ECONOMICS

Paper 9708/11
Multiple Choice (Core)

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

Key message

It is essential for candidates to be able to explain and interpret changes in diagrams.

General comments

There was a 5.6% fall in the number of candidates. Compared to last year, the mean mark rose from 17.43 to 17.55, while the standard deviation narrowed from 5.39 to 5.33.

Fewer candidates gained full marks (3 rather than 12). The number of candidates who scored below 8, equivalent to the 'guessing' level, dropped from 64 to 46.

Questions 13 and **14** proved to be easier than intended, while only **Question 11** proved to be more challenging than intended.

Question 21 fell below the discrimination target, suggesting that some successful candidates did not perform as well on this question as their overall performance suggested they would. The reason for this is unclear, unless it links to a lack of familiarity with taxes on exports.

Comments on specific questions

A common error was repeated in **Question 6**, in which candidates chose option A. A change in price relates to a movement along a curve, and does not relate to a shift in its position. In the past, candidates have demonstrated a good awareness of the changing elasticity along a demand curve.

Question 11 demonstrated that candidates were unfamiliar with varying elasticity along a supply curve. 14% of candidates correctly selected option A, which identified falling elasticity as one moves up an inelastic curve. Better candidates selected option B, an option which was incorrect on two counts.

For **Question 19,** more candidates selected option C rather than the correct option D. Option C is incorrect, as the increase in revenue must take into account the increased quantity as well as the increased price.

For **Question 22,** the main distractor for candidates appeared to be option A, which suggests that it would have been beneficial for some candidates to have a clearer understanding of the distinction between financial accounts and capital accounts. Dividends are recorded within the current account rather than the capital account. It would also be advantageous for candidates to have a greater awareness of aggregate demand and aggregate supply analysis.

For **Question 24**, option B was a popular selection. Changes in productivity would affect the position of the AS curve, not the AD curve.

For **Question 27**, 42% of candidates incorrectly selected option D, suggesting that there was some uncertainty regarding the differences between the effects of appreciation and depreciation on the balance of payments. However, past experience has shown that candidates are generally aware of depreciation as a policy used to tackle a balance of trade deficit.

ECONOMICS

Paper 9708/12
Multiple Choice (Core)

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

Key message

Clear understanding and examples of externalities are important.

General comments

There was a 1% increase in the number of entries compared to last year. The mean mark rose from 17.74 to 19.53, one of the better performances recorded in recent years. The standard deviation rose from 5.48 to 5.93.

The number of candidates who achieved full marks increased significantly to 165, while the number of candidates who scored below 8 marks, the equivalent of the guessing level, more than halved.

Questions 1, 9 and **12** proved to be easier than intended, while no question proved to be more difficult than intended.

Only **Question 15** achieved less than the target level of discrimination. This may be linked to a difficulty with the topic of externalities, which is referred to later.

Overall, the test worked well and although the paper may have been marginally more accessible than in previous years, the standard of work deserves a commendation.

Comments on specific questions

Almost all questions achieved a facility of 50% or above, and had a satisfactory discrimination index. Thus, there were no cases of an even distribution of choices (indicative of guessing) or distractors which were more popular than the key (indicative of common misunderstanding) or positive distractors (indicative of better candidates opting for the wrong key). Consequently, relatively few question performances raised major issues.

For **Question 4**, 25% of candidates selected option A. This differed from the key only on the issue of labour. Careful reading of the stem would have identified 'on her own', thus discounting the employment of labour.

For **Question 13**, 49% of candidates selected the correct option, and C was a popular distractor. A useful approach to answering this more complex type of question may be to draw sketches of the four possibilities, to at least eliminate the most obviously incorrect option.

For **Question 14**, 38% of candidates answered correctly. It was the least well answered question on the paper, but the key still attracted the largest proportion of choices. Option C was selected by 35% of candidates, but the government provision of a service at no charge does not match the concept of a positive externality.

The idea of an externality also arose in **Question 16**, and touched on an area which candidates generally find more challenging. An external cost or external benefit arises as the result of an effect outside of the operation of market forces. In this case, the owner of the bridge receives a private benefit and the vehicle user pays a private cost. Hence the key is A rather than B.

For **Question 26,** 29% of candidates selected option A. The profit margin is clearly a component of the final price, and so can affect the rate of inflation.

ECONOMICS

Paper 9708/13
Multiple Choice (Core)

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

Key message

Candidates should be familiar with the techniques required to handle and interpret numerical data.

General comments

The number of candidates for this paper remains relatively low, and was slightly lower than last year. Generalisations about performance are therefore less representative. For the second year running, the mean score fell significantly, to 13.3.

No candidate scored above 26 marks, and nearly 9% of candidates scored below 8 marks, the equivalent of the 'guessing' level.

Question 6 proved easier than intended, while candidates scored below the target facility for **Questions 18**, **26** and **30**.

Comments on specific questions

For **Question 17** the most popular answer was option C, but this answer was too imprecise to accurately define a public good. Option A related correctly to the incomplete information underlying merit goods.

Question 18 was a challenge for the majority of candidates. The government is trying to maintain farm incomes at $10 000. If it increases demand by 1000 tonnes a new equilibrium will be established at $2 with 5000 tonnes sold, hence option A is correct.

Question 20 considered the matter of 'balancing' the balance of payments. The payments will balance when the current account matches the financial and capital account, and any imbalance is covered by net errors and omissions. Only option B highlights the need for a net errors and omissions entry. The popularly chosen option A is incorrect, as the balance exists.

For **Question 23**, many of candidates understood the calculation of the participation rate in, yet some candidates were less able to understand that the unemployment rate is the number of unemployed people related to the working population (the number employed + the number unemployed).

Question 24 answers demonstrated an uncertainty regarding the difference between the rates of change and real values. Some candidates chose option A, which missed both the elements. Some more successful candidates chose option C, thus recognising the fall in real value element, but missing the falling rate. Key D correctly shows a constant fall of 20%.

For **Question 25**, most candidates understood the increase in the CPI, but many missed the lower rate of inflation that reflected the lower rate of oil price change.

Question 26 did not discriminate well, and involved a rather subtle point. The most popular option A is not necessarily considered an economic problem, as it may result in the acquisition of long-term assets.

For **Question 30**, option A was the most popular yet incorrect answer, as appreciation is usually likely to worsen net exports and so reduce aggregate demand. Option C is correct, as cheaper imports would reduce inflationary pressure, and more expensive exports would reduce employment in export industries.

ECONOMICS

Paper 9708/21
Data Response and Essay (Core)

General comments

A diagram was required to answer **Question 1(b)** in **Section A**. It is recommended that candidates recognise whether the question asks for an 'explain' style of response, as in first part of the **Section B** questions, or a 'discuss' style of response, as in the case of the second part of the **Section B** questions. Candidates are also recommended to focus on additional guidance, such as in **Question 3 (b)**, where the question requires a discussion of the view that a market economy is **'always preferable'** to a planned economy, because of the existence of the price mechanism.

Comments on specific questions

Data response

Question 1

The data response question assessed knowledge of economic growth in India, and, in particular, the rate of inflation in the economy, the provision of transport facilities and education services and changes in both the country's exchange rate and current account balance.

