

ECONOMICS

Paper 9708/11
Multiple Choice

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

Key messages

Areas which revealed particular difficulties were the price/expenditure relationship (**Question 6**), demand and supply curve movements (**Question 11**), the cost of living (**Question 20**) and comparative advantage (**Question 25**). These involved less usual presentations. Candidates need to feel confident with a range of representations.

General comments

Questions 4 and **22** proved to be easier than the target facility. No question was below the lowest level target facility but **Questions 11** and **25** proved to be the most demanding. All items were technically sound. As with last year, average scores on verbal questions were below those on numerical and diagram questions.

Comments on specific questions

Question 20

In **Question 20** there was a fairly even spread of responses, this sometimes implies guessing. Only a negative inflation rate (falling prices) will cause a fall in the cost of living as goods and services cost less to buy, so making option **C** the key.

The following comments refer to options where a third or more of candidates selected an incorrect option, possibly suggesting a common misconception.

Question 5

In **Question 5** for **D** to be the correct response the curve would require unit elasticity. In this case the elasticity varies over the length of the curve, falling as there is a move down the curve.

Question 6

D is incorrect in **Question 6**, as the horizontal axis represents total expenditure on the product rather than the more usual quantity. This is not therefore a perfectly inelastic demand curve.

Question 11

The correct key in **Question 11** is **B** not **A**, which was selected by 40 per cent of candidates. The cause of the price rise is a shift in the demand curve that results in a move upwards along the supply curve.

Question 12

Although more than half of candidates correctly selected **C** in **Question 12**, **D** was favoured by a third. This represents the incidence of the tax on consumers not the government tax revenue.

Question 25

In **Question 25** the selection of **B** was incorrect because consumers in country M will benefit from producing Y in which it has a comparative advantage and trading with the potential to obtain more of good X.

Question 27

The terms of trade is often a difficulty for candidates and this was the case in **Question 27**. Those who chose option **A** understood the implications for the balance of trade but not for the terms of trade. An export subsidy lowers export prices and worsens the terms of trade. Hence **B** is the key.

ECONOMICS

Paper 9708/12
Multiple Choice

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

Key messages

The performance on macroeconomic topics needs to be raised to match that achieved on microeconomic topics.

General comments

Questions 1, 3, 5 and 22 proved to be easier than the intended level. Only three questions (**15, 17 and 28**) had a facility of 50 per cent or below. Of the five questions with the highest rate of correct response, four were on microeconomic topics. There was no significant discrepancy between the attainment on verbal, diagrammatic and numerical questions. The standard of performance was very encouraging.

Comments on specific questions

Question 17

In **Question 17**, 50 per cent of candidates chose an incorrect option. **D** is the key as at zero price demand outstrips supply so a system of allocation is necessary. The following comments relate to questions where more than 25 per cent of candidates opted for an incorrect option indicating the possibility of a common misunderstanding.

Question 9

In **Question 9** candidates opting for **D** missed that fast food is an inferior good so demand for it would rise as income fell.

Question 15

Question 15 proved to be the most demanding on the paper. A subsidy shifts the supply curve to the right, the extent depending upon the amount of the subsidy. At price \$20 a subsidy of \$10 is needed to reduce the price to \$10 for the same quantity. At price \$10 a subsidy of \$5 is needed to reduce price to \$5. In both cases this is a fixed 50 per cent value, so **B** is correct.

Question 16

The selection of **A** in **Question 16** is not necessarily associated with production taking place, whereas option **C**, selected by the majority, involves the provision of a service.

Question 24

The selection of **A** in **Question 24** is incorrect as an index of both the price of exports and price of imports are known. As stated in option **C** there was an improvement followed by stable terms of trade.

Question 28

In **Question 28**, option **B** (an appreciation of the currency) is a monetary measure but would have a contractionary rather than an expansionary effect. **A** is correct as it is the operation of a form of quantitative easing.

ECONOMICS

Paper 9708/13
Multiple Choice

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

Key messages

Candidates' performance on average was stronger on macroeconomic topics than microeconomic topics. For these topics, there were fewer large group selections of a particular wrong response suggesting a common misunderstanding. Candidates should be prepared to draw or amend diagrams against which they can check their responses.

General comments

Questions 1 proved more difficult than the intended target facility, while **Questions 10** and **21** proved to be easier than the target facility. The performance on numerical items showed some improvement.

Comments on specific questions

Question 1

The statistics suggested that **Question 1** was by far the most challenging question. Both options **B** and **C** were more popular than the key **A**. The question is about changing rather than absolute quantities. The selection of option **B** suggests a confusion between the meaning of four and fourth and five and fifth. With option **C** the linkage between a production possibility curve and opportunity cost seems to be misunderstood.

Question 3

In **Question 3** the key **C** is based on the fact that division of labour is fostered by standardised production and short runs of production with different details make it more difficult. The shortage of labour in option **D**, chosen by the largest group, does not make the use of the method itself inappropriate.

Question 4

Option **B** was chosen by 46 per cent of candidates in **Question 4**. To serve as money intrinsic value is not required and it would not anyway overcome the many other drawbacks of food. An adequate supply of coins (option **A**), which have already proved their suitability as money would remain suitable.

Question 8

Candidates might have helped themselves by drawing a diagram to illustrate the position identified in **Question 8**. They would have then been able to identify a horizontal demand curve.

Question 16

The same approach might have helped with **Question 16**. The addition of a supply curve to give equilibrium at P1 would have made the key **C** more obvious.

Question 17

In **Question 17** more than a third of candidates opted for **C**. Student loans are transfer payments as no corresponding recorded output results from the students. With the key **D**, it links to production.

Question 20

A weakness in the understanding of a price index was revealed by **Question 20**. Almost a third of candidates chose option **D**. In doing this they had simply added the price changes without understanding the significance of the weights.

ECONOMICS

<p>Paper 9708/21 Data Response and Essay</p>
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Key messages

- Candidates need to ensure that they focus on the particular ‘command’ or ‘directive’ word that is being used in a question, such as ‘**calculate**’, ‘**explain**’, ‘**discuss**’ and ‘**analyse**’.
- It is important candidates understand that in the second part of the ‘**discuss**’ questions in **Section B**, a certain number of marks can be awarded for ‘**evaluation**’. There is often a clue in the question to guide candidates towards this, such as in **Question 2(b)** which required candidates to discuss whether merit goods and demerit goods were **best** provided by a market economy or in **Question 3(b)** which required candidates to discuss the **extent** to which knowledge of a product’s cross-elasticity of demand was likely to be important to a firm supplying that product.
- Candidates need to ensure that diagrams are correctly drawn and clearly labelled. There were, unfortunately, a number of examples of poor labelling and, in some cases, no labelling at all. A diagram was required in **Question 1(b)** in **Section A**.
- It is important that candidates read questions very carefully to avoid making an error in their answer. For example, in **Question 2(a)** and **(b)**, some candidates wrote about public goods rather than about merit and demerit goods, while in **Question 3(a)**, some candidates wrote about the income elasticity of demand for a good and even the price elasticity of supply rather than the price elasticity of demand.

