most accessible to candidates with a facility rate greater than 80%. This suggested that candidates coped better with the early sections of the syllabus rather than the later sections.

# ECONOMICS

**Paper 9708/13**  
**Multiple Choice (Core)**

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

## General Comments

There were 529 candidates all from New Zealand Centres with a mean score of 19.32 and a standard deviation of 4.90. Although no candidate scored full marks, 8 made a single error and only three candidates scored below the guessing level. While the general performance was impressive there were a greater than normal number of questions that were relatively easy, and were at the top end of the test's design limit. Two questions proved relatively difficult. The statistics confirmed that all items were valid.

## Comments on specific questions

Under half of the candidates answered **Questions 7** and **12** correctly. This suggested some difficulties in interpreting the representation of elasticity in diagrams.

Consumer surplus diagrams have resulted in some years in unexpectedly low facilities. In **Question 10** the majority of candidates opted for **D** rather than **C**. This identified a level of consumer surplus that would have existed had the consumers been able to buy the quantity they wanted at the government's maximum price. However the maximum price would result in insufficient supply in the market so a smaller amount of consumer surplus would have resulted. Candidates may have over-concentrated on the consumer surplus aspect to the exclusion of the relevance of the maximum price context. Some of the stronger candidates made this error.

In **Question 13**, only 20 % selected the correct key, **B**, with the majority choosing **D**. This indicated a failure to recognise hospitals as merit (positive externality) goods. A disappointing number thought that hospitals were non-excludable or approached the term 'essential service' uncritically. No candidates opted for **A** and there were no positive distractors to suggest that performance here did not accurately reflect overall performance on the paper.

In **Question 22** the correct response was **A**, while the most frequent choice was **C**. This overlooked the possibility that the higher unemployment might involve those who are new to the workforce rather than those already in it. The selection of **D** misunderstood the nature or composition of the labour force.

**Question 26** proved to be one of the questions with relatively low facility. There was an even spread among the distractors indicating uncertainty over the interpretation of the exchange rate relationships.

**Questions 4, 8, and 9** proved to be the most accessible to candidates with a facility rate greater than 90%. This indicated thorough understanding of demand and supply issues.

# ECONOMICS

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

## General Comments

The data response proved to be more accessible to candidates than in some recent years and it was not uncommon for candidates to score more highly there than on the essay question. An issue for some in the data response was a lack of attention to the mark tariff and consequently a misallocation of time. Candidates do not always follow the instruction for 'brief answers'. While there was impressive accuracy on some definitions (comparative advantage and production possibility curve), other meanings (terms of trade and dumping) remain problematic. Candidates need to read the precise wording of questions to ensure that answers are relevant.

There were a surprising number of false starts to essays that suggested the need for more thought before beginning to write. It was noticeable that candidates found it difficult to cope with essays that contained any less familiar tasks.

## Comments on specific questions

### Data Response

#### **Question 1**

The data response question concerned the current account of Swaziland's balance of payments. It required manipulation of the statistics and consideration of comparative advantage, depreciation and tariffs. There was sound numerical data handling, while the weakest area was the link between depreciation and export revenue.

- (a) (i) and (ii)** The majority of candidates correctly identified the balance of services and the balance of goods in that order. The most common incorrect responses were net current transfers and services in that order. This was the result of not appreciating the significance of the word 'continuously' in the question. Some responses were unnecessarily detailed for a one mark tariff.
- (b)** There were some thorough, impressive performances on this analysis. Although the expected comparison was between 2003 and 2007 credit was rewarded for the inclusion of 2005. Weaknesses were to detail each component rather than the overall total and to treat the question as a mathematical test using the terms negative and positive rather than deficit and surplus. Reasons for the change were not required.
- (c) (i)** There were many exact definitions of comparative advantage. A small number of candidates offered numerical justifications that were not necessary and used time that might have been better employed elsewhere.
- (ii)** The application of comparative advantage proved more challenging. Although most answers scored something there were a number who did not. It was intended that candidates would identify that the list of successful exports could be divided into categories e.g. agricultural products and basic manufactures. Other terms such as primary, secondary and foodstuffs were equally acceptable. This then needed to be related to their likely factor endowments which might be suitable climate and soil (land), inexpensive work force (labour) and basic technology (capital). Copying out the list of products was not given credit. Weaker answers did not pick up on the products and wrote generally about Swaziland's changing economic position.

- (d) This was the least well done part of the data response. Many candidates missed the fact that the depreciation would generate a lower price for exports and the nature of price elasticity of demand and supply would affect the resulting export revenue. Some suggested that inelastic demand would be beneficial. Others wrote about the Marshall Lerner condition that although it was not a direct answer might, depending how it was presented, gain some credit. Concentration on imports was also not required. Those who missed the effect of a currency depreciation tended to offer a general consideration of what might make an export successful, usually omitting price competitiveness.
- (e) Most answers were reasonably competent and were able to offer some justification for, and some criticism of, the use of tariffs. The setting was not understood by those who discussed the position of the EU rather than that of Swaziland or who only considered a tariff on beef. No detailed knowledge of Swaziland's trade was expected beyond that provided in the data. Common arguments involved infant industries, tax revenue, elasticity effects, dumping, further retaliation and effectiveness. The concepts of dumping and the terms of trade were not always known accurately and some answers described the operation of the tariff without judging the effects. The performance on this final part did not always mirror that on the earlier parts.

## **Essays**

### **Question 2**

The question considered the links between production possibility curves and microeconomic and macroeconomic issues. It then considered the contribution of money and division of labour to economic progress. This was an unusual approach to the topics and candidates found it difficult to structure their knowledge to the tasks set. It was probably the least popular question.

- (a) While clear definitions of production possibility curves were given, many did not make the distinction between microeconomics and macroeconomics. In some cases there was no reference to macroeconomics and microeconomics. This undermined the rest of the answer as it was then unclear to which classification the issues being represented belonged. Too many answers appeared to be the contents of candidates' notes with little attempt to tailor them to the question. In attempting to make a link candidates sometimes dropped into the error of discussing demand or sales rather than production. Unemployment was sometimes illustrated by shifts in the curve rather than a position within the curve.
- (b) As in the first part there was much note repetition with limited slanting towards the question set. Too often the answer took the form of 'these are the advantages of.... and these are the disadvantages of....' A definition usually started the consideration of division of labour but not that of money. The last step of linking the process and functions to economic progress was often omitted. Some considered money or division of labour but not both. While there were some thoughtful conclusions by and large the conclusion simply repeated the previous arguments. High performing answers were rare.

### **Question 3**

The focus of the question was inferior and complementary goods and their link to the types of elasticity and the function of price in a mixed economy. It probably produced the best marks of the essays.