(a) (i) Many candidates correctly calculated that the rate of inflation in India between 2001 and 2011 was 91.5%.

(ii) Many candidates correctly calculated that the expected rate of inflation in India between 2011 and 2013 was 20.9%.

(b) Candidates were required to explain the opportunity cost to India of choosing to produce transport facilities rather than education services. Two marks were available for the accurate construction of a production possibility curve, with correctly labelled axes, and two marks were available for the accurate illustration of opportunity cost, with a clear definition of the concept. Many candidates gained full marks.

(c) Candidates were required to explain how the provision of improved transport facilities and education services might develop the potential of the Indian economy and there were a number of good answers, with candidates making use of appropriate terms, such as skills, productivity, output, resources, infrastructure, human capital and efficiency. Many candidates referenced the outward shift of the production possibility curve, with many of them including an appropriate diagram to support their explanation.

(d) In this question, the candidates were informed that India's exchange rate depreciated between 2010 and 2011, and were then required to explain, with reference to the data and using demand and supply analysis, what might have contributed to this change in India's exchange rate. There were many good answers to this question, and candidates demonstrated a sound knowledge and understanding of what might have caused this depreciation of India's exchange rate. The question did not explicitly require a diagram to be included, but many candidates did include one and used this to good effect in supporting the explanation, showing a shift of the demand curve to the left and a shift of the supply curve to the right.

(e) Candidates were required to discuss whether the changes in the current account balance over the period 2010 to 2011 were what economic theory would have predicted, given the depreciation of India's exchange rate. A number of them pointed out that the depreciation would have made India's exports cheaper and its imports dearer and that this might have been expected to have

produced a decrease in the current account balance. They often then suggested that the effect of this would depend on the price elasticity of demand for exports and imports and brought in the Marshall-Lerner condition to develop the discussion. A number of candidates also made reference to the J-curve effect, stressing the importance of the time period under consideration.

Essays

Question 2

This question assessed the price elasticity of supply of a product, such as rice, in **(a)** and with the extent to which a government could increase the supply of an agricultural product to an economy in the short-run and in the long-run in **(b)**.

(a) Candidates were required to explain whether the price elasticity of supply of a product, such as rice, would be expected to be elastic or inelastic. Most candidates demonstrated reasonable knowledge and understanding of the concept of price elasticity of supply, including both elastic and inelastic outcomes, and applied this to particular products to support their explanation. In the case of rice, candidates pointed out that the price elasticity of supply for such an agricultural product would be likely to be inelastic.

(b) For part **(b)**, many candidates discussed the extent to which a government could increase the supply of an agricultural product to an economy, including both the short-run and long-run time periods. Responses mentioned subsidies, the increase of imports through trade agreements and the support of agricultural production. Candidates were rewarded for the inclusion of an evaluation, as well as analysis, in their answers, taking into account 'the extent to which' element of the question, i.e. indicating just how easy it might be for a government to achieve success with the policies adopted to achieve this aim.

Question 3

This question assessed the difference between private goods and public goods, and why it would be possible for a business to make a profit in the supply of a private good but not in the supply of a public good, in **(a)** and with the view that a market economy is always preferable to a planned economy, because of the existence of the price mechanism, in **(b)**.

(a) There were some very good answers to part **(a)**, and many candidates demonstrated a sound knowledge and understanding of the distinction between the two types of good, especially in relation to excludability, reject ability and non-rivalry in consumption. Responses then discussed why it was possible for a business to make a profit in the supply of a private good, but not in the supply of a public good, due to the existence of the 'free rider' problem.

(b) Many candidates discussed the view that a market economy was always preferable to a planned economy, due to the existence of the price mechanism. They clearly analysed the differences between the two types of economic system in terms of resource allocation, stressing the importance of the role of profit. Candidates were rewarded for the inclusion of an evaluation, as well as analysis, in their answers, taking into account the 'always preferable' element of the question, i.e. indicating that a market economy has disadvantages, as well as advantages, such as in relation to the non-provision of public goods and the over-provision of demerit goods.

Question 4

This question aimed to assess the meaning of 'money', and an outline of its characteristics in a modern 21st century economy in **(a)** and with a discussion of whether money would be able to perform all of its functions in an economy that was experiencing a high rate of inflation in **(b)**.

(a) There were many good answers to part **(a)**, and candidates demonstrated a sound knowledge and understanding of the meaning of 'money' and outlined some of its key characteristics. More marks were awarded to answers that focused on the application to 'a modern 21st century economy'. Responses needed to state that modern economies often use money in the form of electronic balances and cheques and debit cards also play a key role.

(b) Many candidates discussed whether money could perform all of its functions in an economy that was experiencing a high rate of inflation. These answers discussed each of the functions of money, i.e. medium of exchange, store of value, unit of account and a standard for deferred payments, and discussing the extent to which each of these would be likely to be affected by inflation. Candidates also needed to include evaluation, as well as analysis, in their answers, taking into account the 'all its functions' and 'high rate of inflation' elements of the question, i.e. indicating whether all of the functions of money would be affected to the same extent by inflation and considering what might be meant by a high rate of inflation in different economies.

ECONOMICS

Paper 9708/22
Data Response and Essay (Core)

Key messages

- Economics is essentially a holistic subject. Full understanding of each part of the syllabus requires a full understanding of other aspects of the syllabus, and demonstration of this is required to obtain high marks.
- Candidates are recommended to tailor their answer to the directive words in each question, as these words provide a guide to the assessment objective.
- Successful scripts will directly answer the question that is set. The inclusion of a conclusion in an essay can help boost marks.

General comments

The data response question focused on the terms of trade. The content of candidates' answers suggests that this concept was not always fully understood. The terms of trade is an important concept in Economics, and a complete understanding of the concept will aid the understanding of trends in international trade.

The essay questions were generally well-answered. A sound demonstration of knowledge and understanding together with the ability to apply concepts, and analytical skills were evident in many of the responses. Higher evaluation marks were accessed by the few candidates who included a conclusion.

Data Response

1 (a) (i) Most candidates gained the mark available for the question. Some answers which achieved the mark demonstrated some confusion in their grasp of the concept at this stage. A few candidates less successfully interpreted the data, and thus concluded that New Zealand's terms of trade declined from June 2011 until September 2012. Some candidates were less able to differentiate between the terms of trade and the balance of trade.

1 (a) (ii) The mark scheme allowed a flexible interpretation of the data contained in Fig 1 to explain why the terms of trade declined. Answers which received full marks stated that export prices have fallen while import prices have stayed more stable, or stated that export prices have fallen more than import prices. Many candidates were unsure of how to meet the requirements of the directive words such as 'account for', and thus received fewer marks. Some candidates estimated the extent of the fall in the terms of trade, and gained no marks. Other candidates gained no marks, as their answers confused the balance of trade with the terms of trade.

1 (b) (i) Most candidates provided the correct formula for calculating the price elasticity of demand, and then applied this formula to calculate the price elasticity of demand. Many candidates inverted the formula and calculated that the elasticity of meat exports was 0.4 and was therefore inelastic. Others provided the correct formula, but did not select the correct figures to calculate the price elasticity from the data.