General comments

A diagram was explicitly required in one of the questions in **Section A, Question 1(b)**, but some candidates did not draw one.

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

It is also important that candidates focus on whether there is any additional guidance provided in a question, such as in **Question 1(d)**, where candidates were required to discuss whether the privatisation of some state assets would be of **overall benefit** to the Russian economy. Unfortunately, some candidates assumed that privatisation would always be of benefit to an economy, despite the clue in the question that this might not always be the case.

Comments on specific questions

Section A

Question 1

Compulsory Data Response

- (a) (i) Most candidates made some attempt, using Table 1.1, to calculate the percentage fall in the nominal value of the rouble against the US dollar between 2013 and 2015. Candidates needed to calculate a fall of 22.9 compared with an initial value of 38.4, which gave an answer of 59.63541. Answers of 59.64 or 59.6 were accepted. Candidates are advised to show their workings in a ‘calculate’ question as some credit can be given to correct workings even if the final answer is wrong.

- (ii) The majority of candidates were able to explain the difference between a nominal exchange rate and a real exchange rate, pointing out that a nominal exchange rate was one that is expressed in money terms without taking into account the effect of inflation whereas a real exchange rate was one that has been adjusted to take into account the effect of inflation, i.e. it reflected the purchasing power of the currency. Unfortunately, some candidates understood the difference but got the answer the wrong way round.
- (b) Many candidates were able to explain, using a demand and supply diagram, how the fall in the price of a barrel of oil contributed to the decline in the value of the rouble, with other countries needing far less roubles to buy oil from Russia. Most candidates clearly showed the shift of the demand curve to the left in the diagram, but a few showed a shift of the demand curve to the right. Some candidates decided to shift the supply, rather than the demand, curve and some decided to draw a diagram that showed shifts of both curves to both the left and the right. Unfortunately, some diagrams were poorly labelled or, in some cases, not labelled at all.
- (c) The majority of candidates were able to analyse the likely impact the depreciation of the rouble could have on the Russian economy, contrasting the possible positive effects, such as making exports more price competitive in international markets, with the possible negative effects, such as making imported raw materials and component parts more expensive and contributing to cost-push inflation. There were some useful references to the Marshall-Lerner condition and the J-curve effect.
- (d) Many candidates made quite a reasonable attempt to discuss whether the privatisation of some state assets would be of overall benefit to the Russian economy. A good understanding of the concept of privatisation was demonstrated and the possible advantages, such as the greater efficiency of production, were contrasted with the possible disadvantages, such as an increase in unemployment. In any 'discuss' question, it is expected that candidates will provide a conclusion to their answer. In this particular question, having considered both the possible advantages and possible disadvantages of privatisation, the conclusion needed to focus on whether the privatisation of some state assets would be of overall benefit to the Russian economy. Some candidates made some intelligent comments in relation to the word 'some', i.e. they pointed out that while the privatisation of some assets might be a benefit to the Russian economy, this would not necessarily be the case with all state assets. Also, some candidates made some useful references to the likely short term and long term effects.

Section B

Essays

Question 2

- (a) In this part of the question, candidates were required to explain why both merit goods and demerit goods were examples of private goods. There were some good answers in relation to why merit goods would be under-consumed, and demerit goods over-consumed, as a result of information failure, but not all candidates explained the importance of such goods being excludable, rejectable and rival despite the fact that it was these characteristics that made them private goods. A few candidates, unfortunately, appeared confused and wrote about public goods rather than merit and demerit goods. Also, some candidates wrote about the private sector rather than about private goods. Most candidates gave appropriate examples of merit goods, such as education and healthcare, and demerit goods, such as alcohol and cigarettes, but with some candidates the confusion with public goods continued as they gave examples of defence and street lighting. These are examples of public, rather than private, goods.
- (b) In the second part of the question, candidates were required to discuss whether merit goods and demerit goods were best provided by a market economy. There were some good answers in relation to how a market economy might be the best form of provision, emphasising the importance of the price mechanism as a signalling device, and then candidates went on to point out that this might not be the best form of provision, given that merit goods would be likely to be under-consumed and demerit goods over-consumed in such an economy, and that therefore some form of mixed economy might be preferable where the government took action to encourage the consumption of demerit goods, perhaps through a subsidy, and to discourage the consumption of demerit goods, perhaps through the use of taxation. The better answers then offered some form of evaluation, coming to a reasoned judgement as to whether the provision of merit goods and

demerit goods through a market economy would, in fact, always be the best form of provision of such goods.

Question 3

- (a) In this part of the question, candidates were required to explain the factors that could affect the price elasticity of demand for a product. Most candidates demonstrated a sound knowledge and understanding of the concept of price elasticity of demand, although some did not stress that it measured percentage or proportionate, rather than absolute, changes and some managed to get the change in price and the change in demand the wrong way round in the definition or formula. A range of factors were explained, including the period of time, the number and availability of substitutes, the degree of necessity, the proportion of income taken by a product, the width of definition of a product and the amount of money spent on a product. Unfortunately, some candidates wrote about the income, rather than the price, elasticity of demand for a product, while others wrote about the price elasticity of supply, rather than demand, for a product. Also, some candidates wrote about the factors affecting a shift of a demand curve rather than the factors affecting the price elasticity of demand.
- (b) In the second part of the question, candidates were required to discuss the extent to which knowledge of a product's cross-elasticity of demand was likely to be important to a firm supplying that product. Candidates generally demonstrated a sound understanding of the concept of cross-elasticity of demand, especially in contrasting a positive XED, in the case of substitutes, with a negative XED, in the case of complements and were able to discuss the concept in relation to a range of different products. There was some good evaluation, especially in relation to how close a substitute or a complement might be to a firm's product. Some candidates also brought in the concept of zero cross-elasticity of demand and some contrasted the importance of XED with YED and PED. Unfortunately, some candidates made no attempt to offer any judgement or evaluation, despite the fact that some marks will always be available to reward such elements of an answer.