- (a) There were a pleasing number of excellent answers that gained full marks and showed a clear understanding of the topic. Weaker answers omitted the negative value of the coefficient, tried to argue in terms of price elasticity of demand, defined an inferior good as a necessity and were vague on the relationship between complementary goods. It was not necessary to analyse normal goods and substitutes as a part of the response.
- (b) In the light of the performance in the first part it was disappointing that there were not more top rate answers. Clear analysis of the functions of price (signalling, allocating, rationing etc.) was infrequent. There were long descriptions of changes in demand and supply that did not conclude with the function of price. The treatment of government price setting focused on maximum and minimum price, a rather narrow approach. Too often candidates wrote about market failure without relating it to the price aspect. In these cases a general essay on public goods, merit and demerit



goods resulted without showing this to be the result of weaknesses of the price system. In a few cases candidates appeared to be writing about money rather than price.

#### Question 4

The question concerned the importance of an accurate measure of inflation and consideration of the problems of producing an accurate measure. Failing to read the full question before starting part **(a)** resulted in the repetition of material on price indices.

- (a)** Candidates tended to overlook the word accurate which was essential for a high-scoring answer. Often an 'effects of inflation' answer resulted, that obtained very limited credit. Those who addressed the question directly concentrated primarily on the implications for government policy. The idea of indexation rarely occurred which is unfortunate as it would have opened up a number of settings in which to consider the need for accurate measurement.
- (b)** Candidates were well prepared for this part and demonstrated in depth knowledge of the construction and problems of a price index. Attention was concentrated on either the CPI or the RPI with a few mentions of the GDP deflator, identified by one candidate as 'the gross demand profit deflator'. Good performances were common and high marks were awarded to well structured responses.

# ECONOMICS

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

## General Comments

The data response proved to be more accessible to candidates than in some recent years and it was not uncommon for candidates to score more highly there than on the essay question. An issue for some in the data response was a lack of attention to the mark tariff and consequently a misallocation of time. Candidates do not always follow the instruction for 'brief answers'. While there was impressive accuracy on some definitions (comparative advantage and production possibility curve), other meanings (terms of trade and dumping) remain problematic. Candidates need to read the precise wording of questions to ensure that answers are relevant.

There were a surprising number of false starts to essays that suggested the need for more thought before beginning to write. It was noticeable that candidates found it difficult to cope with essays that contained any less familiar tasks.

## Comments on specific questions

### Data Response

#### **Question 1**

The data response question concerned the current account of Swaziland's balance of payments. It required manipulation of the statistics and consideration of comparative advantage, depreciation and tariffs. There was sound numerical data handling, while the weakest area was the link between depreciation and export revenue.

- (a) (i) and (ii)** The majority of candidates correctly identified the balance of services and the balance of goods in that order. The most common incorrect responses were net current transfers and services in that order. This was the result of not appreciating the significance of the word 'continuously' in the question. Some responses were unnecessarily detailed for a one mark tariff.
- (b)** There were some thorough, impressive performances on this analysis. Although the expected comparison was between 2003 and 2007 credit was rewarded for the inclusion of 2005. Weaknesses were to detail each component rather than the overall total and to treat the question as a mathematical test using the terms negative and positive rather than deficit and surplus. Reasons for the change were not required.
- (c) (i)** There were many exact definitions of comparative advantage. A small number of candidates offered numerical justifications that were not necessary and used time that might have been better employed elsewhere.
- (ii)** The application of comparative advantage proved more challenging. Although most answers scored something there were a number who did not. It was intended that candidates would identify that the list of successful exports could be divided into categories e.g. agricultural products and basic manufactures. Other terms such as primary, secondary and foodstuffs were equally acceptable. This then needed to be related to their likely factor endowments which might be suitable climate and soil (land), inexpensive work force (labour) and basic technology (capital). Copying out the list of products was not given credit. Weaker answers did not pick up on the products and wrote generally about Swaziland's changing economic position.

- (d) This was the least well done part of the data response. Many candidates missed the fact that the depreciation would generate a lower price for exports and the nature of price elasticity of demand and supply would affect the resulting export revenue. Some suggested that inelastic demand would be beneficial. Others wrote about the Marshall Lerner condition that although it was not a direct answer might, depending how it was presented, gain some credit. Concentration on imports was also not required. Those who missed the effect of a currency depreciation tended to offer a general consideration of what might make an export successful, usually omitting price competitiveness.
- (e) Most answers were reasonably competent and were able to offer some justification for, and some criticism of, the use of tariffs. The setting was not understood by those who discussed the position of the EU rather than that of Swaziland or who only considered a tariff on beef. No detailed knowledge of Swaziland's trade was expected beyond that provided in the data. Common arguments involved infant industries, tax revenue, elasticity effects, dumping, further retaliation and effectiveness. The concepts of dumping and the terms of trade were not always known accurately and some answers described the operation of the tariff without judging the effects. The performance on this final part did not always mirror that on the earlier parts.

## Essays

### Question 2

The question considered the links between production possibility curves and microeconomic and macroeconomic issues. It then considered the contribution of money and division of labour to economic progress. This was an unusual approach to the topics and candidates found it difficult to structure their knowledge to the tasks set. It was probably the least popular question.

- (a) While clear definitions of production possibility curves were given, many did not make the distinction between microeconomics and macroeconomics. In some cases there was no reference to macroeconomics and microeconomics. This undermined the rest of the answer as it was then unclear to which classification the issues being represented belonged. Too many answers appeared to be the contents of candidates' notes with little attempt to tailor them to the question. In attempting to make a link candidates sometimes dropped into the error of discussing demand or sales rather than production. Unemployment was sometimes illustrated by shifts in the curve rather than a position within the curve.
- (b) As in the first part there was much note repetition with limited slanting towards the question set. Too often the answer took the form of 'these are the advantages of.... and these are the disadvantages of....' A definition usually started the consideration of division of labour but not that of money. The last step of linking the process and functions to economic progress was often omitted. Some considered money or division of labour but not both. While there were some thoughtful conclusions by and large the conclusion simply repeated the previous arguments. High performing answers were rare.

### Question 3

The focus of the question was inferior and complementary goods and their link to the types of elasticity and the function of price in a mixed economy. It probably produced the best marks of the essays.

- (a) There were a pleasing number of excellent answers that gained full marks and showed a clear understanding of the topic. Weaker answers omitted the negative value of the coefficient, tried to argue in terms of price elasticity of demand, defined an inferior good as a necessity and were vague on the relationship between complementary goods. It was not necessary to analyse normal goods and substitutes as a part of the response.
- (b) In the light of the performance in the first part it was disappointing that there were not more top rate answers. Clear analysis of the functions of price (signalling, allocating, rationing etc.) was infrequent. There were long descriptions of changes in demand and supply that did not conclude with the function of price. The treatment of government price setting focused on maximum and minimum price, a rather narrow approach. Too often candidates wrote about market failure without relating it to the price aspect. In these cases a general essay on public goods, merit and demerit



goods resulted without showing this to be the result of weaknesses of the price system. In a few cases candidates appeared to be writing about money rather than price.