1 (c) The wording of this question inferred that only the information contained in the extracts could be used to answer the question. High-scoring answers focused on export and import prices. The points that underlined the stabilisation of the terms of trade were suggested in the extract. Some candidates examined the points raised in the extract, but did not focus on the impact on prices. Many stated that international inflationary pressures remained weak, but did not explain how this would impact upon the terms of trade. If international inflationary pressures remained weak, then there was unlikely to be a rise in the price of New Zealand's imports and this would help to stabilise

New Zealand's terms of trade. Similarly, many candidates pointed out that demand was expected to pick up in China and Australia as interest rates fell. Many candidates did not explain that this would most likely result in upward pressure on the prices of New Zealand's exports. Higher marks were awarded to answers that used the information in the extract to show how import and export prices might be affected by the changes mentioned in the extract. Lower marks were awarded to candidates who used large parts of the extract in their answer.

1 (d) Most candidates performed well, and recognised that the relevant economic theory was the law of comparative advantage. Many then explained that comparative advantage meant that New Zealand had a lower opportunity cost in producing meat and dairy products and a higher opportunity cost when it chose to produce manufactured products, and this was due to New Zealand's factor endowments. Lower marks were awarded to responses which adopted descriptive approaches with little or no reference to economic theory.

1 (e) This was a more challenging question for candidates. The data demonstrated that New Zealand's terms of trade had declined after June 2011. This meant that the price of New Zealand's exports relative to the price of its imports had fallen. This would provide a competitive advantage to New Zealand's products that would be expected to reduce the balance of trade deficit or turn the deficit into a surplus. The increase in the size of the deficit could be explained in a number of ways. Some candidates gained good marks for explaining the significance of the price elasticities and the time period under consideration. Many responses suggested that candidates did not have a firm grasp of the underlying concept, as they assumed that the terms of trade and the balance of trade were the same, and thus scored few marks.

Essays

2 (a) Higher marks were given to candidates who directly addressed the question. The first part of the question required candidates to explain the meaning of the term 'equilibrium price and quantity' in the market for a good or service. Most candidates indicated where equilibrium price and quantity would occur in a market. Many illustrated this with a diagram, which showed equilibrium occurring where the supply and demand curves intersect. This was not sufficient to explain the meaning of the term as required. The term equilibrium in Economics is used to describe a situation where there is no tendency to change. In a market where the supply and demand curves intersect there is no tendency to change because market forces do not exert pressure for price or quantity to change. There is effectively a balance in the market. The market is in equilibrium.

Candidates generally scored higher on this part of the question. Many used a diagram to show how an increase in demand would lead to a new equilibrium and were rewarded appropriately. Some candidates provided a more superficial application and thus lost out on marks. Many candidates showed the change on a diagram, but did not include an explanation, and thus lost out on marks.

2 (b) Many candidates provided a very sound analysis, and demonstrated a clear understanding of the way in which maximum prices are designed to help poorer consumers. The different effects of maximum prices imposed above and below equilibrium price were explained. In addition, many then explained how a maximum price that was imposed below the equilibrium would create an excess demand or shortage with all the allocation problems that would arise as a result. Reference was made alternative methods of allocation such as queuing, first come first served and rationing and many explained that black markets were likely to appear. There was generally an effective use of diagrams, although there was some confusion concerning whether a maximum price was effective when set above or below equilibrium. There were only a few marks awarded for evaluation. This was because the question posed was not answered by many candidates, despite their understanding of the underlying analysis. The question asked whether attempts to help poorer consumers through the imposition of a maximum price would always fail. Some gained evaluation marks for identifying the measures that governments might take to avoid the problems of an excess demand. These included subsidising production or increasing imports. Candidates who provided a conclusion were more likely to gain full marks.

3 (a) Most candidates possessed the necessary knowledge and understanding of the concepts of income and cross elasticity of demand, and some good marks were awarded. Most candidates were also able to apply this knowledge and understanding to show how goods are identified using these concepts. Good explanations were provided of inferior, necessary and normal goods and similarly complementary and substitute goods. Lower-scoring responses displayed an incomplete understanding and a weak application **of** knowledge.

3 (b) The second part of the question required candidates to discuss whether income or cross elasticity of demand would be more useful when predicting how a firm's revenue would change as demand factors change in a market economy. Some candidates discussed price elasticity of demand, and thus scored poorly. Others explained the link between changes in demand and changes in revenue showing how knowledge of, for example, whether a good was normal or inferior would be useful. Most candidates demonstrated a good understanding of the significance of the sign in each case. A few candidates grasped the significance of the size of the coefficient in predicting the change in a firm's revenue. This omission undermined the strength of the analysis provided. As in the previous question, evaluation marks awarded were poor, largely because of the lack of a conclusion.

4 (a) Most candidates demonstrated a firm knowledge and understanding of the difference between demand-pull and cost-push causes of inflation, and some good marks were awarded. The main weakness in this part of the question was the use of diagrams. Many candidates provided diagrams that were only appropriate in a micro context. Axes were labelled as 'Price' and 'Quantity' and curves shown were labelled 'Demand' and 'Supply'. Accompanying explanations often stated, for example, that demand-pull inflation occurred when the demand for a product shifted to the right and, as a result the price of the product increased. Demand-pull inflation of course occurs when aggregate demand increases, shifting the aggregate demand curve to the right which as the economy approaches full employment will generate an increase in the general price level. Approaches that adopted a micro approach were not relevant, and scored lower marks as a result.

4 (b) Most candidates had some idea of the consequences of inflation, and appropriate marks were awarded for relevant analysis. Domestic consequences which were discussed included menu and shoe leather costs, the impact on savings and investment, and the re-distribution of incomes in a haphazard manner. The external consequences which were explained focused on the impact of inflation upon the flow of capital between economies and on the competitiveness of a nation's goods and services. Some went further to assess the consequent impact upon the balance of payments and the exchange rate. Many answers were less able to distinguish between the domestic and external consequences of inflation. Inevitably, this undermined candidates' ability to score marks for evaluation and many scored no marks for this assessment objective.

ECONOMICS

Paper 9708/23

Data Response and Essay (Core)

Key messages

- Candidates are encouraged to consider the directive words in the questions. These directive words provide a guide to the assessment objective that is tested. Directive words which signal that evaluation is required are especially essential for success in this subject.
- Higher-scoring answers directly answer the question. In essays, a conclusion is often essential for responses to gain higher marks.
- Candidates should recognise the analytical frameworks that underpin the various areas of the syllabus and use these to answer the questions set. The candidate needs to demonstrate a clear and firm grasp of the relevant economic concepts. Descriptive approaches are to be avoided.

General comments

The underpinning knowledge and understanding demonstrated by candidates was generally sound across the various areas of the syllabus tested. Candidates often demonstrated the ability to apply economic concepts as required, and data handling and analytical skills were of a good standard, although t some candidates provided descriptive responses in some areas. There were only a few marks awarded for the evaluation, often because the answers were not tailored to the directive words or because candidates did not include a conclusion.

Comments on specific questions

Question 1

(a) (i) Most candidates accurately interpreted the data and thus gained the mark.