Question 4

- (a) In this part of the question, candidates were required to explain the characteristics that money needed to have in order to perform its functions effectively. The majority of candidates demonstrated quite a good knowledge and understanding of both the characteristics of money, such as acceptability, portability, scarcity, recognisability, stability, divisibility, durability and uniformity, and the functions of money, including a medium of exchange, a measure of value/unit of account, a standard for deferred payment and a store of value or wealth. Some candidates, unfortunately, seemed confused between the characteristics and the functions of money. Candidates then needed to go on and explain the links between the characteristics and the functions and while some were able to explain these links quite well, especially in terms of money needing to be generally acceptable if it was to function as a means of exchange, others were not really able to develop any meaningful links between the characteristics and the functions.
- (b) In the second part of the question, candidates were required to discuss the likely consequences for an economy of an increase in the money supply. The majority were able to contrast the possible advantages, such as an increase in aggregate demand, with the possible disadvantages, such as an increase in the rate of inflation with the possibility of too much money chasing too few goods. There were some useful discussions of the various possible consequences of inflation. Although diagrams were not explicitly required in this question, many included them and used them to good effect in supporting their answers. A number of candidates offered a good judgement and evaluation in terms of the likely consequences for an economy of an increase in the money supply, especially in terms of contrasting the advantages and the disadvantages of such a situation, but some offered no, or very little, evaluation.

ECONOMICS

Paper 9708/22
Data Response and Essay

Key messages

- Candidates should be given firm guidance on how to determine what is required by a question so that their response is directly relevant to the question set.
- Candidates should practise applying the tools of economic analysis in a range of contexts and avoid writing apparently rehearsed answers to a question that they expect to appear.
- Candidates must always reach a conclusion where this is required based upon careful evaluation of the analysis provided.
- The analysis provided must be sufficiently developed in order to move beyond a superficial explanation of the economic concept tested.

General comments

Although many candidates seemed adequately prepared in terms of knowledge and understanding of the syllabus, many were let down by poor examination technique. Many, for example, proved unable to apply the underlying concepts needed to answer the question. Others provided answers with a great deal of irrelevant material through inadequate consideration of the wording of the question. This resulted in analysis that was often not directly relevant to the question set and this undermined the ability of candidates to make evaluative comment and arrive at a reasoned conclusion. There is also a tendency amongst many candidates to reproduce apparently rehearsed answers that contain a great deal of irrelevant comment and score marks only for material that is of incidental relevance. More focus upon the question requirements is essential when preparing candidates for the examination.

Comments on specific questions

Section A: Data Response

Question 1

- (a) (i) Many candidates did not score here. A number missed out on the mark because they seemed unsure of the composition of aggregate demand and how to calculate this from the information provided. Some also lost the mark through carelessness. Many stated that the total aggregate demand was 437 and were not awarded the mark available. Although they had calculated the correct figure, they did not state that the unit of measurement was US dollars or that it was in billions. There were other common errors such as expressing the answer as a percentage and adding the total of exports and imports to the figure rather than net exports.
- (ii) This question was also poorly answered with disappointingly few candidates choosing the correct answer. Most stated that the various infrastructure projects would be placed in the government consumption category of expenditure. This was incorrect since these items are clearly investment items rather than consumption items. As a result these projects should be categorised as capital goods. More careful consideration of the characteristics of consumption and capital goods would have enabled candidates to select the correct answer here.
- (b) (i) Most candidates stated correctly that a fall in the rate of interest would lead to an increase in consumption. This was most usually explained through reference to the impact upon savings that were likely to fall as the interest rate fell as the reward for saving fell. Others explained that the fall in the rate of interest would reduce the cost of borrowing and that this would reduce repayments and encourage the purchase of 'big-ticket' items. This question was usually answered well with

many candidates showing good knowledge and understanding and gaining the three marks available. Some common errors in grasp of concepts were also revealed here however, for example a disappointing number of candidates suggested that the fall in the rate of interest would lead to a rise in consumer income which was often assumed was the same as an increase in the money supply.

- (ii) A number of approaches were acceptable here. One approach was to explain that the fall in the rate of interest would lead to a depreciation of the currency and that this would lead to a fall in the price of exports resulting in higher exports. Others suggested that the fall in the rate of interest would result in more investment that would result in greater productivity amongst domestic firms and that this would reduce the price of exports leading to more exports. Both approaches were often incompletely developed however and did not go sufficiently far to score full marks. This was often because the answers did not fully consider the impact upon spending. A fall in the price of exports would certainly result in an increase in the volume of exports, but whether this would result in an increase in expenditure on exports would depend upon the price elasticity of demand for exports. A fall in the price of exports would only result in a rise in expenditure on exports if the price elasticity of demand for exports were elastic.
- (c) Many candidates did not score all the marks here because they did not consider the question requirements sufficiently carefully. The question was not concerned with why Chinese tourists choose to go to Thailand. The question was why the numbers of Chinese tourists to Thailand had *grown more* than the numbers of tourists from other countries. Some candidates for example simply provided examples of demand factors that explained why Chinese tourists might choose to go to Thailand. Some explained that China was geographically near to Thailand and this meant that the price of travel to Thailand was low. This could have been a valid approach, but candidates needed to explain that this could have changed to encourage the higher growth in Chinese tourists to Thailand. So they needed to explain that the price of travel to Thailand from China might have fallen by more than the price of travel from other countries. This would be likely to result in a greater rate of *growth* from China than from other countries. This would be a valid and direct answer to the question. The same weakness was often present when candidates considered other demand factors such as income levels and the price of substitutes. In all cases it was necessary for candidates to identify a relevant demand factor and explain how relative changes in this factor could have resulted in a greater rate of growth in visitors from China rather than other countries.
- (d) This question again was found difficult by candidates and again this seemed to be because they did not think carefully about the question requirements. Many interpreted this as question concerning the balance between imports and exports and concluded that since there was a surplus in the trade balance Thailand's government should not be concerned. The question was not about the state of the balance however it concerned the high proportion of total spending on external transactions in Thailand. It was hoped that candidates would recognise the dangers that this might pose for the Thai economy if there were changes in the international economy such as a worldwide recession or a rise in protectionism. On the other hand the advantages of this high proportion of external trade was that engagement in international trade upon this scale indicated that the Thai economy was benefitting from international trade and the benefits of comparative advantage. Few candidates provided direct answers to the question set to arrive at a reasoned conclusion.

Section B: Essays

Question 2

- (a) Most candidates had sufficient knowledge and understanding of market and mixed economies to gain marks, but a common weakness was that many focused upon economic outcomes in the two types of economy rather than the ways in which resources are allocated in each. Nevertheless, there was usually sufficient knowledge and understanding displayed to gain a satisfactory mark. Disappointingly, a number of candidates resorted to a seemingly rehearsed answer to a different question on the advantages and disadvantages of the two economies and this often included an assessment of the advantages and disadvantages of centrally planned economies. This element of these answers was irrelevant of course and was not worthy of credit.
- (b) A definition or explanation of the factor enterprise would have helped the candidates focus upon the question requirements here. Unfortunately, most candidates began their answers with an explanation of supply-side policy and this then often resulted in very general answers that focused upon all the policies that might be aimed at shifting the aggregate supply curve to the right even if

there was little relevance to the factor enterprise. There were a large number of answers that contained sound, detailed analysis of supply-side policies that scored poorly because they did not apply to the factor enterprise except in very general terms. Some weaker candidates clearly did not understand supply side policy and discussed monetary or fiscal policy but not with a supply side focus. Many responses to this question were very disappointing and the marks awarded were usually low.