#### Question 4

The question concerned the importance of an accurate measure of inflation and consideration of the problems of producing an accurate measure. Failing to read the full question before starting part **(a)** resulted in the repetition of material on price indices.

- (a)** Candidates tended to overlook the word accurate which was essential for a high-scoring answer. Often an 'effects of inflation' answer resulted, that obtained very limited credit. Those who addressed the question directly concentrated primarily on the implications for government policy. The idea of indexation rarely occurred which is unfortunate as it would have opened up a number of settings in which to consider the need for accurate measurement.
- (b)** Candidates were well prepared for this part and demonstrated in depth knowledge of the construction and problems of a price index. Attention was concentrated on either the CPI or the RPI with a few mentions of the GDP deflator, identified by one candidate as 'the gross demand profit deflator'. Good performances were common and high marks were awarded to well structured responses.

# ECONOMICS

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Paper 9708/23

Data Response and Essay (Core)

## General Comments

There was a wide range of marks, from 1-39, and overall the standard was good.

The data response question was particularly well answered. The essays were less impressive and at times suffered from a lack of structure, limited content and inadequate diagrams. Many candidates missed out on relatively easy marks by failing to give careful definitions of key terms. If Centres successfully address these issues, candidates' grades should improve. **Essay 2** was the most popular although the choice varied between Centres with **Essay 4** proving very unpopular, attracting fewer than 10% of candidates.

There were very few rubric infringements or indications of time difficulties.

## Comments on Specific Questions

### Data Response

#### Question 1

The data response concerned the main producers' of cocoa and the market for chocolate. Raising productivity and relying on a single crop were central issues.

- (a) Almost all candidates gained one mark for an acceptable example but around half failed to give a definition of opportunity cost.
- (b) There was some good data handling with many candidates scoring three, often making use of both percentage and absolute approaches. Supporting calculations were normally very accurate. A small number did not tackle change but offered some static comments or focused on the world figures rather than making comparisons between countries.
- (c) Many candidates scored highly on this. Marks of five were common but only a small minority recognised the uncertainty of the price outcome. The supply side was done less well than the demand side and some were confused between shifts in and moves along the curves.
- (d) This proved to be the most challenging of the data response questions and some candidates resorted to copying out the text without any elaboration. There were few attempts to define labour productivity. Too many candidates wrote generalised answers and failed to give precise details of how the improvements would increase productivity. That said, there were still a reasonable number of clearly explained full mark answers.
- (e) There were very few poor answers but there were also few full mark answers. Many candidates focused on disadvantages, often failing to mention any benefits from the specialisation on one crop. Natural hazards and changes in demand were the most frequently mentioned disadvantages with some candidates giving a detailed elaboration of how these could affect the economies of the two countries specified.

## **Essays**

### **Question 2**

The difficulties of cost-benefit analysis and the consequences of externalities were the focus of this question.

- (a) There were few very good answers. The definition was often imprecise, failing to specify that social costs and benefits were being assessed. Few candidates gave a clear description of the stages in a cost-benefit analysis. The treatment of difficulties was better and many candidates scored three marks with a few gaining four. Some answers were repetitive giving several examples of the valuation problem.
- (b) Too many candidates are still confusing external and social costs, hence some of the definitions of externalities lacked precision. Few went on to give separate definitions of negative and positive externalities. A significant number of candidates adopted a very descriptive approach and gave often detailed and repetitive examples of externalities. There was also much description of government action which seemed to be answering a slightly different question, whereas points about the purposes of government action were relevant. This question was much easier to answer with diagrams yet a large number failed to include an appropriate or accurate diagram. Of those who did many failed to use the diagram to establish points such as welfare loss, overproduction and underpricing.

### **Question 3**

The question tested understanding of the benefits of a low and stable rate of inflation and the importance of different groups in the generation of a rapid rate of inflation.

- (a) The definition of inflation was sometimes partial and often omitted by weaker candidates. Low and stable inflation were not usually distinguished within the answers. Confidence, planning and trade were identified in stronger answers although not always dealt with in detail. Some candidates approached the question by examining the problems of high and unstable inflation. This earned some credit as did those candidates who showed it was preferable to deflation.
- (b) Some candidates were confused about the internal and external value of the currency. Some dealt with micro analysis discussing the price of individual goods and used supply and demand diagrams for individual products. Many candidates mentioned some of the different types of inflation but only a minority offered an explanation. Also there were some long, largely irrelevant, descriptions of the German and Zimbabwean hyperinflations. This was a relatively straightforward question and the lack of structure, factual content and explanation in many of the answers was disappointing. An outstanding candidate provided a model of how to tackle this question. The three types of inflation were explained and the role of the government and non-government sectors in causing inflation was discussed for each in turn.

### **Question 4**

Differences between trade creation and trade diversion and expenditure-dampening and expenditure-switching policies featured in the first part. An analysis of the use of a current account deficit as an indicator of economic weakness featured in the second part.

- (a) Trade creation and diversion scored poorly. Few candidates had a clear idea of the meaning of these terms and this may have been the reason why this question was largely avoided. Expenditure-dampening and expenditure-switching was better understood and there were some scores of four marks for this part of the question.
- (b) A similar question has been asked in the recent past so it is surprising that there were few good answers. Most candidates did not offer accurate definitions of the current account or a deficit position and the latter was often oversimplified as the difference between exports and imports. Stronger candidates picked up on the required approach, identifying the circumstances under which the current account would be a problem and those where it would not. However, such answers were rare and most were either one-sided or lacked substance.

# ECONOMICS

Paper 9708/31

Multiple Choice (Supplement)

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

## General Comments

There were 888 candidates with a mean score of 11.7. The low mean percentage score of 39% on this paper would suggest that many candidates found it challenging. Four of the 30 items, **Questions 5, 19, 20 and 22**, had facility scores below the 25% guessing level. Low discrimination scores indicate that even some of the better candidates were resorting to guesswork in **Questions 28 and 30**. There were a further seven questions, **6, 9, 11, 14, 18, 25, and 27**, where more candidates opted for one of the distractors than for the key, although the discrimination scores suggest that these were mostly weaker candidates.

## Comments on specific questions

**Question 5** was a particularly challenging question. To obtain the correct answer to this question one needed to realise that the firm maintains the same level of output. The majority of candidates opted for C as they had not taken that into account.

**Question 6** was a standard item which has appeared (with different numbers) on several past papers, and it is surprising that 56% of the candidates on this occasion opted for the incorrect key A.

Eliminating distractors is a perfectly legitimate way of obtaining the correct answers to MCQs, and one would have expected candidates to realise that the distractors in **Question 9** were clearly incorrect. In the event, D turned out to be a more popular option than the key.

In **Question 11** almost two-thirds of the candidates (those who opted for A or B) needed to recognise that perfectly competitive firms have no control over the price of their product.

Only 27% of the candidates in **Question 14** realised that although low wages may not be equitable, they are not necessarily an indication of market failure. The 36% who opted for B needed to recognise that vaccination against infectious diseases confers external benefits on others.

