ECONOMICS

Paper 9708/11
Multiple Choice 11 (Core)

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

General comments

2051 candidates sat the exam with a mean score of 14.34 and a standard deviation of 5.21. The corresponding statistics for 2009, with a much larger and much more geographically spread entry, were 18.72 and 5.81. The range of marks was from 30 marks to 2 marks, with 4 candidates achieving full marks.
The performance was disappointing in the light of recently rising standards in multiple choice examinations although the change in cohort may suggest that a comparison with last year is not particularly helpful. No questions proved to be easier than intended while three proved to be relatively difficult i.e. with less than 25% of candidates correctly answering the question. Candidates, on average, performed better on questions involving numerical problems and least well on those in a diagram format. It suggests that practice with past diagram, multiple choice questions would improve performance. The large majority of questions worked well in discriminating between candidates.

Comments on Individual Questions

The presentation in **Question 2** resulted surprisingly in more than 40% of candidates opting for D. The proportionate change in consumer goods is less at 50% than that of capital goods at 60%, hence D is incorrect. A fairly even split between the four options can sometimes indicate guessing by candidates. In **Question 7**, the correct key C was selected by 25% of candidates with at least 23% selecting each of the others. The logic underlying the answer was that anti-piracy measures would increase the demand for legally produced DVDs while raising the cost of production and reducing supply. **Question 8** saw more candidates select option B rather than the correct choice A. Unitary price elasticity means that total revenue remains unchanged as price changes as shown in a horizontal line in this type of diagram. The common misunderstanding about the position of an effective maximum price was repeated in **Question 11**. Price OP_2 would have been ineffective so the market price, OP_1 would have operated. **Question 12** dealt with changes

in consumer surplus. In the past this has presented candidates with difficulty and unfo continued. 48% opted for A which indicates the change in the producers' revenue rather than i surplus. **Question 19** has D as the correct answer as trade is impossible when opportunity cost r identical. Country Y has an absolute rather than a comparative advantage in both goods, so C is inc Another question to raise an issue was **Question 20** in which virtually equal numbers of candidates ch option C (the correct key) and option D. The latter (reduced costs of production) in fact amounts to the same idea as option A (improvements in productivity) that the candidates had already discarded. The largest proportion of candidates selected C in **Question 24**. This suggests an oversimplified approach to the construction of a consumer price index, possibly taking the difference between price rises and price falls as the measure. An accurate method needed the use of the weights given in the stem. With **Question 28,** 43% of candidates chose option A, while the correct response D was chosen by only 20% of candidates. For a balance of payments to be in disequilibrium there needs to be a continuing long-run imbalance that does not have to be unfavourable. Options A and C are not long-run problems and B indicates a problem in the accurate collection of data. D, although possibly welcome from one point of view, indicates a position of disequilibrium

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Paper 9708/12
Multiple Choice 12 (core)

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

General comments

9550 candidates sat the exam with a mean score of 17.98 and a standard deviation of 5.91. The corresponding statistics for 2009, with a slightly larger and much more geographically spread entry, were 18.72 and 5.81. The range of marks was from 30 marks to 3 marks, with 59 candidates achieving full marks. Four questions proved to be easier than intended i.e. 80% or more candidates answered the question correctly, while none proved to be particularly difficult. Candidates, on average, performed better on questions involving numerical problems and least well on those in a diagram format. The large majority of questions worked well in discriminating between candidates.

Comments on Individual Questions

Question 4, a straightforward calculation to confirm understanding of an equilibrium price, provided little difficulty to candidates. Although on occasions the distinction between a shift in the position of a demand or supply curve and a movement along it can cause confusion, the presentation in **Question 9** proved to be easily understood. A fairly even split between the four options can sometimes indicate guessing by candidates. In **Question 6** the correct key C was selected by 28% of candidates with at least 21% selecting each of the others. The logic underlying the answer was that anti-piracy measures would increase the demand for legally produced DVDs while raising the cost of production and reducing supply. Again in **Question 27** all options were chosen by at least 22% of candidates, while the correct response D gained only 26%. For a balance of payments to be in disequilibrium there needs to be a continuing long-run imbalance but it does not have to be unfavourable. Options A and C are not long-run problems and B indicates a problem in the accurate collection of data. D, although possibly welcome from one point of view, indicates a position of disequilibrium. The other question to raise an issue was **Question 19** in which virtually equal numbers of candidates chose option C (the correct key) and option D. The latter (reduced

costs of production) in fact amounts to the same idea as option A (improvements in produc
candidates had already discarded. It was pleasing to see the improved performance on **Question**
past diagrams dealing with changes in consumer surplus have presented difficulties. The presen
Question 1 resulted surprisingly in a third of candidates opting for D. The proportionate change in con
goods is less at 50% than that of capital goods at 60%, hence D is incorrect.