Question 3

- (a) There were some good responses here with many candidates providing a technically sound explanation of the way in which price elasticity influences the incidence of an indirect tax. It is still frustrating however to read explanations of price elasticity and inelasticity that lack precision. When asked to 'explain' it is not enough to state that a price inelastic good has a coefficient of less than one or that demand does not change 'by very much' when price rises. More accurately it should be explained that in the case of price inelastic goods the percentage change in quantity demanded is less than the percentage change in price. This clear explanation would lead to more accurate application. Similarly some explanations of the incidence of an indirect tax were often equally vague. Disappointingly, some candidates showed the impact of an indirect tax on price and quantity but made no reference whatsoever to tax incidence. Incomplete answers inevitably scored poorly as did those answers that contained long descriptions of every type of price elasticity with no application to the question set.
- (b) Most candidates provided good analysis to explain why indirect taxation is necessary. Many focused upon the need to apply indirect taxes to demerit goods to reduce their consumption. In addition, many provided analysis of the way in which revenue raised from indirect taxes could provide funds for government expenditure. Many were less successful when attempting to explain why indirect taxes should not be imposed as suggested by the quotation in the question. Many stated that such taxes would reduce consumer surplus, but few developed this to support the sentiment expressed in the quotation. As a result this meant that many answers were unbalanced and this undermined the ability of candidates to provide evaluative comment and arrive at a reasoned conclusion.

Question 4

- (a) This was the most popular question and some very good answers were provided. Those candidates who did less well often provided incomplete answers that neglected to consider all aspects of the question. Many appear to need to be reminded that the current account measures revenues and expenditures and this should be considered when assessing the impact of changes in the prices of imports and exports. A rise in the price of exports due to inflation or an appreciation of the currency will certainly reduce the volume of exports, but this does not necessarily mean a decrease in revenue. It depends upon the price elasticity of demand for exports and this needed to be included for a full answer to this question. Similarly, many candidates did not consider that the impact of a high rate of inflation depends upon that economy's inflation rate compared to that in other countries. It is the relative rate that matters rather than the absolute rate. A number of candidates wasted time describing the causes of inflation or categorising inflation as cost-push or demand-pull. This was irrelevant to the question set and was not awarded any credit. Some referred to the short run, long-run distinction with reference to the Marshall-Lerner condition. This was a valid approach that was considered relevant development of the question.
- (b) Some strong answers were provided here and many candidates were awarded a high mark. Unfortunately, some candidates who seemed to have the required knowledge and understanding of the consequences of both a high rate of inflation and a deficit on the current account did not use this to provide sound analysis of each effect. Many answers were overly descriptive and there was again a great deal of time wasted in explaining the causes of inflation. This meant that essential and relevant analysis was omitted. Clearly, this undermined the attempts to provide some evaluative judgement and reach a reasoned conclusion. Careful reading of the question is essential to ensure that full reward is gained for the analysis provided.

ECONOMICS

<p>Paper 9708/23 Data Response and Essay</p>
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Key messages

- To be fully prepared for an examination at this level all elements of the syllabus should be covered in sufficient depth to ensure knowledge and understanding of all the economic concepts tested.
- Candidates should be given firm guidance on how to assess question requirements so that their response is directly relevant to the question set.
- Candidates must provide sufficiently developed analysis to fully answer the question set to prepare appropriately for evaluative judgement to be offered.
- The ability to evaluate the analysis is an important assessment objective that will always be tested. Without evaluative judgement that reaches a conclusion the marks awarded will be depressed.

General comments

The size of the entry for this series of the exam was quite small and there was considerable variation in the quality of the answers provided. A small number of good quality scripts were produced, but a large number of candidates lacked thorough understanding of the economic concepts tested. Some candidates seemed unfamiliar with the demands of a data response question and a number of scripts contained only cursory reference to economic concepts in the essay questions.

Comments on specific questions

Section A: Data Response

Question 1

- (a) (i) This question was quite well done with many candidates correctly choosing Malaysia as the country that New Zealand had the largest deficit on its trade in goods in year ended June 2015 and going on to explain this through a calculation of the deficit. Some candidates were unable to perform the required calculation however and gained no credit. Some missed out on a mark because in their calculation they did not include the units or they did not state that the measurement was in NZ dollars. To state that the deficit was 895 was simply careless.
- (ii) This question did not require candidates to show their calculation. The intention was to test candidates' understanding of the relationship between the balance of trade in goods and the services balance within the current account. Although many candidates were able to perform the required calculation again a number missed out on marks through carelessness. They again neglected to include the units or the appropriate currency value.
- (iii) This was quite well done with many candidates showing the required knowledge of the composition of the current account of the balance of payments to score both marks available.
- (b) To score well on this question it was necessary to have a good understanding of the principle of comparative advantage. This involved recognition that it was determined by the lowest opportunity cost in production of goods. In addition, it was expected that the text contained sufficient information to suggest that TPP member countries would have improved access to a larger market to exploit their comparative advantage. Some candidates showed good understanding of this central principle and were able to apply it to answer the question set. It was disappointing however that a significant number attempted to answer this question with no reference to comparative advantage or opportunity cost. Inevitably, these responses gained no marks.

- (c) The data suggests that the incomes of Canada's farmers will suffer as cheaper agricultural products would enter the domestic market and depress the price of Canada's agricultural products. It is also possible however that Canada's farmers would themselves benefit through access to larger markets overseas. Many candidates ignored this and considered only the negative effects upon Canada's farmers of the removal of protection. This unbalanced approach resulted in a lower mark than that awarded to candidates who considered both possible outcomes.
- (d) In order to score well here it was not necessary to have detailed knowledge of China's economy. The impact of China's membership could be inferred from the text in terms of the possible access to a larger market for TPP members and the influx into domestic markets of cheap goods from China. This question was quite well answered with many candidates recognising that China's membership would have both costs and benefits to the existing members. The wording of the question however required candidates to make some judgement on whether the outcome would be of overall benefit. Many candidates did not do this however and simply provided a list of the costs and benefits without an assessment of the overall impact. This reduced the quality of such answers and resulted in a lower mark.