(ii) Most candidates accurately calculated the rate of inflation as required. Some candidates seemed to be less confident with index numbers, and thus computed the rate of food price inflation incorrectly.

(b) Most candidates successfully used the data in Table 1 to show how the adoption of biofuel targets in the EU had driven up food prices.

(c) (i) Most candidates understood the impact of the removal of a subsidy and how this would increase the price and reduce the quantity of biofuels in the market for biofuels. The accompanying explanations varied in quality. Some candidates did not include a diagram, which was a requirement of the question.

(ii) Most candidates provided an appropriate diagram and an accurate explanation to show how the adoption of biofuel targets would affect the market for fossil fuels. Many answers demonstrated how the demand for fossil fuels would increase, thus causing an increase in price and a rise in the quantity demanded. Some candidates were confused about this, and thus lost out on marks. For example, some candidates assumed that the impact of the change would be to decrease the demand for fossil fuels. In addition, marks were lost for answers which did not include a diagram.

(d) (i) Most candidates included a diagram to illustrate a production possibility curve. Some candidates were less able to use the curve to show the trade-off referred to in the question. Often an accurate diagram was provided, with the production of biofuels on one axis and the production of food crops

on the other. Higher-scoring answers explained how the increased production of, for example, biofuel resulted in the reduced production of food crops.

(ii) This question was more of a challenge for candidates. The data explained that, 'the demand for land to produce crops for biofuel is pushing food production on to land that is less suitable for agriculture'. This explains why the cost of food production is rising as more land is used to grow crops for biofuels, and also explains why most production possibility curves are drawn concave to the origin and illustrate rising opportunity costs. More careful reading and comprehension of the data is required to recognise the underpinning theory and apply this to gain good marks.

(e) This question was generally well-answered by candidates, many of whom demonstrated a firm grasp of the analytical framework required to provide a strong response to this question. Most candidates had an understanding of the way in which indirect taxes work and their shortcomings as means to prevent global warming. Many then compared indirect taxation with biofuel targets and concluded which of the two approaches was likely to be most effective. Such approaches scored highly. Less successful responses were descriptive, and contained little reference to the analytical framework. Other lower-scoring responses provided a good analysis but only discussed the two approaches, and thus did not reach a conclusion.

Essays

Question 2

(a) This part of the question was generally well-answered, and most candidates demonstrated a good knowledge and understanding 'highly inelastic' in the context of price elasticity. Relevant factors referred to the number of substitutes available, whether a product is addictive and the proportion of income spent on a product.

(b) Most candidates scored marks for their appropriate analysis. Most explained that businesses might attempt to make the demand for their products more inelastic so that they could raise their prices and increase total revenue. A few candidates provided a sound evaluation and scored highly. It was expected that candidates would apply their knowledge of the factors influencing the elasticity of demand for a good explained in part **(a)** of the question. For example, whether businesses are likely to be successful in making their product more inelastic depends upon their success at removing substitutes for their products.

Question 3

(a) Higher marks were awarded to candidates who used appropriate concepts such as social and private costs and benefits and negative and positive externalities to demonstrate their knowledge and understanding. Better answers demonstrated a firm and accurate grasp of the analytical frameworks that underpin different areas of the syllabus. Many candidates provided answers that were descriptive and contained inaccuracies. Some candidates consider that social costs and negative externalities are the same.

(b) Higher-scoring answers explained at least two policies that governments might adopt when negative externalities arise through production. The inclusion of an analysis of the advantages and disadvantages of two policies enabled candidates to explain which policy might be more appropriate. Better answers used the appropriate analytical framework, and demonstrated an appreciation of the ways in which policy might reduce the gap between private marginal costs and the social costs of production. Some lower-scoring answers were descriptive, and other answers were analytical, and varied in terms of their accuracy. Some candidates scored highly for their analysis, and scored poorly for their evaluation. This was often because they did not reach a conclusion regarding which policy they considered to be the 'most appropriate', despite the clear direction in the question.

Question 4

(a) This was the least popular essay question. Most candidates explained what was meant by a 'current account deficit'. Fewer candidates were familiar with the factors that might cause a deficit in an economy. These might include a higher rate of inflation in an economy compared to competitors, a rise in income levels and a fall in the quality of goods produced in an economy. Few candidates seemed aware of the way in which these factors caused a deficit and marks were disappointing as a result.

(b) To achieve higher marks, it was necessary for candidates to analyse at least two policies available to a government. These policies may have included various types of expenditure switching, such as tariffs or quotas and expenditure dampening policies including rises in interest rates or reductions in government spending. Most candidates focused on different types of expenditure switching policies. These were usually well explained, but the impact on consumers could have been more fully developed. As a result, candidates were less able to reach a conclusion regarding which policy had the fewest disadvantages for consumers. This reduced the marks awarded for the evaluation.

ECONOMICS

Paper 9708/31
Multiple Choice (Supplement)

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

General comments

1033 candidates sat the exam, and the mean mark was 15.4.

65% or more of the candidates selected the correct answer to **Questions 1**, **2**, **9**, **11** and **26**. The questions covered different areas of the syllabus, and were set to test different skills.

35% or fewer of the candidates selected the correct answer to **Questions 4**, **8**, **24** and **29**.

Of the candidates who scored well on the test overall, there were no questions which were answered incorrectly (if this had been the case, it may have indicated that this group of successful candidates might have seen an alternative viable interpretation of the question, which could possibly indicate a fault in the question).

Comments on specific questions

For **Question 4**, 32% of candidates correctly chose option C. 17% of candidates chose option A, 27% chose option B and 24% chose option D. The incorrect options would either move the supply curve or move the demand curve in the wrong direction. The proximity of the percentages in the choice of incorrect options may indicate that candidates tended to guess the answer to this question.

For **Question 8**, 27% of the candidates correctly chose option A. 20% chose option B, 39% chose option C and 14% chose option D. Presumably those who chose option C thought that the effect of the subsidy would not be passed on to the consumer in the form of lower a lower price. A subsidy per unit will shift the monopolist's marginal cost curve down and the new marginal cost will cut the marginal revenue to the right of

the original intersection resulting in an increase in output. A vertical line from that output will intersect the average revenue curve at a lower point than the original intersection and the price will therefore be lower.

For **Question 24**, 34% of the candidates correctly chose option C. 25% chose option A, 18% chose option B, and 23% chose option D. Reasons why candidates chose options A, B, or D may include a confusion concerning the movement of the liquidity preference schedule or, as with **Question 4**, candidates may have guessed the answer.

For **Question 29**, 34% of the candidates correctly chose option B. 23% chose option A, 24% chose option C, and 19% chose option D. As with **Question 4**, the proximity in the choice of incorrect options may indicate that candidates tended to guess the answer to this question, as it is unlikely that candidates would deduce that higher indirect tax rates which would affect prices, would lead to a fall in inflation.

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

ECONOMICS

Paper 9708/32
Multiple Choice (Supplement)

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

General comments

8711 candidates sat the exam, and the mean mark was 17.6.

65% or more of the candidates selected the correct answer to **Questions 1**, **2**, **4**, **11**, **16**, **21**, **22**, **25**, **28** and **29**. The questions covered different areas of the syllabus, and were set to test different skills.