A fundamental tenet of monetarist theory is that in the long run changes in the money supply have no effect on real variables. Candidates' responses to **Question 18** suggest that this needs to be fully understood.

The diagram in **Question 19** was a standard diagram and there have been a number of questions on past papers about the average and marginal propensities to consume. Candidates need to improve on their understanding of this topic.

Candidates should have been familiar with all of the concepts in **Question 20**, but they need to improve their understanding of the relationship between these concepts.

In **Question 22** candidates need to be fully aware that the velocity of circulation is inversely related to the demand for money.

The fact that D was the most popular option in **Question 25** and A the most popular in **Question 27** would suggest that candidates are unclear about how different factors affect demand pull inflation.

It has been apparent from past papers that the operation of automatic stabilisers is not widely understood and this was confirmed by the performance of candidates in **Question 28**.

Import quotas, by reducing the quantity available, will increase the price of imports, thereby worsening a country's terms of trade. If the demand for imports is price inelastic, the % reduction in quantity will be less than the % increase in price, and hence the balance of trade will also suffer. This required a lot for candidates to work through in the limited time available to them, and consequently they found **Question 30** challenging.



# ECONOMICS

Paper 9708/32

Multiple Choice (Supplement)

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

## General comments

There were 3943 candidates with a mean score of 12.8. The mean percentage score of 43% on this paper was lower than one would have anticipated, and suggests that many candidates found the paper challenging. The evidence from the statistics also indicates that this was so. Three of the 30 items, **Questions 5, 22, and 30** had facility scores below the 25% guessing level. There were a further seven questions, **11, 14, 17\*, 19\*, 20, 26 and 27**, where more candidates opted for one of the distractors than for the key. Those asterisked also had low discrimination scores. **Questions 24 and 28** were also poor discriminators.

## Comments on specific questions

**Question 5** was a particularly challenging question. To obtain the correct answer to this question one needed to realise that the firm maintains the same level of output. The majority of candidates opted for C as they had not taken that into account.

In **Question 11** almost two-thirds of the candidates (those who opted for A or B) needed to recognise that perfectly competitive firms have no control over the price of their product.

Only 27% of the candidates in **Question 14** realised that although low wages may not be equitable, they are not necessarily an indication of market failure. The 36% who opted for B needed to recognise that vaccination against infectious diseases confers external benefits on others. Also a further 27% by choosing the incorrect key A, could improve by recognising that competition policy is designed to correct for market failure.

**Question 17** had a rather low discrimination score and more candidates opted for D rather than the key. It is of course true that an increase in the money supply will leave the level of output unchanged if there is an immediate adjustment to expectations about future price levels. However, this is a scenario one usually associates with monetarists, rather than the Keynesians who were the focus of this question.

The diagram in **Question 19** was a standard diagram and there have been a number of questions on past papers about the average and marginal propensities to consume. Candidates need to improve on their understanding of this topic.

The fact that half the candidates opted for A in **Question 20** was surprising if only because an MPC of 0.20 seems implausible. The concepts which appear in this item are all familiar concepts but candidates had great difficulty in working out the relationship between them when asked to do so in a way which is different from the way these relationships are normally presented.

In **Question 22**, candidates need to be fully aware that the velocity of circulation is inversely related to the demand for money.

Candidates needed to realise that the relatively low price of non-traded goods and services explains why the PPP exchange rates of most developing economies are higher than their market exchange rates. For a candidate who did not know this, however, one can understand why option D in **Question 24** might have appeared plausible.

One would have expected candidates to recognise that economic growth does require capital investment and, hence, a sacrifice of potential present consumption. In the event, only 27% of the candidates answered **Question 26** correctly. 42% wrongly considered an increase in inflation to be an unavoidable cost of long-run economic growth.

An even higher percentage, 44%, in **Question 27**, opted for the mistaken view that a currency appreciation would add to the pressure of demand inflation. This would suggest that candidates are unclear about how different factors affect demand pull inflation.

The relatively low facility score in **Question 28**, coupled with a very low discrimination score, confirms what has been observed on past papers, that the operation of automatic stabilisers is not widely understood even among many of the better prepared candidates.

Import quotas, by reducing the quantity available, will increase the price of imports, thereby worsening a country's terms of trade. If the demand for imports is price inelastic, the % reduction in quantity will be less than the % increase in price, and hence the balance of trade will also suffer. This required a lot for candidates to work through in the limited time available to them, and consequently they found **Question 30** challenging.

# ECONOMICS

Paper 9708/33

Multiple Choice (Supplement)

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

## General Comments

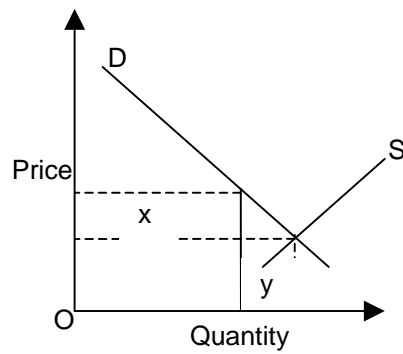
There were 153 candidates with a mean score of 16.4. This paper contained a number of challenging questions and candidates did well to achieve a mean percentage score of 54.6%. Four of the questions, **2**, **12**, **14** and **30** turned out to be relatively easy i.e. more than 80% of the candidates chose the correct answer. At the other extreme, there were three questions, **4**, **21** and **29**, which had facility scores below the 25 % guessing level.

## Comments on specific questions

**Question 4** was a particularly challenging question. To obtain the correct answer to this question candidates needed to realise that the firm maintains the same level of output. The majority of candidates opted for C as they had not taken that into account.

In **Question 21** candidates need to be fully aware that the velocity of circulation is inversely related to the demand for money. Candidates also need to realise that a fall in interest rates would lead to an increase, not a decrease, in the demand for idle money balances, and, hence, that option A (the most popular option), was incorrect.

The introduction of import quotas will reduce the quantity of imported goods. Given that suppliers charge market clearing prices, this will increase the price of imports and, hence, worsen the terms of trade. Given that the demand for imports is price inelastic, the % increase in price will be greater than the % reduction in quantity. Hence, there will also be a worsening in the balance of trade, equal to area x – area y in the diagram.



This required a lot for candidates to work through in the limited time available to them, and consequently they found **Question 29** challenging.

The relatively low facility scores on **Questions 18** and **25** were a bit more surprising. The diagram in **Question 18** was a standard diagram and there have been a number of questions on past papers about the average and marginal propensities to consume. In **Question 25**, one would have expected candidates to recognise that economic growth does require capital investment and, hence, a sacrifice of potential present consumption. In the event, no fewer than 58% of the candidates wrongly considered an increase in inflation to be an unavoidable cost of long-run economic growth.

Finally, **Question 26** turned out to be a poor discriminator, with almost half of the candidates needing to understand that a currency appreciation would not increase demand inflation. This would suggest that candidates are unclear about how different factors affect demand pull inflation.