Essays

Question 2

- (a) Some good answers were produced in answer to this question. These answers displayed sound knowledge and understanding of the difference between direct and indirect and progressive and regressive taxes. It was disappointing to see however the large number of candidates who had a less accurate idea of the difference between progressive and regressive taxes. A large number said that in the case of progressive taxes you would pay more tax as your incomes increase. This is correct, but might also apply to regressive taxes. The important distinction concerns the proportion of tax paid which increases as incomes rise in the case of progressive taxes. Many candidates did not distinguish the two types of taxes; whether this was a result of carelessness or a lack of understanding is uncertain, but lack of accuracy in explanation resulted in a lower mark.
- (b) Many candidates showed good understanding here and used this to analyse the impact of a sugar tax and an educational campaign in terms of their relative effectiveness in reducing child obesity. There was some good use of diagrams to support these answers. Evaluative comment was often limited however and some candidates did not give a conclusion. In addition, it was disappointing to see the large number of candidates who produced descriptive and superficial answers with little use of economic concepts. These approaches gained very few marks.

Question 3

- (a) Those candidates who chose this question were able to identify two factors of production, but the explanations of their role in the production process varied. Many candidates identified land as a factor, but then explained that the factory in which chocolate was produced represented land. This of course confuses land, which is the natural resource with the factory that is of course capital. When considering the benefits of specialisation many candidates gave quite superficial answers and gained low marks for this element of the question.
- (b) The changes outlined in the stem of this question clearly indicated that the price of chocolate would be expected to rise so price stabilisation policies would be designed to ensure that the price would not increase. Most candidates chose to explain how maximum price legislation and producer subsidies could be used to stabilise prices, but there was considerable variation in the depth and development of the analysis offered by candidates. Also, the evaluation was very limited here with few candidates arriving at a conclusion. These weaknesses considerably reduced the standard of many answers and resulted in some disappointing marks to be awarded.

Question 4

- (a) This was a popular question and some good answers were produced. Most candidates explained cost-push and demand-pull causes of inflation and some good marks were awarded.

- (b)** Some candidates had a clear understanding of monetary policy and produced good analysis to explain how this might be used to correct inflation. It was disappointing however to see the large number of candidates who confused monetary with fiscal policy. Many candidates could not distinguish between these two types of policy and wrote long pre-prepared answers on all the ways in which inflation might be corrected. As with attempts at the other questions the evaluation provided here was limited with the inevitable impact upon marks awarded.

ECONOMICS

Paper 9708/31
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1, 2, 5, 12, 13, 14, 15, 17, 18, 19, 20** and **22**. These questions were answered correctly by 65 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **6, 16, 25,** and **27**. These questions were answered correctly by fewer than 33 per cent of the candidates.

Comments on specific questions

Question 6

Question 6 was answered correctly by 28 per cent of the candidates who chose option **C**. 8 per cent chose option **A**, 54 per cent chose option **B** and 10 per cent chose option **D**. The marginal cost curve is equal to the average cost curve at the lowest point on the average cost curve. The lowest point of the average cost is represented diagrammatically at point **C**.

Question 16

Question 16 was answered correctly by 32 per cent of the candidates who chose option **A**. 15 per cent chose option **B**, 28 per cent chose option **C** and 26 per cent chose option **D**. A fall in wages in similar occupations would cause the labour supply to wish to move to the occupation where the wages had not fallen. The other options would affect the demand for labour or the strength of the bargaining power of labour.

Question 25

Question 25 was answered correctly by 12 per cent of the candidates who chose option **B**. 41 per cent chose option **A**, 39 per cent chose option **C** and 8 per cent chose option **D**. Exports are an injection into the economy. 50 per cent of the value of the exports is used for imports, taxes and saving. This would mean there was an increase of 50 per cent (\$50 million) spent on consumption; half the original injection. The value of the multiplier is, therefore, 2. Those who chose option **A** may well have forgotten that the increased spending of \$50 million would have a multiplier effect. Those who chose option **C** chose the option that gave the total increase as a result of the multiplier. The question asked for the increase on domestically produced goods only. ($2 \times \$50$ million).

Question 27

Question 27 was answered correctly by 29 per cent of the candidates who chose option **D**. 23 per cent chose option **A**, 22 per cent chose option **B** and 26 per cent chose option **C**. Such a close distribution of results would indicate that the candidates were guessing the answer.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answers were **1, 4, 5, 7, 8, 10, 12, 16, 18, 19, 21, 22, 27, 29** and **30**. These questions were answered correctly by 65 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

There were only two questions which were answered correctly by 50 per cent or fewer of the candidates. These were **Questions 9**, and **13**.

Comments on specific questions

Question 9

Question 9 as answered correctly by 50 per cent of the candidates who chose option **C**. 14 per cent chose option **A**, 16 per cent chose option **B** and 20 per cent chose option **D**. Ease of entry into a market is one of the reasons a market can be contestable. A low expenditure on fixed costs would enable a new firm to be established with relative ease and thus be able to enter the market.

Question 13 was answered correctly by 34 per cent of the candidates who chose option **B**. 12 per cent chose option **A**, 17 per cent chose option **C** and 36 per cent chose option **D**. Managers and shareholders are different groups that have an interest in the company. Managers have a salary, shareholders are paid on the return on profits/share prices. This question asked when their interests might be different. Sales maximisation and the acceptance of X inefficiency would not indicate that the firm is wishing to maximise

profits and to be as efficient as possible which would not be acceptable to shareholders. Shareholders would also not have as a priority the works of art purchased to display in the office.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

Paper 9708/33
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1, 5, 8, 9, 11, 12, 13, 14, 18, 19, 21, 22, 23, 24, 28** and **29**. These questions were answered correctly by 50 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions which caused the biggest challenge for candidates were **4, 10, 15, 20** and **27**. These questions were answered correctly by fewer than 30 per cent of the candidates.

Comments on specific questions

Question 4

Question 4 was answered correctly by 29 per cent of the candidates who chose option **C**. 26 per cent chose option **A**, 19 per cent chose option **B** and 26 per cent chose option **D**. Such a distribution of results might indicate that the candidates were guessing. The change in the price of goods is what enables a consideration of an income and substitution effect. The income effect is the change in the real income caused by a price change. Money income, preferences and prices of other goods are all held constant.

Question 10

Question 10 was answered correctly by 26 per cent of the candidates who chose option **D**. 13 per cent chose option **A**, 42 per cent chose option **B** and 19 per cent chose option **C**. It is probable that candidates who chose option **B** presumed that the firm was a profit maximising firm. The question, however, stated that the firm maximised sales. This occurs at output T.

Question 15

Question 15 was answered correctly by 26 per cent of the candidates who chose option **B**. 13 per cent chose option **A**, 29 per cent chose option **C** and 32 per cent chose option **D**. There is a fixed supply of labour that would be available at zero wages. Any wage above that can be called an economic rent.