45% or fewer of the candidates selected the correct answer to **Questions 8** and **24**.

Of the candidates who scored well on the test overall, there were no questions which were answered incorrectly (if this were to be the case, it may have indicated that this group of successful candidates might have seen an alternative viable interpretation of the question, which could possibly indicate a fault in the question).

Comments on specific questions

For **Question 8**, 43% of the candidates correctly chose option B. 15% chose option A, 15% chose option C, and 27% chose option D. The area under a supply curve indicates the amount a worker would be prepared to receive in order to work. It is also called a worker's transfer earnings – the amount that could be earned in an alternative occupation. In order to work 40 hours, the amount that the worker would need to receive is shown by the area under the supply curve at the level of 40 hours which was option B. Those who chose option D were most probably unsure of the distinction between economic rent and transfer earnings.

For **Question 24**, 36% of the candidates correctly chose option C. 31% chose option A, 22% chose option B, and 10% chose option D. The figures given in the question related to nominal Gross National Income.

Income inequality did not increase between 2000 and 2010; it remained roughly the same (option A). If prices were to increase, then real income would not increase (option B) and it cannot be concluded that the change in nominal GNI levels led countries to be reclassified (option D).

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

ECONOMICS

Paper 9708/33
Multiple Choice (Supplement)

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

General comments

42 candidates sat the exam, and the mean mark was 12.5.

50% or more of the candidates selected the correct answer to **Questions 1**, **6**, **13**, **15**, **16**, **19**, **21**, **25**, **26** and **28**. The questions covered different areas of the syllabus, and were set to test different skills.

30% or fewer of the candidates selected the correct answer to **Questions 3**, **8**, **10**, **14**, **17**, **18** and **24**.

Questions 17 and **18** were answered incorrectly by candidates who scored well on the test overall. This may indicate that those who scored well on the test overall might have seen another viable interpretation of the question, which could possibly indicate a fault in the question. For **Questions 17** and **18**, however, their incorrect choice of options may have been due to a misunderstanding, and may thus not have been due to a fault with the question itself.

Comments on specific questions

For **Question 3**, 29% of the candidates correctly chose option D. 12% chose option A, 17% chose option B and 43% chose option C. Option C stated that the consumer's money income had decreased. If this had been the case, the consumer would not have been able to buy more than the original amount of good X. In fact, the consumer could have bought more than the original amount of good X, so the money income must have increased.

For **Question 8**, 21% of the candidates correctly chose option A. 21% chose option B, 40% chose option C and 17% chose option D. Presumably those who chose option C thought that the effect of the subsidy would

not be passed on to the consumer in the form of a lower price. A subsidy per unit will shift the monopolist's marginal cost curve down and the new marginal cost will cut the marginal revenue to the right of the original intersection resulting in an increase in output. A vertical line from that output will intersect the average revenue curve at a lower point than the original intersection and the price will therefore be lower.

For **Question 10**, 26% of the candidates correctly chose option D. 21% chose option A, 26% chose option B and 26% chose option C. This distribution of choices could suggest that the candidates were guessing. The elasticity cannot be determined precisely, but it is known that the demand is relatively elastic on higher parts of the demand curve, and relatively inelastic on lower parts of the demand curve. Unity elasticity, in which price elasticity of demand changes from inelastic to elastic, is the point on the demand curve immediately above the position where the marginal revenue cuts the horizontal axis. D is only one option that gives a price elasticity of greater than one.

For **Question 14**, 26% of the candidates correctly chose option B. 31% chose option A, 24% chose option C and 19% chose option D. This distribution of answers may suggest that candidates were guessing. Deadweight loss is measured by the difference between what would have been the allocative efficient position where the MC curve cuts the AC curve and the point of maximum profit output for the monopolist, which is shown on the diagram as a dotted vertical line.

For **Question 17**, 12% of the candidates correctly chose option D. 17% chose option A, 17% chose option B and 50% chose option C. Those who chose option C likely forgot that there would be a discontinuity in the marginal revenue curve. It would be the same as the average revenue until the price OS reached the AR curve. Thus the MR curve would be SU. After that, the MR curve would follow the original MR curve from the point V to X. The whole curve would thus be SUVX.

For **Question 18**, 24% of the candidates correctly chose option A. 26% chose option B, 24% chose option C and 24% chose option D. 2% did not answer the question. Such an even distribution again indicates that the candidates probably guessed the answer.

For **Question 24**, 19% of the candidates correctly chose option C. 26% chose option A, 36%, chose option B, 17% chose option D. Candidates who did not select the correct answer may have confused the movement of the liquidity preference schedule or, as with **Question 4**, may have guessed the answer.

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

ECONOMICS

Paper 9708/43

Data Response and Essays (Supplement)

General comments

Many candidates provided well-structured answers to these questions and gave clear analytical comments supporting their analysis with relevant applications. Although candidates would have been encouraged to read all parts of the question carefully, it is sometimes evident that what could have been a competent answer has not gained higher marks because part of the question has not been dealt with. Examples of such questions are given below. Candidates should also always draw a conclusion when they are asked to discuss an issue. Many present various opinions, or alternative sides to an argument, but then leave the Examiner to conclude which would be the better option.

Comments on Specific Questions

Question 1

(a) (i) All candidates were able to give an explanation of an economy of scale but the explanations varied in detail. Many mentioned that an economy could be achieved by buying in bulk but fewer candidates explained that the essential result of an economy is that an increase in output leads to a reduction in average cost per unit.

(ii) Candidates were usually able to state that an economy of scale occurs with higher output and this may result in either a lower price, or, if the price is kept the same, in a higher profit.

(b) Candidates explained that traditionally large business are thought to want to maximise profits and are not necessarily thought to have wider aims of helping the economy. However, they also stated that some businesses now increasingly promote the idea that they are concerned about the environment and conservation of resources.

(c) There was some confusion, in the answers to this question, between a monopoly and a monopsony. Nevertheless, many did understand that a monopsony occurs when there is a dominant buyer in a market. Candidates were able to use the information provided to suggest that there may be a benefit for suppliers as their revenue would increase if they had large orders from the supermarket, but they also recognised that this placed the supplier in a difficult position if the order were to be withdrawn.

Candidates understood that it was also a benefit for the supermarket because it could result in lower input costs and, therefore, higher profits which could be used to fund capital investment and research. For the consumer there would be a benefit if the price of the products were reduced but candidates recognised that some consumers believed the supermarket's policy towards suppliers was unfair. Candidates also mentioned that the supermarket planned to create 20 000 new jobs and this would have a wider beneficial effect.

Question 2

Questions on economic efficiency are often asked and candidates are usually able to explain the meaning of the term. This examination was no exception to that. Candidates used economic analysis to describe the concept in terms of productive and allocative efficiency and better candidates gave the conditions necessary to achieve each type of efficiency. Many candidates also presented a clear discussion on whether the market can achieve such efficiencies. They explained that efficiency may be possible in a perfect market but in reality there will probably be inefficiencies due to market failures – excess profits, lack of information, externalities, merit goods, public goods might all prevent the achievement of efficiency. Better candidates also considered in their discussion whether such market failures could be overcome by government

intervention and, if so, what type of intervention might be suitable. The weakness of the answers occurred in imprecise explanations of the analysis of efficiency, particularly allocative efficiency, and/or a limited discussion of possible market failures.