ECONOMICS

Paper 9708/13
Multiple Choice 13 (Core)

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

General comments

51 candidates sat the exam with a mean score of 20.68 and a standard deviation of 5.02. The corresponding statistics for 2009 with a significantly larger and much more geographically spread entry were 18.72 and 5.81. Two of the candidates scored full marks and none scored below 9 marks. Candidates, on average, performed marginally better on questions involving numerical problems and least well on those in a diagram format. The majority of questions worked well in discriminating between candidates and the overall standard of performance was very pleasing.

Comments on Individual Questions

Questions 1, 3, 7, 8, 14, 21, 25 and **29** proved to be particularly straightforward for candidates. In **Question 5** the correct key C was selected by 35% of candidates. The logic underlying the answer was that anti-piracy measures would increase the demand for legally produced DVDs while raising the cost of production and reducing supply. The next most difficult question, with 37% correct responses, was **Question 26**. For a balance of payments to be in disequilibrium there needs to be a continuing long-run imbalance but it does not have to be unfavourable. Options A and C are not long-run problems and B indicates a problem in the accurate collection of data. Option D, although possibly welcome from one point of view, still indicates a position of disequilibrium. Less than half of candidates gave correct responses to the following questions. **Question 6** concentrated on unitary price elasticity. This means that total revenue remains unchanged as price changes as shown in a horizontal line in the type of diagram with these axes. Another question to raise an issue was **Question 18**. Option D (reduced costs of production) in fact amounts to the same idea as option A (improvements in productivity) that the candidates had already discarded without seeing a contradiction. The impact on the number of jobs (option C) is the least certain. The presentation in **Question 30** may have been unexpected by candidates. It resulted surprisingly in both B and D attracting

sizeable proportions of the choices. Option B shows that the production possibility has reduced indicate a position of unemployment. The proportionate change in consumer goods is less at 50% of capital goods at 60%, hence D is incorrect. At the same time it was encouraging to see performances in areas of the syllabus that have caused difficulties in the past. Notable among these cross elasticity of demand, changes in consumer surplus and the interpretation of exchange rates.

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Paper 9708/21

Data Response and Essay 21 (Core)

General Comments

This paper attracted an entry of 2128 candidates. The vast majority of these demonstrated some grasp of the subject, though only a small minority maintained a high standard across all sections in order to earn high marks. A small number of candidates were inappropriately entered, having little or no understanding of the subject matter.

In many cases the essay question was answered better than the data response question and in some of these the disparity was pronounced. Teachers and candidates need to give both aspects of this paper equal importance as there are equal marks for each section, and understand that it is very difficult to obtain a high grade with unbalanced answers.

Overall, each of the essays attracted significant number of responses; none of the essays was conspicuously favoured or avoided, though **Question 4** was less popular than the others.

Comments on Specific Questions

Section A

Question 1

(a) Many candidates scored two marks for stating the normal inverse relationship between price and quantity, and quoting relevant evidence from Fig. 1. However, only a very small number gained the third mark which was to identify a clear exception to the normal relationship (1992-3 and/or 2002-6 on Fig. 1). Weaker candidates did not have the skill to read data from the graphs with sufficient accuracy.

(b) (i) A straightforward question that required candidates to make three comments on the elasticity values, and the more perceptive candidates did this with ease. However, the marks were disappointing especially as this question covered such an essential concept. For example some failed to point out the difference in the degree of inelasticity between short-run and long-run. Too many used vaguer terms such as 'unresponsive' where the more precise 'inelastic' was required. A number thought that the higher long-run figure meant that price elasticity of demand was more inelastic.

(ii) Few candidates scored more than 2 marks. Most identified addiction or lack of substitutes as a reason for price inelasticity, but, in line with their answers in **(bi)** thought that the addiction had a greater influence in the long run. A significant number of candidates thought a negative sign meant that price elasticity of demand was inelastic. On income elasticity of demand many gave the fact that it was a normal good to explain the 'positive' aspect of the figure but only a small number explained that it was elastic because of its high or luxury status.

(c) This was often well answered, with many candidates getting 3 or 4 marks. These answers covered both the required motives – to reduce production/consumption and to raise revenue – and gave the reasons behind these. The 'raise revenue' idea was not mentioned by a significant minority but almost all dealt with reducing production/consumption and/or the reasoning behind it.

(d) Most candidates made a good attempt at this question. The main weakness was a fa balanced answer. Most candidates focused on the 'costs' of a ban, sometimes ig benefits altogether. The most common points made were the loss of tax reve unemployment. The more able candidates were able to develop their arguments to earn credit e.g. that the loss of government tax revenue could lead to reduction in governm expenditure in vital services such as health care and education.