# ECONOMICS

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Paper 9708/41

Data Response and Essay (Supplement)

## General Comments

There are two general areas of concern although it is almost certain that candidates have been encouraged to deal with each of them in the preparation they have received. The first is the use of diagrams. These are necessary if the question asks for a diagram, but not necessary if it does not. However, even when the question does not require a diagram, candidates are welcome to use diagrams to illustrate their answer. Quite often a diagram is a useful 'short-hand' explanation and can save time. However, all diagrams must be well-presented, correctly labelled and then referred to in the text. Candidates should not merely draw a diagram and leave Examiners to deduce what is shown in the diagram.

The second concern is that candidates do not always present a conclusion when asked to discuss an issue. Their answer need not be one which is structured by giving the case in favour of a proposition (or statement) and then a case against a proposition. The candidate may instead state at the beginning of the answer that the proposition or premise is accepted (or rejected). However, the answer must then still use issues which may be 'for' or 'against' the proposition but those 'against' must be refuted as they are explained. This latter presentation sometimes gives more weight to the notion of a discussion for it shows that the candidate has firmly decided on the outcome. An orator, in trying to convince an audience, would not present the matter of which s/he wishes to convince the audience and then present the opposing view - unless in so doing the opposing view is demolished in the presentation. The procedure of an orator can be used with effect in examination answers. Answers which merely present issues in favour of a proposition and then issues against a proposition (or statement) often leave the Examiner to decide which has the greater merit and lack the power of persuasion and impact on the Examiner.

## Comments on specific questions

### Data Response

#### Question 1

- (a) To answer this question, candidates could have compared the existence of the original smaller shops with the trend towards the larger supermarkets, which involved a greater emphasis on an imperfect market structure. Weaker candidates did not mention a type of market structure but instead described the range of goods supplied in the supermarket.
- (b) Candidates could have mentioned that the article indicates that supermarkets gave consumers what they wanted, which appears to support the idea that the consumer is sovereign. However, as is also stated in the article, it was the supermarkets that decided to expand, introduce new products, introduce their own product brands, introduce store cards and controlled suppliers to get cheaper prices. These initiatives by the supermarkets do not support the idea that the consumer is sovereign. Many candidates simply wrote that the consumer has a wide choice in supermarkets with reasonable prices and, therefore, the consumer must be sovereign.
- (c) This question did not necessarily require examples to be taken from the information given. Candidates could have commented on objectives such as profit maximising, sales maximisation, behavioural objectives or satisficing. However, there are objectives that can be found in the information and these include those of copying rivals, expanding into other areas, controlling suppliers and selling high-quality products. Most candidates were able to give two or three general objectives that a firm might have.
- (d) From the evidence in the information there might be a cause of concern because of the comment on high prices, the high profits, the closure of some competitors, the control over suppliers and the destruction of the environment. Against this, there is evidence that there need be no need for

concern because of the wider choice, the more convenient shopping hours, the delivery to homes, the clearer labels and the increased quality control. Not many candidates presented both sides of the argument and even fewer came to an overall conclusion.

## Essays

### Question 2

- (a) This question required candidates to explain the meaning of the term efficiency. Most candidates made a good attempt at explaining both productive and allocative efficiency and, as required by the question, the explanation was accompanied by diagrams. Unfortunately, some of the diagrams were poorly presented and were either incorrectly labelled or squashed into a small space in the answer which made them difficult to read. Surprisingly quite a number of candidates did not use diagrams at all. Where no mention is made of the need for a diagram in the question, it is a matter of choice for the candidate whether to use diagrams to illustrate their answers. However, where a question explicitly asks for a diagram, it is not possible to gain high marks without presenting one.
- (b) The question states that the government is to allocate extra funds and resources. This will have implications for the way the money is raised, so candidates could have discussed fiscal policy and/or monetary policy. It will have possible implications on other government expenditure and so the concept of opportunity cost could have been discussed. It will have implications for employment, it will cause changes in the distribution of incomes, and it could affect the effect on trade balance - whether to import resources or use domestic resources. It could also have implications on the range of government intervention used and the extent of government subsidies, and whether to use private or public enterprise. This question was usually not very well answered. Most candidates gave only brief answers and concentrated on the destruction of resources. Even basic concepts, such as opportunity cost, were not mentioned.

### Question 3

- (a) It was expected that candidates would explain the different types of internal economies of scale and analyse how they are derived. Candidates should then have explained the link between economies of scale and the long-run average cost. The question did not require a diagram but it is usually helpful to use a diagram in explaining this link. Overall, candidates gave a good response to the types of internal economies of scale. Some, however, also spent time explaining external economies of scale which was not required. The link to the long-run average cost curve was not as well done. Some confused short-run returns with long-run economies of scale.
- (b) This question required an explanation of the link between the marginal cost of the firm and supply curve of industry. Candidates made a fair attempt at analysing the relationship between the marginal cost curve and the supply curve of the firm in perfect competition. Better candidates commented on the significance of the intersection of the marginal cost curve and the average variable cost curve. Very few, however, were able to develop this explanation and comment on the link between the firm's supply curve and the supply curve of the industry – which is what the question asked. It was also the case that few were able to comment on the lack of such a straight forward relationship between the marginal cost curve and the supply curve in imperfectly competitive markets.

### Question 4

- (a) Candidates were required, in the first part of the question, to explain why an employer might prefer to switch to foreign workers. Many of them offered quite a reasonable response, commenting on the relative cost of such labour and the level of their training and skills. A number, however, failed to make an explicit link with different levels of productivity and some failed to include a diagram despite the explicit reference in the question to the inclusion of a marginal revenue productivity (MRP) diagram to help the explanation. Without such a diagram, higher marks were not possible. Some candidates included a diagram but, unfortunately, as with those who answered **Question 2**, they failed to label it correctly; it is very important that candidates draw diagrams accurately and label them correctly. It appeared that some candidates did not realise the link between MRP and demand.

- (b) In the second part of the question, candidates were required to discuss whether it would be beneficial for a country to give priority to its local workers. There were some good answers with candidates recognising that it was more appropriate to emphasise a more macroeconomic aspect than was the case in the first part of the question. For example, a number of candidates considered the need to reduce the rate of unemployment in the local economy and to increase the level of national income. It was pleasing to see a good number of candidates recognise the command word 'discuss' and offer an answer which considered both the potential advantages and possible disadvantages of giving priority to local workers, which was then followed by drawing a reasoned and well considered conclusion.

### Question 5

This question was concerned with the comparison of living standards in different countries and there were a number of good answers which considered a range of relevant factors. Most candidates recognised that the table, comparing the GDP of five countries (in \$m), was only of limited value, especially given that the population size of the five countries was not stated. For example, USA's GDP needed to be divided by a population of approximately 310 million to arrive at a GDP per capita or per head figure whereas the GDP of Mauritius only needed to be divided by a population of approximately 1.2 million. Many candidates considered a range of other relevant factors, such as differences in rates of inflation (which would produce a 'real' figure for GDP per capita), the size of the non-market sector, the distribution of income, the possible effects on the environment and the different types of goods being produced. It was pleasing to see that many candidates went beyond real GDP per capita to discuss a number of alternative measures to compare living standards in different countries, such as the Human Development Index, Measurable Economic Welfare and the Human Poverty Index. Some candidates, unfortunately, wasted quite a lot of valuable time in the examination by describing the three methods of obtaining a national income figure in great detail. This was not required.