Question 3

Candidates should always be aware that they are required to construct a reasoned argument in their response to the questions, particularly in the questions such as this which have 25 marks. It is, quite often, the case that candidates are presented with an argument and are asked to consider that argument. This should involve them commenting on each part of the structure of the argument. In this question, candidates needed to know the economic theory underlying consumer demand and be able to relate that to the particular points asked in the question.

Those who answered the question usually demonstrated that they understood the principle of equi-marginal utility and outlined the theory of consumer choice. They often did not fully consider the rest of the argument presented in the question.

Some answers recognised that demand could be influenced by advertising or impulse buying. Better responses indicated that persuasive advertising/impulse buying could still be related to a belief in potential utility and still be the result of a rational decision upon which the theory is based.

While some candidates did develop this part of their discussion, very few considered the last part of the statement which related to a firm's revenue. It was hoped that candidates would consider the link between potential demand and revenue, mentioning elasticity. Firms hope to create an increase in demand by advertising and through it, an increase in revenue.

Question 4

(a) It was hoped that candidates who answered this question would comment on the availability of labour and the relative cost of the labour. This could have been achieved by using demand and supply analysis or marginal revenue productivity analysis. For many years, as has been indicated in these reports, the higher marks for such a question have been reserved for those who used marginal revenue productivity analysis.

In this examination, many of those who answered this question did not give a very full analysis of the theory. Some concentrated on the analysis of the product market rather than the factor market. Few distinguished between possible situations in perfect and imperfect markets.

(b) There were some good discussions of possible conflicts between the wish to reduce unemployment and other government policy aims. Many candidates mentioned the possible link between unemployment and inflation. While this was relevant, it was a surprisingly common feature that other alternative government aims were ignored.

The question also asked whether the reduction in unemployment 'necessarily results in a conflict'. Very few candidates indicated that the reduction of unemployment might help, rather than conflict with, alternative aims. For example, increased employment might increase output which might help increase economic growth or have an effect on income distribution. It is most likely that candidates could have written about the lack of conflicts but probably did not read the question carefully enough. Candidates should be advised to consider each part of the question and not be rushed, in examination conditions, into writing about a well-recognised area of the curriculum without considering other links in the question.

Question 5

(a) It was expected that candidates would give an explanation of the multiplier, probably with a numerical example. They could have explained how the multiplier might fall because injections decrease or withdrawals increase, or a combination of the two with a net decrease in the value of the multiplier. Higher marks were awarded to those candidates who gave a sound explanation with good application and a clear understanding of the principles involved. Some candidates only gave a description of one change that might alter the value of the multiplier which, as with **Questions 4(b**) would suggest that they did not read the question very carefully.

(b) Most of the candidates who attempted this question were able to show how changes in income levels might affect the standard of living. It was hoped that, in their explanations, candidates would indicate the wider implications of a fall in national income and indeed many did explain such implications. They suggested, for example, that decreased national income could result in decreased spending, possibly more unemployment, lower government revenue, lower feeling of well-being, fewer government services, lower profits for firms and more closures with possible redundancies. Poorer answers were not necessarily inaccurate but they did not explore more than a simple or brief connection between national income and standard of living.

Question 6

(a) Of the candidates who answered this, most were able to explain the three demands for money used in liquidity preference theory. They gave correct accounts of transactions, precautionary and speculative motives. The weakness of the answers was in the link between such explanations and the fear of unemployment. There is, of course, no one outcome that could be applied to all consumers or workers. The outcome would depend on individual perceptions of what the future might hold. However, some conjecture could be given; for example, potential unemployment and possible reductions in income might reduce transactions, might increase precautionary and might reduce the wish to speculate with income balances. Candidates were free to suggest possible outcomes but were expected to provide a reasoned supportive argument to validate their suggestion. Better candidates did explain the three motives and then linked possible changes in all three motives to likely unemployment.

(b) It was expected that candidates would analyse how lowering interest rates might encourage borrowing by firms and/or consumers. Lower interest rates might not encourage saving but it might help increase national income through increased investment or increased spending. The question asked about a closed economy so there was no need to mention international trade and balance of payments. Candidates did give good accounts of the effect of what might happen if interest rates fell, better candidates supported their description with good analytical diagrams and a clear discussion of alternative outcomes.

Question 7

(a) This was one of the most popular questions on the paper and the answers were usually very competent, clearly written and well-structured. Candidates mentioned that some developing countries have large populations, some do not. Not all mentioned, however, that what is more significant is the rate of growth of the population. They did, though, consider other more significant distinguishing features that are often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population or age structure of the population. All these points were relevant.

(b) This, like most of the part **(b)** questions, required a balanced answer which then reached a conclusion. The weakness of the answers to many such questions is that candidates present alterative viewpoints but then leave the examiner to decide which is the best conclusion. Candidates usually gave a clear account of how economic growth could involve greater production - measured by changes in GDP/GNP. Such a change, they considered, could cause an increase in the standard of living, improved health, education and employment opportunities. Better candidates then commented that there may be disadvantages to this change. For example, there may be poor working conditions, the growth of externalities, the careless depletion of resources. There may also still be questions of inequality in the distribution of income and the possibility that the increased GDP is spent on things which some might be concerned may not give an immediate direct benefit e.g. military research. Only the better answers drew a general conclusion which succinctly encapsulated their argument.

ECONOMICS

Paper 9708/42

Data Response and Essays (Supplement)

Key Message

The general standard of candidate responses was quite high, especially when candidates carefully considered the requirements of the question, and effectively used key word(s) in the question to tailor their answer.

Higher-scoring answers were concise and included knowledge which was relevant to the question.

The best responses discussed the questions and came to well-thought out conclusion as a result of the arguments they had put forward. Weaker responses left it to the Examiner to identify the discussion and draw a conclusion.

General Comments

There was a good standard of answer to the questions on this paper and candidates. The common issues in the answers were no different to those of previous years. Although attention has been drawn to these in the past, they are worth mentioning again.

Other common, repeated issues were the use of poorly drawn or inaccurately explained, diagrams and the use of prepared material on a topic that is not related to the question asked. These issues, however, should not detract from the overall impression that the standard of responses was commendable.

Comments on specific questions

Question 1

(a) The best candidates recognised the technical nature of the question requiring the adjustment of market prices by the subtraction of indirect taxes and the addition of subsidies. Some identified the need to write about taxes and subsidies. A significant number wrote in general terms about GDP at factor costs and GDP at market prices.

(b) (i) Candidates were able to define the multiplier effect and also to present the comprehensive numerical example which the question called for. The best candidate responses did both to gain full marks. Other candidates wrote in general terms about changes in income and investment, others showed knowledge of the circular flow of income and the continuing increase in income but did not come to a conclusion. Some candidates attempted to use the stimulus material to develop a numerical example but this was rarely clearly explained to gain good marks.

(b) (ii) From the data and information given, nearly all candidates were able to identify how the Indian economy had benefitted from the telecom industry. Some went on to explain the process by which for example, better access to information could reduce costs and improve competition. Some responses explored the benefits by way of increases in aggregate demand, un/employment, business profits, aspects of development, though these were in the minority.