Question 20

Question 20 was answered correctly by 19 per cent of the candidates who chose option **C**. 68 per cent chose option **A**, 10 per cent chose option **B** and 3 per cent chose option **D**. The type of cooking fuel used (option **A**) is included in the index. It is said that cooking with wood or charcoal indicates a poorer level of poverty.

Question 27

Question 27 was answered correctly by 26 per cent of the candidates who chose option **B**. 23 per cent chose option **A**, 32 per cent chose option **C** and 19 per cent chose option **D**. This distribution could indicate that the candidates were guessing, particularly as the question was near the end of the paper.

The rest of the questions gave results which were well within the levels expected.

ECONOMICS

<p>Paper 9708/41 Data Response and Essay</p>
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General comments

As in previous years there were some accurately reasoned and well-structured answers to this paper. Candidates were able to develop their answers with relevant examples either from their own locality or from knowledge gained from the general media.

Unfortunately, some candidates did not direct their answers precisely enough to the question asked. For example, in **Question 2**, they gave a descriptive account of the meaning of efficiency but did not consider why its attainment is considered important. Similarly, in **Question 5** there were good answers explaining the difference between structural and frictional unemployment but sometimes the second part of the question was not answered.

Candidates are still finding the presentation of diagrams a challenge. While many presented clear, well-labelled diagrams of a reasonable size, for other candidates the comments from previous reports are still relevant. Sadly, these candidates drew the diagram either in a corner of the page or drew it so small that the intersection of the lines was not possible to determine accurately. Some did not label the diagram properly. All diagrams, if used, require a narrative explanation. A diagram without labels or without an explanation adds nothing to an answer. This is a pity as candidates require no further knowledge to increase their mark but only a better presentation.

Comments on specific questions

Section A

Question 1

- (a) Apart from a few candidates who did not refer explicitly to the table, most answers gave an opinion and illustrated that opinion with reference to the table.
- (b) This was a question where many candidates drew a demand and supply diagram to illustrate minimum price policy. There were many good answers but some drew diagrams that were unhelpful because they were so small. Other candidates confused minimum with maximum prices and drew a new fixed price below the equilibrium price.
- (c) Candidates were able to draw on the information to present good answers to this section. The positive supporting factors they used included the fact that the Table shows countries with high per capita incomes do have high life expectancy rates at birth. The high life expectancy could lead to the assumption that well-being was increased

The information also mentions higher levels of education, housing, health care – with the development of medicine to lower heart disease, diabetes and lung disease.

Candidates also recognised some negative factors. They instanced the life style of richer countries that had high smoking rates, high alcohol consumption, high sugar intakes that could lead to poorer health.

Better answers presented a conclusion. Wellbeing is not just linked to income, although too little income negates it.

- (d) Indifference curve analysis states that as income increases consumers move to a new, 'higher' indifference curve and this gives more satisfaction. For normal goods the consumption would also increase as incomes increase. A diagram was not necessarily required but many candidates drew a diagram – with the customary range of presentation from accurately labelled, clearly presented ones to those squashed into the corner of the answer.

Better answers were able to comment that the evidence was that higher incomes do not necessarily result in a higher proportion of the population smoking. The evidence is inconclusive whether a higher level of income for an individual resulted in an increased demand (as would be expected by the theory) as the figures are overall averages and show differences between countries.

Section B

Question 2

- (a) This question required an explanation of meaning of efficiency and an explanation of the analysis that ensures an efficient optimum may be reached. Candidates were able to distinguish between productive and allocative efficiency and some also included dynamic efficiency in the long run. Efficiency attainment is considered important as it makes the best use of resources and allocative efficiency ensures that no one can be made better off without someone being worse off. There were good answers explaining the meaning of efficiency but some answers did not mention why efficiency attainment might be considered important.
- (b) Candidates were able to consider that individual actions are not always best for society as a whole. They discussed the reasons for market failure that might occur if individuals only considered their own interests and discussed the necessity/desirability of government intervention to achieve efficiency. Categories of market failure were mentioned and the better answers indicated what policy measures the government might use when dealing with market failures. There were, encouragingly, many answers that stated that while government intervention may be necessary, it need not be sufficient to overcome inefficiency as there may be inefficiency in government through lack of information.

Question 3

- (a) This question required an explanation of the distinction between perfect competition and monopoly, mentioning barriers to entry, ability to control prices, availability of information, whether products are identical and the number of firms. The question did require a diagram so the remarks about diagrams in the general comments above are relevant. Most candidates understood that supernormal profit is possible in short run in perfect competition but it will be competed away in long run by entry of new firms and an increase in supply. Supernormal profit can remain in the long run in monopoly. A significant minority of candidates drew diagrams incorrectly. The two most common errors were to take the maximum profit point as being where the marginal cost was equal to the average cost and, in monopoly, taking the price as being given by the point where the marginal revenue was equal to the marginal cost.
- (b) There was usually a good discussion of alternative aims in the answers to this question. These included maximising revenue, maximising sales, managerial aims of market penetration, of surviving in the market and of satisficing. Comments on the prisoner's dilemma were related particularly to oligopoly and were well presented.

Question 4

Candidates needed to consider each part of the statement. The question required an explanation of the theory of wage determination and a discussion given on how the outcome may be affected by the existence of trade union bargaining, by minimum wages affecting the supply, and by large monopsonies forcing down wages from the competitive level. Many gave good accounts of each of the parts of the question. The monoposony part was the weakest for some, with inaccurate understanding of where the wage level might be in such a situation. It was not always the case that a conclusion was given and so the last part of the question, namely, 'the theory needs to be replaced', was not always answered.

Question 5

- (a) This section had two elements. First, candidates were required to explain the differences in the two types of unemployment and then they were asked to consider which type of unemployment is likely to have the greatest impact on the economy. The answers to this question were usually very good. Structural unemployment arises from changes in the pattern of demand in an economy and is usually focused upon specific industries or geographical areas. It can also be caused by the introduction of new technology acting as a substitute for labour. Frictional unemployment, sometimes known as search unemployment arises due to imperfect information in the labour market. Workers are unemployed primarily due to the time taken to find a new job. Both types have a negative impact on an economy but it is generally assumed that structural unemployment will have a long term impact and impose higher costs on society compared with frictional unemployment which normally lasts a relatively short time. Hence, it may be concluded that structural unemployment is likely to cause the greater negative impact.
- (b) It was expected that candidates would consider that supply side policies are government policies attempting to alter the level of aggregate supply directly rather than through changes in aggregate demand. They can be market oriented or through direct government intervention. Interventionist policies might include education and training. Market policies might include taxation or a reduction in unemployment benefits – these policies would aim to increase labour geographical/occupation mobility and enable a change in unemployment through changes in the pattern of demand.