### Question 6

Candidates were expected to explain the concept of national income equilibrium and the role of injections and withdrawals in establishing this equilibrium. It was important also to explain the role of the multiplier in the process of changing national income from one equilibrium point to another. In addition, candidates were expected to discuss these changes within the context of a developing country.

Most candidates had some idea of national income equilibrium and the link between injections and withdrawals. This was often supported by clear accurately labelled diagrams. Most provided injections/withdrawals diagrams but marks were also gained for correctly identifying the Keynesian cross diagram or the correct use of aggregate demand and aggregate supply curves. Weaker candidates failed to apply the subsequent discussion to a situation taking place in a developing country. Many candidates were content simply to describe the main features relating to developing countries with no attempt to apply the concept of equilibrium. A surprisingly large number of candidates made no reference at all to the role of the multiplier and subsequently failed to gain high marks.

### Question 7

- (a) This part of the question was generally dealt with quite effectively. Good candidates focused on the specific question and managed to identify at least three valid areas of conflict. Most identified conflicts relating to economic growth and inflation and also to economic growth and the balance of payments. Some explained that there could be a conflict between economic growth and unemployment if growth was attained by substituting capital for labour. Weaker responses concentrated upon describing the nature of the key government economic aims with very little reference to the idea of a conflict.
- (b) This is a frequently tested area of the syllabus and it was evident that a significant number of candidates were well prepared for a question of this nature. There were many sound, well balanced answers which demonstrated a good understanding of factors contributing to market failure and the subsequent role of government microeconomic policy in ameliorating its worst aspects. Weaker responses provided lengthy explanations of economic efficiency but failed to contrast alternative provision by the market or the government. Better responses identified a range of possible market failure relating to externalities, public/merit goods and monopoly market structures and examined how governments might address these problems. They also provided a relevant carefully structured conclusion.





# ECONOMICS

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Paper 9708/42

Data Response and Essay (Supplement)

## General Comments

There are two general areas of concern although it is almost certain that candidates have been encouraged to deal with each of them in the preparation they have received. The first is the use of diagrams. These are necessary if the question asks for a diagram, but not necessary if it does not. However, even when the question does not require a diagram, candidates are welcome to use diagrams to illustrate their answer. Quite often a diagram is a useful 'short-hand' explanation and can save time. However, all diagrams must be well-presented, correctly labelled and then referred to in the text. Candidates should not merely draw a diagram and leave Examiners to deduce what is shown in the diagram.

The second concern is that candidates do not always present a conclusion when asked to discuss an issue. Their answer need not be one which is structured by giving the case in favour of a proposition (or statement) and then a case against a proposition. The candidate may instead state at the beginning of the answer that the proposition or premise is accepted (or rejected). However, the answer must then still use issues which may be 'for' or 'against' the proposition but those 'against' must be refuted as they are explained. This latter presentation sometimes gives more weight to the notion of a discussion for it shows that the candidate has firmly decided on the outcome. An orator, in trying to convince an audience, would not present the matter of which s/he wishes to convince the audience and then present the opposing view - unless in so doing the opposing view is demolished in the presentation. The procedure of an orator can be used with effect in examination answers. Answers which merely present issues in favour of a proposition and then issues against a proposition (or statement) often leave the Examiner to decide which has the greater merit and lack the power of persuasion and impact on the Examiner.

## Comments on specific questions

### Data Response

#### Question 1

- (a) To answer this question, candidates could have compared the existence of the original smaller shops with the trend towards the larger supermarkets, which involved a greater emphasis on an imperfect market structure. Weaker candidates did not mention a type of market structure but instead described the range of goods supplied in the supermarket.
- (b) Candidates could have mentioned that the article indicates that supermarkets gave consumers what they wanted, which appears to support the idea that the consumer is sovereign. However, as is also stated in the article, it was the supermarkets that decided to expand, introduce new products, introduce their own product brands, introduce store cards and controlled suppliers to get cheaper prices. These initiatives by the supermarkets do not support the idea that the consumer is sovereign. Many candidates simply wrote that the consumer has a wide choice in supermarkets with reasonable prices and, therefore, the consumer must be sovereign.
- (c) This question did not necessarily require examples to be taken from the information given. Candidates could have commented on objectives such as profit maximising, sales maximisation, behavioural objectives or satisficing. However, there are objectives that can be found in the information and these include those of copying rivals, expanding into other areas, controlling suppliers and selling high-quality products. Most candidates were able to give two or three general objectives that a firm might have.



- (d) From the evidence in the information there might be a cause of concern because of the comment on high prices, the high profits, the closure of some competitors, the control over suppliers and the destruction of the environment. Against this, there is evidence that there need be no need for concern because of the wider choice, the more convenient shopping hours, the delivery to homes, the clearer labels and the increased quality control. Not many candidates presented both sides of the argument and even fewer came to an overall conclusion.

## Essays

### Question 2

- (a) This question required candidates to explain the meaning of the term efficiency. Most candidates made a good attempt at explaining both productive and allocative efficiency and, as required by the question, the explanation was accompanied by diagrams. Unfortunately, some of the diagrams were poorly presented and were either incorrectly labelled or squashed into a small space in the answer which made them difficult to read. Surprisingly quite a number of candidates did not use diagrams at all. Where no mention is made of the need for a diagram in the question, it is a matter of choice for the candidate whether to use diagrams to illustrate their answers. However, where a question explicitly asks for a diagram, it is not possible to gain high marks without presenting one.
- (b) The question states that the government is to allocate extra funds and resources. This will have implications for the way the money is raised, so candidates could have discussed fiscal policy and/or monetary policy. It will have possible implications on other government expenditure and so the concept of opportunity cost could have been discussed. It will have implications for employment, it will cause changes in the distribution of incomes, and it could affect the effect on trade balance - whether to import resources or use domestic resources. It could also have implications on the range of government intervention used and the extent of government subsidies, and whether to use private or public enterprise. This question was usually not very well answered. Most candidates gave only brief answers and concentrated on the destruction of resources. Even basic concepts, such as opportunity cost, were not mentioned.