(c) This required the candidates to use the material provided to argue about the degree to which the telecom industry had benefitted from the change from public to private sector. It requires candidates to identify the private sector benefits, other possible contributing factors to success, falling handset prices, government fiscal policy, and to make a judgement of their relative significance. Some wrote at length of the problems of state ownership and monopoly, others of the benefits of perfect competition. These candidates usually made little reference to the material

provided. Candidates who only supported one side of the discussion could not gain maximum marks.

Question 2

Most of the candidates who answered this question started with an explanation of the difference between marginal utility and total utility together with an appropriate illustration. A definition/explanation of diminishing marginal utility was followed by an attempt to link this to the downward sloping demand curve. A large number of candidates then went on to state the equi-marginal utility principle and of these some explain via prices changes how equilibrium was re-established. That this denied the truth of the first assertion in the question "related to the purchase of one good" was not made explicit. Better candidates explored how the marginal utility theory could explain income increases and the effects of advertising. Others discussed the general limitations of marginal utility theory as an explanation of consumer behaviour. In the case of income increases they needed to explain how the income constraint which applies in the discussion of the equi-marginal principle is raised and therefore more of all goods can be bought. In the case of the second the effect of advertising in raising the marginal utility of a good and therefore how this require the establishment of a new equilibrium again through the equi-marginal principle. Candidates need to establish the full extent of the question especially in the case of essay questions and ensure that they address each element in turn before reaching a conclusion.

Question 3

There were a number of good answers to this question. The purpose of the question was to involve candidates in a consideration of the argument put forward in the question that the profitability of firms is a measure of their efficiency and that high profits should be encouraged. Most candidates demonstrated a good understanding of efficiency, especially in contrasting productive and allocative efficiency, and there were a number of examples of well drawn diagrams included to support the answer. The concept of profit was considered in relation to different possible market models, the best candidates explained that perfect competition led to normal profits whilst monopoly led to super-normal profits. However relatively few candidates were explicit in their consideration of the link between profit and efficiency. Some candidates concentrated only on the differences between different forms of competitive structure with little reference to the question asked. Very few candidates went on to discuss the third element of the question that "high profits should be encouraged" indicating the importance of candidates reading the question fully and responding to all its elements.

Question 4

(a) Most candidates were able to produce a theoretical explanation of wage determination from either a supply and demand analysis or through an explanation of the marginal revenue product theory but some who did use MRP did so without offering a thorough explanation. Generally the diagrams presented were accurately drawn and labelled. Some candidates seemed to offer a general answer on wage determination without focussing particularly on the question being asked. The best candidate responses saw the high potential from selling named footballers shirts and the revenue which accrued form this forming an element of the sport-person's MRP. Very few addressed the high salaries paid to top executives.

(b) Generally there were good attempts to this part of the question, particularly in dealing with the theoretical analysis surrounding monopsony, trade union behaviour and minimum wage legislation. However, in some cases diagrams were left unlabelled or were ambiguously labelled, meaning the analysis was not as well supported as it could have been. Monopsony in isolation was reasonably well tackled. However, candidates often experienced difficulty when combining the monopsonist analysis with a trade union analysis or minimum wage legislation. Often each analysis was presented in isolation rather than an integrated narrative. The analysis into intervention issues, lead quite readily to many candidates being able to make a reasoned and logical conclusion which meant that level 3 marks were available.

Question 5

This was the least popular question on the paper

(a) Given its lack of popularity, most answers to this question had a strong grip on a theoretical understanding of the paradox of thrift. Candidates were able to provide both numerical and diagrammatic explanation which demonstrated that higher saving brought lower income which in turn lead to lower saving. Few saw that there might be a reduction in inflation and its beneficial impact nor that increased banking reserves might lead to an expansion of credit and higher spending.

(b) Many candidates began their answers with a discussion of the two aspects of growth. Movement to the boundary of the PPC and an outwards movement of the boundary. Good candidates identified that AD = C + G + I + (X-M) was the key to a full explanation of whether new purchases would necessarily help economic growth. Some developed answers which concentrated on the role of consumption and government spending with spare capacity leading to lower unemployment and limited capacity leading to inflation or balance of payments difficulties. Few identified that investment would be crucial to the outwards movement of the PPC and that this might reduce the funds available for consumption spending. Many candidates limit the scope of their answers by only considering consumption as the form of spending. Most candidates provided at least a limited conclusion.

Question 6 was a popular question, and often answered in combination with **Question 7**.

(a) The best answers were discussed with different types of unemployment placed within a theoretical framework such as equilibrium and dis-equilibrium unemployment. This gave answers a more coherent structure and helped to focus candidates' responses. Answers varied between the more detailed explanation of a limited number of types of unemployment and a more extensive but less detailed explanation of the types of unemployment. Both approaches are considered valid. Some supported the explanation with well drawn and labelled diagrams. Some candidates did not identify a significant cause of unemployment in their country and some who did, did not explain why it was significant.

(b) The best candidates discussed a range of policy alternatives fiscal, monetary, supply side and the relative merits and difficulties of applying them to specific forms of unemployment. Real wage unemployment and reductions in trade union power, demand deficient unemployment and fiscal or monetary policy. Those who did this together with a reasoned conclusion gained high marks. Many candidates produced answers which were unbalanced between the different solutions available for the alleviation of unemployment often concentrating on one solution rather than a range. This was presumably because of the reference to fiscal policies in the question. Only a small number took fiscal policy to be the only solution and an opportunity to write extensively on the multiplier process.

Question 7

(a) Candidate responses that explained the reasons for a difference in the labour-capital ratio between developing and developed economies together with an explanation of the other differing characteristics had an advantage over those responses which had not identified the capital-labour element in the question. Most candidates did select a difference as the most significant and argued in its favour.

(b) Candidates were able to identify many differences which limited the reliability of GDP as a measure of living standards and the adjustment that might be possible to make comparisons more reliable, real GDP per capita being the most common adjustment. Consideration of the more recent alternatives measures of living standards such as HDI or MEW were touched upon by the majority of candidates, but only a relatively small proportion of them went further explain those measures in considerable detail. Most candidates provided at least a limited conclusion.

ECONOMICS

Paper 9708/43

Data Response and Essays (Supplement)

General comments

Many candidates provided well-structured answers to these questions and gave clear analytical comments supporting their analysis with relevant applications. Although candidates would have been encouraged to read all parts of the question carefully, it is sometimes evident that what could have been a competent answer has not gained higher marks because part of the question has not been dealt with. Examples of such questions are given below. Candidates should also always draw a conclusion when they are asked to discuss an issue. Many present various opinions, or alternative sides to an argument, but then leave the Examiner to conclude which would be the better option.

Comments on Specific Questions

Question 1

(a) (i) All candidates were able to give an explanation of an economy of scale but the explanations varied in detail. Many mentioned that an economy could be achieved by buying in bulk but fewer candidates explained that the essential result of an economy is that an increase in output leads to a reduction in average cost per unit.

(ii) Candidates were usually able to state that an economy of scale occurs with higher output and this may result in either a lower price, or, if the price is kept the same, in a higher profit.