For this part of the answer candidates achieved what was expected. However, the question does ask whether supply-side policies are the most effective. It was, therefore, also expected that candidates might compare alternative policies such as Keynesian demand management policies. A concluding comment was required. For example, candidates could have argued that demand management policies might not be suitable because they would lack focus on structural unemployment and may cause problems in those regions which were not experiencing high unemployment. Candidates did recognise, though, that supply side policies often take a long time and are frequently costly.

Question 6

- (a) There are many definitions of the money supply. The narrow definition includes notes and coins in circulation and balances held by the commercial banks at the central bank. The more commonly used broad definition includes notes and coin in circulation and bank deposits. Bank deposits account for the largest part of the money supply. Commercial banks create new bank deposits every time they grant a loan. It is profitable for banks to create loans, therefore banks often have a significant effect on the broad definition of the money supply. However, there are limits to the ability of banks to create new deposits. These might include: the willingness of borrowers to borrow; the leakage of funds (loans not re-deposited); the need for banks to maintain a safe amount of liquid assets; and the restrictions upon lending imposed by governments. Very few candidates answered this question.
- (b) Candidates were expected to explain what Quantitative Easing means and how it is used to influence the interest rate and the money supply. Links could have then been established between these changes and possible changes in the level of employment and the rate of inflation.

Question 7

This question gave a statement that referred to performance indicators of developed and developing economies. Candidates were expected to explain the difference between these terms. This was a popular question and many candidates explained the differences well. They recognised that, although the performance indicators might be similar in both types of economy, they may be of differing magnitudes and be caused by different reasons. Better answers also discussed other indicators that would represent considerable differences between developed and developing economies and thus lead to the conclusion that it is incorrect to say, as postulated in the question, that 'there is now no real difference between these two types of economy'.

ECONOMICS

<p>Paper 9708/42 Data Response and Essays</p>

Key messages

- Candidates generally demonstrated that they understood the relevant theory but often did not fully develop the analytical aspects of the question or apply it to the context of the question. The best answers were able to articulate the analytical aspects within the context of the question.
- Many questions contained the trigger word 'Discuss' or 'Consider'. Both these terms require an argument or debate within the answer and the drawing of a conclusion to access the higher levels in the mark scheme. Many answers were one sided or left the examiner free to draw his/her own conclusions.
- Candidates are reminded that a thorough reading of the question is necessary to pick out the full breadth of the question. This is especially true of the questions without sub-divisions.

General comments

Many answers were again of a high standard in response to the questions.

The use of badly drawn, or inaccurately labelled diagram, or even perfectly presented diagrams without a word of reference to them in the essay re-occurred, as did the use of pre-learned answers that did not match the question which had been set.

Care should be taken in assembling the completed script with all the pages in the correct order, so that the Examiner does not have to decide in which order the pages should be read. The faults, however, should not detract from the impression that the standard of response was good.

A number of candidates wrote at great length. In many examples these responses were poorly directed towards the question set. Candidates who can produce a relevant, concise and well directed answer will always be fully rewarded.

A new aspect of some responses was that candidates drew all diagrams at the beginning of their script and referred to them later in their essays. It is clearer to embed the diagram in the flow of the essay.

Comments on specific questions

Section A: Data Response

Question 1

- (a) Most candidates successfully identified two measures of soft infrastructure.
- (b) Candidates were able to illustrate the effect of setting a maximum price and the effects this would have on supply and demand. Some did not refer to the diagram to explain the effect on supply and demand and the creation of a shortage. Very few managed a valid diagram and explanation in the context of a monopoly. They, therefore, gained only a maximum of four marks.

- (c) Candidates concentrated their responses on the impact of higher transport costs on the costs of production and profitability of businesses. A few went on to consider the impact on future investment for maximum marks. A large number of candidates wrote about the macro-economic effects of higher costs.
- (d) The question required candidates to consider the effects on aggregate demand and aggregate supply of the increase in investment in infrastructure and this was what the best candidates did. Most wrote about elements of the effect on aggregate demand without explicitly mentioning it. A smaller number made reference to aggregate supply in some form.

Section B: Essays

Question 2

- (a) In the first part of the question, candidates needed to explain, with the aid of a diagram, the concept of diminishing marginal utility and its link to indifference curves. The majority of candidates were able to explain the concept, although some of the explanations were weak. Correct attempts to provide linkage were made through the diminishing marginal utility and diminishing marginal rate of substitution. The diagrams were not always drawn and/or labelled clearly.
- (b) In the second part of the question, candidates were required to discuss, using indifference curve analysis, the impact of an increase in indirect taxation on the quantity demanded of a normal and an inferior good. Most candidates recognised that an indirect tax would increase the price of a good and that this would have both an income and a substitution effect. Candidates who were able to relate these effects to both normal and inferior goods with accurately drawn diagrams referred to in the essay gained good marks. Weaker candidates did not draw the diagrams correctly and thus had difficulty with their explanation. A few candidates simply offered a general account of the two types of good with little or no reference to indifference curve analysis.

Question 3

There were three elements to this question: uncertainty and interdependence, how these may be reduced and the impact on the consumer. Candidates who scored well on this question focussed their answer on how oligopolists might reduce uncertainty through either formal or informal collusion and how then did they compete. The best provided a clear analysis of the differences and then went on to discuss the impact on the consumer. Very few explicitly linked the kinked demand curve to a reduction in uncertainty. However, many took the question as an opportunity to write all they knew about oligopoly without applying that knowledge to the question set.

Question 4

- (a) Candidates were well prepared to discuss the derivation of the demand curve for labour. It was pleasing to see that more candidates referred explicitly and correctly to the derivation of the marginal revenue product for labour. The best candidates had read the question carefully and noted that it was the product market which was relevant in fully developing their answer, not the factor market.
- (b) Generally, candidates dealt well with this part of the question and were able to produce a reasoned discussion of why wages may be higher and employment higher or lower depending upon the role of trades unions and the market structure.

Question 5

- (a) This question seemed very accessible to candidates, with many scoring well here. There was some good analysis shown with many candidates demonstrating the difference using both PPC's and AD/AS analysis.
- (b) Again an accessible question that saw many candidates scoring well. Most candidates were able to present a range of points – with the vast majority considering both sides of the issue. Some responses were however rather descriptive in nature, quite narrow in their range of focus with often a limited discussion of the positive aspects of economic growth.

Question 6

- (a) The stem of this question provided a clear structure for candidates to frame their answer around, which appeared to be helpful. Many candidates scored well. The causes of inflation were generally better attempted than the causes of a recession which were often given only a cursory treatment. This may well reflect the economic circumstances of the countries in which the paper is taken.
- (b) Strong responses here gave a detailed explanation of the monetary policy transmission mechanism and the limitation due to the liquidity trap. Nearly all candidates went on to explain possible uses of fiscal policy and/or supply side policies in solving a recession. In some cases fiscal policy was explained the best.