### Question 3

- (a) It was expected that candidates would explain the different types of internal economies of scale and analyse how they are derived. Candidates should then have explained the link between economies of scale and the long-run average cost. The question did not require a diagram but it is usually helpful to use a diagram in explaining this link. Overall, candidates gave a good response to the types of internal economies of scale. Some, however, also spent time explaining external economies of scale which was not required. The link to the long-run average cost curve was not as well done. Some confused short-run returns with long-run economies of scale.
- (b) This question required an explanation of the link between the marginal cost of the firm and supply curve of industry. Candidates made a fair attempt at analysing the relationship between the marginal cost curve and the supply curve of the firm in perfect competition. Better candidates commented on the significance of the intersection of the marginal cost curve and the average variable cost curve. Very few, however, were able to develop this explanation and comment on the link between the firm's supply curve and the supply curve of the industry – which is what the question asked. It was also the case that few were able to comment on the lack of such a straight forward relationship between the marginal cost curve and the supply curve in imperfectly competitive markets.

### Question 4

- (a) Candidates were required, in the first part of the question, to explain why an employer might prefer to switch to foreign workers. Many of them offered quite a reasonable response, commenting on the relative cost of such labour and the level of their training and skills. A number, however, failed to make an explicit link with different levels of productivity and some failed to include a diagram despite the explicit reference in the question to the inclusion of a marginal revenue productivity (MRP) diagram to help the explanation. Without such a diagram, higher marks were not possible. Some candidates included a diagram but, unfortunately, as with those who answered **Question 2**, they failed to label it correctly; it is very important that candidates draw diagrams accurately and label them correctly. It appeared that some candidates did not realise the link between MRP and demand.

- (b) In the second part of the question, candidates were required to discuss whether it would be beneficial for a country to give priority to its local workers. There were some good answers with candidates recognising that it was more appropriate to emphasise a more macroeconomic aspect than was the case in the first part of the question. For example, a number of candidates considered the need to reduce the rate of unemployment in the local economy and to increase the level of national income. It was pleasing to see a good number of candidates recognise the command word 'discuss' and offer an answer which considered both the potential advantages and possible disadvantages of giving priority to local workers, which was then followed by drawing a reasoned and well considered conclusion.

### Question 5

This question was concerned with the comparison of living standards in different countries and there were a number of good answers which considered a range of relevant factors. Most candidates recognised that the table, comparing the GDP of five countries (in \$m), was only of limited value, especially given that the population size of the five countries was not stated. For example, USA's GDP needed to be divided by a population of approximately 310 million to arrive at a GDP per capita or per head figure whereas the GDP of Mauritius only needed to be divided by a population of approximately 1.2 million. Many candidates considered a range of other relevant factors, such as differences in rates of inflation (which would produce a 'real' figure for GDP per capita), the size of the non-market sector, the distribution of income, the possible effects on the environment and the different types of goods being produced. It was pleasing to see that many candidates went beyond real GDP per capita to discuss a number of alternative measures to compare living standards in different countries, such as the Human Development Index, Measurable Economic Welfare and the Human Poverty Index. Some candidates, unfortunately, wasted quite a lot of valuable time in the examination by describing the three methods of obtaining a national income figure in great detail. This was not required.

### Question 6

Candidates were expected to explain the concept of national income equilibrium and the role of injections and withdrawals in establishing this equilibrium. It was important also to explain the role of the multiplier in the process of changing national income from one equilibrium point to another. In addition, candidates were expected to discuss these changes within the context of a developing country.

Most candidates had some idea of national income equilibrium and the link between injections and withdrawals. This was often supported by clear accurately labelled diagrams. Most provided injections/withdrawals diagrams but marks were also gained for correctly identifying the Keynesian cross diagram or the correct use of aggregate demand and aggregate supply curves. Weaker candidates failed to apply the subsequent discussion to a situation taking place in a developing country. Many candidates were content simply to describe the main features relating to developing countries with no attempt to apply the concept of equilibrium. A surprisingly large number of candidates made no reference at all to the role of the multiplier and subsequently failed to gain high marks.

### Question 7

- (a) This part of the question was generally dealt with quite effectively. Good candidates focused on the specific question and managed to identify at least three valid areas of conflict. Most identified conflicts relating to economic growth and inflation and also to economic growth and the balance of payments. Some explained that there could be a conflict between economic growth and unemployment if growth was attained by substituting capital for labour. Weaker responses concentrated upon describing the nature of the key government economic aims with very little reference to the idea of a conflict.
- (b) This is a frequently tested area of the syllabus and it was evident that a significant number of candidates were well prepared for a question of this nature. There were many sound, well balanced answers which demonstrated a good understanding of factors contributing to market failure and the subsequent role of government microeconomic policy in ameliorating its worst aspects. Weaker responses provided lengthy explanations of economic efficiency but failed to contrast alternative provision by the market or the government. Better responses identified a range of possible market failure relating to externalities, public/merit goods and monopoly market structures and examined how governments might address these problems. They also provided a relevant carefully structured conclusion.



# ECONOMICS

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Paper 9708/43

Data Response and Essay (Supplement)

## General Comments

This report is based upon a relatively small cohort of 141 candidates. All Examination Centres were based in New Zealand. The overall performance of these candidates was very good with the overwhelming majority gaining at least a pass grade and a significant proportion of these gained a grade B or above by providing some excellent responses which displayed both depth and breadth of understanding. Although performance did vary between Centres, this variation was relatively narrow.

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

It was also pleasing to note that there very few 'wasted' papers and that written expression was generally very good. There were few instances of rubric infringement and little evidence of poor time management skills.

## Comments on specific questions

### Question 1

- (a) Most candidates gained at least three out of four marks for this question. Marks were gained for explaining the concepts of total and marginal utility and establishing the link between marginal utility and price. Better candidates also recognised the need to show the link between marginal utility and price in an equilibrium situation. This was essential to gain full marks.
- (b) The majority of responses to this part were able to give a reasonably clear explanation of the meaning of product differentiation and subsequently were able to gain at least two out of three marks. Better candidates were aware of the need to address the second part of the question and identify the potential benefits to the producer associated with the opportunity to charge higher prices for branded goods.
- (c) There were some very good responses to this question which clearly indicated that candidates were aware of the effect of a price change, in either direction, on a budget line. Diagrams were usually clearly labelled and accurate. Marks were lost however due to a failure to state clearly what a budget line represented and how it might be derived. Candidates should note that this understanding needed to be demonstrated to gain full marks. Many failed to do this therefore three out of marks tended to be the average mark for this question.
- (d) This part gave candidates the opportunity to present both sides of an argument based on evidence taken from the data response. It was expected that candidates would adopt this approach and proceed to provide some reasoned argument and follow this with a balanced conclusion. Although many recognised key issues such as access to accurate information on the part of both consumer and producer, far too many failed to examine both sides of the argument. Good candidates gained marks for examining why the market might not always achieve the best allocation of resources and recognising that there are also public good elements in food production and that governments do therefore need to be involved in labelling rules.