(b) Candidates explained that traditionally large business are thought to want to maximise profits and are not necessarily thought to have wider aims of helping the economy. However, they also stated that some businesses now increasingly promote the idea that they are concerned about the environment and conservation of resources.

(c) There was some confusion, in the answers to this question, between a monopoly and a monopsony. Nevertheless, many did understand that a monopsony occurs when there is a dominant buyer in a market. Candidates were able to use the information provided to suggest that there may be a benefit for suppliers as their revenue would increase if they had large orders from the supermarket, but they also recognised that this placed the supplier in a difficult position if the order were to be withdrawn.

Candidates understood that it was also a benefit for the supermarket because it could result in lower input costs and, therefore, higher profits which could be used to fund capital investment and research. For the consumer there would be a benefit if the price of the products were reduced but candidates recognised that some consumers believed the supermarket's policy towards suppliers was unfair. Candidates also mentioned that the supermarket planned to create 20 000 new jobs and this would have a wider beneficial effect.

Question 2

Questions on economic efficiency are often asked and candidates are usually able to explain the meaning of the term. This examination was no exception to that. Candidates used economic analysis to describe the concept in terms of productive and allocative efficiency and better candidates gave the conditions necessary to achieve each type of efficiency. Many candidates also presented a clear discussion on whether the market can achieve such efficiencies. They explained that efficiency may be possible in a perfect market but in reality there will probably be inefficiencies due to market failures – excess profits, lack of information, externalities, merit goods, public goods might all prevent the achievement of efficiency. Better candidates also considered in their discussion whether such market failures could be overcome by government

intervention and, if so, what type of intervention might be suitable. The weakness of the answers occurred in imprecise explanations of the analysis of efficiency, particularly allocative efficiency, and/or a limited discussion of possible market failures.

Question 3

Candidates should always be aware that they are required to construct a reasoned argument in their response to the questions, particularly in the questions such as this which have 25 marks. It is, quite often, the case that candidates are presented with an argument and are asked to consider that argument. This should involve them commenting on each part of the structure of the argument. In this question, candidates needed to know the economic theory underlying consumer demand and be able to relate that to the particular points asked in the question.

Those who answered the question usually demonstrated that they understood the principle of equi-marginal utility and outlined the theory of consumer choice. They often did not fully consider the rest of the argument presented in the question.

Some answers recognised that demand could be influenced by advertising or impulse buying. Better responses indicated that persuasive advertising/impulse buying could still be related to a belief in potential utility and still be the result of a rational decision upon which the theory is based.

While some candidates did develop this part of their discussion, very few considered the last part of the statement which related to a firm's revenue. It was hoped that candidates would consider the link between potential demand and revenue, mentioning elasticity. Firms hope to create an increase in demand by advertising and through it, an increase in revenue.

Question 4

(a) It was hoped that candidates who answered this question would comment on the availability of labour and the relative cost of the labour. This could have been achieved by using demand and supply analysis or marginal revenue productivity analysis. For many years, as has been indicated in these reports, the higher marks for such a question have been reserved for those who used marginal revenue productivity analysis.

In this examination, many of those who answered this question did not give a very full analysis of the theory. Some concentrated on the analysis of the product market rather than the factor market. Few distinguished between possible situations in perfect and imperfect markets.

(b) There were some good discussions of possible conflicts between the wish to reduce unemployment and other government policy aims. Many candidates mentioned the possible link between unemployment and inflation. While this was relevant, it was a surprisingly common feature that other alternative government aims were ignored.

The question also asked whether the reduction in unemployment 'necessarily results in a conflict'. Very few candidates indicated that the reduction of unemployment might help, rather than conflict with, alternative aims. For example, increased employment might increase output which might help increase economic growth or have an effect on income distribution. It is most likely that candidates could have written about the lack of conflicts but probably did not read the question carefully enough. Candidates should be advised to consider each part of the question and not be rushed, in examination conditions, into writing about a well-recognised area of the curriculum without considering other links in the question.

Question 5

(a) It was expected that candidates would give an explanation of the multiplier, probably with a numerical example. They could have explained how the multiplier might fall because injections decrease or withdrawals increase, or a combination of the two with a net decrease in the value of the multiplier. Higher marks were awarded to those candidates who gave a sound explanation with good application and a clear understanding of the principles involved. Some candidates only gave a description of one change that might alter the value of the multiplier which, as with **Questions 4(b**) would suggest that they did not read the question very carefully.

(b) Most of the candidates who attempted this question were able to show how changes in income levels might affect the standard of living. It was hoped that, in their explanations, candidates would indicate the wider implications of a fall in national income and indeed many did explain such implications. They suggested, for example, that decreased national income could result in decreased spending, possibly more unemployment, lower government revenue, lower feeling of well-being, fewer government services, lower profits for firms and more closures with possible redundancies. Poorer answers were not necessarily inaccurate but they did not explore more than a simple or brief connection between national income and standard of living.

Question 6

(a) Of the candidates who answered this, most were able to explain the three demands for money used in liquidity preference theory. They gave correct accounts of transactions, precautionary and speculative motives. The weakness of the answers was in the link between such explanations and the fear of unemployment. There is, of course, no one outcome that could be applied to all consumers or workers. The outcome would depend on individual perceptions of what the future might hold. However, some conjecture could be given; for example, potential unemployment and possible reductions in income might reduce transactions, might increase precautionary and might reduce the wish to speculate with income balances. Candidates were free to suggest possible outcomes but were expected to provide a reasoned supportive argument to validate their suggestion. Better candidates did explain the three motives and then linked possible changes in all three motives to likely unemployment.

(b) It was expected that candidates would analyse how lowering interest rates might encourage borrowing by firms and/or consumers. Lower interest rates might not encourage saving but it might help increase national income through increased investment or increased spending. The question asked about a closed economy so there was no need to mention international trade and balance of payments. Candidates did give good accounts of the effect of what might happen if interest rates fell, better candidates supported their description with good analytical diagrams and a clear discussion of alternative outcomes.

Question 7

(a) This was one of the most popular questions on the paper and the answers were usually very competent, clearly written and well-structured. Candidates mentioned that some developing countries have large populations, some do not. Not all mentioned, however, that what is more significant is the rate of growth of the population. They did, though, consider other more significant distinguishing features that are often expressed in terms of GDP, GDP per capita, productive capacity, structure of industry, standards of living, health, education, sanitation, occupational structure of the population or age structure of the population. All these points were relevant.

(b) This, like most of the part **(b)** questions, required a balanced answer which then reached a conclusion. The weakness of the answers to many such questions is that candidates present alterative viewpoints but then leave the examiner to decide which is the best conclusion. Candidates usually gave a clear account of how economic growth could involve greater production - measured by changes in GDP/GNP. Such a change, they considered, could cause an increase in the standard of living, improved health, education and employment opportunities. Better candidates then commented that there may be disadvantages to this change. For example, there may be poor working conditions, the growth of externalities, the careless depletion of resources. There may also still be questions of inequality in the distribution of income and the possibility that the increased GDP is spent on things which some might be concerned may not give an immediate direct benefit e.g. military research. Only the better answers drew a general conclusion which succinctly encapsulated their argument.