Question 7

There were three aspects to this question: efficiency, market failure and government intervention. Better candidates demonstrated some detailed knowledge of both productive and allocative efficiency, usually supported with accurate clearly labelled diagrams. Some responses also added the concept of 'dynamic efficiency' which further demonstrated a sound grasp of the key concepts of efficiency. Where candidates analysed at least two examples of market failure and then discussed the extent to which there was a role for government to address these failures gave access to a wider range of marks. In addition, reference to the notion that sometimes government interference might compound the problems of market failure rather than solve it, led to access to the full range of marks.

ECONOMICS

Paper 9708/43
Data Response and Essay

General comments

Answers to **section A** were more successful than the answers to **section B**. Candidates were more able to direct their attention to the material given in the data on the question paper. Some candidates spent more time than was necessary, given the number of marks available, in answering the questions in **section A**. This, of course, limited the time available for **section B**.

There were some good answers to **section B** but most of them were very brief. Quite often they were anecdotal and contained general descriptions with little analysis. As was mentioned in a previous report, the use of examples known to the candidate, or illustrations from their locality, is to be welcomed. They need, however, to be supported by theoretical analysis which shows that the candidate is directing their answer to the question asked.

Sometimes the candidate could have gained more marks by using the diagrams drawn to greater advantage. Quite often the diagram was not explained at all, or poorly labelled or drawn so small on the edge of the page that it was difficult to interpret. All curves on a diagram should be labelled and candidates should make sure that any changes in the curves are clearly drawn and carefully explained in the narrative accompanying the diagram.

Section A

Question 1

This question concerned inequalities of wealth.

- (a) Most candidates were able to explain that Income is a flow of money received at intervals; wealth is a stock of assets.
- (b) Candidates found this question challenging and many confused equity with stocks and shares. Equality is when people are treated the same. Equity is when people are treated fairly, but differently, having taken into account their different circumstances. For example, preventing tax evasion by everyone is treating everyone the same – equality, the amount of tax paid may be different depending on circumstances – equity. Whether investing more in public services is equity or equality depends on how the services are allocated. Higher wages for lower paid could be considered equality if they relate to different pay rates for the same job, but it may be considered to be equity if there is thought to be unfairness in current system of pay.
- (c) Tax havens assist global capitalism to work. Businesses need to be encouraged to take risks and innovation and thereby increase the size of national income through the investment multiplier. This creates employment through an increase in aggregate demand. Investment is more likely to be undertaken if tax rates are low. The effect on the national income would be weakened if the multinational companies pay low wages and send profits to tax havens.
- (d) The avoidance of tax will mean that governments will face a loss of revenue. Therefore, to cover government expenditure they need to borrow more. The provision of welfare programmes, education and health care provided by governments will be affected. Examples given include those from African countries.

Section B

Question 2

- (a) It was expected that candidates would recognise that the concept of the margin is significant in relating the utility/satisfaction to the price in determining equilibrium quantity bought. Candidates could have explained this by using either marginal utility theory or marginal changes in the indifference curves and relating those to budget lines. Very few candidates answered this question.
- (b) Candidates were expected to explain the concepts of efficiency. Social efficiency/allocative efficiency requires that marginal social costs and marginal social benefits are equal at the point of output. For productive efficiency to occur the firm should be producing at its lowest average cost for the output concerned. (Not necessarily the lowest overall average cost). Candidates were expected to discuss the relationship between marginal cost, average cost and the different types of economic efficiency.

Question 3

This was a popular question. Candidates were expected to explain how economies of scale affect costs. Candidates recognised that research, which could be expensive, might increase costs initially but in the long run average costs would decrease. Whether this would also decrease prices would depend on the market policy of the company achieving the economies. They might use the reduced costs as increased profits rather than reduced prices. As economies of scale increase, market structure is likely to become more imperfect with barriers to entry and this may lead to potentially higher profits and higher, not reduced, product prices. Small firms are unlikely to be able to afford the research. Most candidates who answered this question were able to discuss the consequences of the existence of economies of scale and the possible outcomes for profits, prices and type of market structure.

Question 4

- (a) The theory predicts a certain outcome in perfect competition based upon the relation between the demand (marginal revenue product) and the cost/supply of labour. It was expected that candidates would explain the equilibrium position that the theory suggests would occur. The outcome is precise because there are no imperfections in the labour market, wages are uniform and are determined for all firms by the market.
- (b) Candidates were expected to discuss the likely differences that might occur in the labour market when the market structure is imperfect. For example, whether in an imperfect market, it is possible to determine precisely the marginal revenue product curve (or the demand curve). They could have discussed the problems of measuring productivity. They could also have discussed the problems of determining the marginal cost. These difficulties are accentuated, and the theory becomes even less precise, when either trade unions or governments influence the determination of wages. In these instances, there could be a range of outcomes depending on the bargaining strengths of each side.

Question 5

- (a) This question required a diagram. Candidates were expected to provide a clear definition of the term 'deflationary gap' supported by an accurate, clearly labelled diagram that identified the deflationary gap. The comments in the general section are appropriate for the diagrams that were presented. The discussion that followed the diagram should have made some attempt to establish why a deflationary gap might cause economic problems. These problems might be the higher levels of unemployment, low levels of economic growth and low consumer or investor confidence.
- (b) Responses were expected to indicate a good understanding of what is meant by a budget deficit and the economic circumstances where governments would choose to allow it. Reference could then have briefly been made to the problems created by a deflationary gap. This could have included some attempt to discuss the effectiveness of using budget deficits and a discussion that presented alternative policies such as the reliance on the operation of market forces and/or the use of supply side policies.

Question 6

- (a) Very few candidates answered this question. It was expected that candidates would explain that the Quantity Theory of Money uses an identity where total expenditure equals total income, and this can be presented in the form $MV=PT$. Candidates could have explained each variable. Then the

direct link between changes in the money supply and the price level could have been identified and discussed.

- (b) Answers were expected to explain the nature of the Phillips curve and its use of a link between employment and inflation. Candidates could then have explained how it postulates a 'trade-off' between inflation and unemployment. Candidates could also have attempted to evaluate whether inflation can be controlled without raising the level of unemployment.

Question 7

This was a popular question and was well attempted. It was expected that answers would distinguish between economic growth and development and examine the extent to which economic growth relies solely on higher levels of investment. Alternative ways of achieving economic development should have been discussed and the role of private sector investment as an alternative to government investment should also have been considered. The expected conclusion based on the preceding discussion was, sadly, not always presented.