## Essays

### Question 2

- (a) This question related to what is generally accepted as a mainstream part of economics and was presented in a very straightforward, unambiguous manner. It was expected that candidates would clearly distinguish between fixed and variable costs and then proceed to use this distinction to show how this would impact upon a firm's pricing and output decisions in **both** the short and long run. Good responses established this distinction clearly and explained, using clear diagrams, that a firm would close down in the short run if it could not cover its variable costs and that it would also close down in the long run if it could not cover its total costs. There were many good responses to this question that incorporated the above and as a result were able to gain Level 4 marks. Weaker responses made the distinction between the two types of cost but failed to note the significance of different short run and long run situations.
- (b) There were many opportunities within this question to enable candidates to show their knowledge of the role of revenue and costs when firms make their price and output decisions and many candidates did this very effectively. It was expected that candidates would, as well as recognising the aim of profit maximisation, be aware of some alternative aims associated with the operation of firms. Candidates were rewarded for recognising the aim of profit satisficing as well as profit maximising and that some firms might wish to maximise sales or revenue. Better candidates explained this by referring to the divorce between ownership and control as well as identifying the possible effects of market regulations by governments. Weaker candidates focused mainly on the aim of profit maximisation in one particular market structure and often failed to provide a relevant conclusion.

### Question 3

There were three separate but inter-related parts to this question. Candidates were expected to discuss whether there are benefits from large scale production and then consider whether all firms should be encouraged to grow in size or whether there still might be a place for small firms. Finally it was expected that candidates should discuss whether this growth, if encouraged, should not be restricted by government regulation. It was important, based on the above, that candidates recognised the need to identify each of the three parts of the statement in question and use these as a base to construct a carefully reasoned argument. As such this type of question required some careful thought and planning before 'putting pen to paper'.

Good candidates demonstrated an ability to do this and subsequently produced some very mature, well argued responses which incorporated each of the three parts of the required answer. Many lost marks because of a failure to refer to and discuss the arguments for the continued role of small firms. This was a major omission and it frequently meant that candidates failed to gain a Level 4 grade. Weaker candidates lacked any specific focus and tended to provide only a brief comment on the first part of the argument but with little, if any, discussion of the role of government. Also it should be noted that many candidates lost marks because they failed to provide any kind of conclusion. Some attempt at a conclusion would be considered essential when answering a question of this nature.

### Question 4

This type of question relating to the operation of the labour market is frequently asked and it is usually the case that candidates are well prepared for a question based upon this part of the syllabus. In this respect the current cohort was no exception. Candidates were expected to explain the main factors determining the level of wages and in particular how the supply of and demand for labour together might determine the individual's wage level. A thorough discussion and analysis of wage determination using marginal revenue product (MRP) analysis combined with alternative theories of the determination of the supply of labour was required, as a starting point.

The core of the response should have focused upon the relative importance of the trade unions with respect to wage determination and a discussion of other factors which might explain high wages, apart from the role of trade unions. The differences between perfect and imperfect labour markets should have been demonstrated as well as additional factors which frequently fail to be adequately theorised such as geographical location or gender issues.

Good candidates linked the successes of trade unions to their ability to influence the MRP curve through their effect on labour productivity and an ability to influence the labour supply curve through membership of

the trade union. The role of government might also have been recognised and discussed and an appropriate conclusion supplied. Less effective responses failed to address the role of trade unions in sufficient depth and also failed to provide an appropriate conclusion. Marks were also lost due to a failure to provide analysis beyond that of basic supply of and demand for labour without reference to marginal revenue productivity. There is still a tendency when answering questions relating to the labour market to discuss 'everything one knows about the labour market' instead of focusing upon the specific question. Candidates must learn to read the question very carefully and structure answers accordingly if they wish to gain a Level 4 grade.

#### Question 5

- (a) Candidates were given a significant amount of scope within this question to demonstrate knowledge, understanding and application. Both micro and macro issues were acceptable provided each was explained in some detail. There two parts to this question. Firstly the candidate had to show some understanding of each of their chosen issues and secondly they needed to provide a reasoned account of and clear analysis of the significance of each of these issues. Most candidates chose the main macro issues such as inflation, unemployment, economic growth or balance of payments. The majority of candidates were able to explain these issues in some detail and hence gained marks accordingly. However, weaker candidates failed to proceed with any additional analysis necessary to establish which might have been the most significant. This was a key part of the question and a significant number of marks were lost for not providing this analysis. This further underlines the need for all candidates to ensure that each part of the question is read carefully before attempting an answer.
- (b) This part of the question was very straightforward which required candidates to demonstrate their understanding of a range of alternative policy measures and how they might be applied to solving the issues raised in the first part of the answer. There were some excellent responses to this part of the question which provided some cogent analysis with a clear discussion of how such measures might link to the problems identified. Very good responses made further attempts to evaluate the relative strengths/weaknesses of chosen policies and then come to some carefully considered conclusion based upon the effectiveness of each policy. The key requirement in this part was to explain why the measures chosen were appropriate to the specific issues identified and why they might/might not work in practice.

#### Question 6

- (a) This part of the question is a frequently tested part of the syllabus and it was clear that many candidates had prepared well for a question of this nature. There were many excellent responses to this question. Level 4 marks were much in evidence because candidates were able to identify a wide range of both quantitative and qualitative measures. Moreover there were some very impressive attempts to locate weaknesses associated with some of the more established and well known measures and then discuss possible alternative measures such as the Measure of Economic Welfare (MEW) and the Human Development Index (HDI). It was particularly pleasing to note the discursive nature of many of these responses and the depth and breadth achieved. There were relatively few weak responses but the main problem associated with these responses related to an undeveloped explanation which often failed to go beyond well know indicators such as GDP per capita.
- (b) This part was less well done. The question was posed in a slightly different way compared to similar questions in past papers and this seemed to cause problems regarding interpretation. There were far too many answers which used generalised comment rather than focusing upon issues relating to the specific question. Although many did discuss the potential effects of natural disasters responses tended to conclude with this discussion whereas it was expected that candidates would also discuss, in contrast, how a government, business and consumer activity might have had an influence on a country's standard of living by its aims and policies. Better candidates recognised this and also proceeded to discuss how quantitative and qualitative indicators might have been affected.



**Question 7**

- (a) This question discriminated quite effectively. Again this question was presented in a relatively different format and it produced an interesting range of responses. Less effective responses simply described all the factors that they would associate with a developing country. A significant number of candidates adopted this approach and demonstrated, in the process, some detailed understanding of the key characteristics associated with a developing country. On this basis candidates would possibly gain a Level 3 mark but no more. Essentially, the question not only required an understanding of the characteristics referred to above but also needed to make the link to the relevance of the natural resources which was referred to in the stem of the question. Again, a conclusion was essential.
- (b) Answers to this part of the question were competent rather than impressive. It was essential to demonstrate a detailed knowledge of the workings of the multiplier and the overall effect of an increase in investment on national income and related effects on incomes, trade, and tax revenue. In this respect candidates performed well. The majority had a good grasp of how the investment multiplier might work in theory and how this might impact upon the economy. However the question required candidates to compare the effects of the multiplier in a developed country with that of a developing country. This did create problems to the extent that not all candidates were able to link specific effects to specific types/stages of development. Level 4 candidates were able to make this distinction.