Section B

Question 2

(a) A question on a familiar topic; and the better candidates scored very highly. Most began with a definition of division of labour but many failed to give an acceptable definition of labour productivity as 'output per worker'. The rest of the marks were for the effects of the division of labour, both positive and negative. Most candidates mentioned benefits such as the increased skill and the time saving. Surprisingly, some candidates focused on the negative aspects and the benefits were given much briefer treatment and, on some occasions, not mentioned at all.

(b) Many candidates recognised that this question was on a familiar topic but from a slightly different perspective. Most began with a definition of barter and many also gave a definition of money. Some then digressed onto problems of barter but the more focused candidates showed how the functions and characteristics of money provided a more efficient exchange system. However, only a minority picked up the significance of the word 'economy' in the question and examined the improvements and problems that the introduction of money had brought to the economy as a whole. Some stated that money would facilitate trade and a similar number pointed out the emergence of inflation as a potential problem, but there were very few other relevant points.

Question 3

(a) This was the least well answered part of the essay paper. Most began well with a definition of 'free market' and equilibrium price. However, attempts to explain the rationing function in particular were very weak. Many candidates resorted to statement such as '…price sorted consumers into rich and poor'. Answers which mentioned limited quantities or ability to pay were rare. The attempts at explaining the allocative function were better with points such as the profit motive and that higher prices attracted increased supply and entrepreneurs would, therefore, allocate more resources to these goods. However, hardly any candidates included all these aspects.

(b) A minority of candidates gave excellent answers dealing with three aspects of state provision – public goods, merit goods and a wide-ranging 'other' category which could include cases such as prevention of consumer exploitation and safeguarding employment. In the cases of public goods and merit goods, the good answers set out the features of the goods which caused market failure and then explained the role of the government.

Weaker answers often dealt with only one in any detail and a minority confused merit goods and public goods. There was also a problem of digression where candidates lost focus and wrote what seemed like prepared answers, often on the failures/problems of state provision of goods and services.

Question 4

(a) Most of the answers were sound but there were very few complete answers. Almost all candidates were able to give acceptable definitions of a floating exchange rate and depreciation. Many scored full marks for a correct diagram, though some missed out on an easy mark for poor labelling on the diagram. The rest of the question was about reasons for the depreciation. Most candidates gave at least 2 reasons, but then failed to either expand on their argument or to give further reasons. In many cases candidates just stated that the named factor would cause a reduction in the demand for the currency or increase in supply. This was insufficient elaboration, and had often been illustrated earlier in the answer.

(b) There were a few excellent answers which covered all three aspects in the r accurately. While some gave a precise idea of the components of the current account think it consists only of trade in goods and services, ignoring or being unaware of the cont of income and current transfers. As a consequence, their idea of a 'deficit' was also imprec is not just that imports exceed exports, but, taking all three components into account, that outflo exceed inflows or debits exceed credits or some other equivalent explanation.

The 'serious' aspect of a current account deficit was well explained by most candidates often mentioning the size and persistence of the deficit as the most problematic characteristics. Increasing debt, reduced reserves, loss of confidence and unemployment were identified by many candidates as some of the serious consequences. The acceptable aspects of a current account deficit were less well handled generally but there were many creditable attempts. A number of candidates for example highlighted the fact that a deficit due to importing capital goods was not a problem as this would help resolve the deficit in the long run, through improvements in the economy's productivity and infrastructure etc., and an overall increase in the country's international competitiveness. Other acceptable aspects often mentioned were its possible temporary nature, the significance of surpluses on the financial account and the short-run benefit to consumer welfare of imports e.g. through increased consumer choice.

ECONOMICS

Paper 9708/22

Data Response and Essay 22 (Core)

General Comments

Approaching 10 000 candidates were entered for this variant. A wide range of achievement was evident. As always, some issues of technique stood out. In the data response numerical data must be handled selectively. Short answers are all that is required. Straight repetition of the data rarely gains credit, it needs to be manipulated, interpreted or judged. The exact wording of the essay titles must be followed. It is not adequate to write generally about the topic. In constructing arguments it is important to clarify any assumptions that are being made; otherwise the answer degenerates into a series of simplistic assertions. The learning of basic definitions is valuable as most exam questions require them at some point. Finally the topic of comparative advantage continues to defeat candidates. It is apparent that some candidates believe they have a good knowledge of the topic when in fact it is rather uncertain. Teachers might help candidates by finding a suitable time in the course when candidates can attempt a past question on comparative advantage. This might give them a more realistic appreciation of the level of their understanding.

Comments on Individual Questions

Data Response

Question 1

The focus of the question was inflation in Paraguay. Interpretation of data in table and diagram form was required and the consideration of inflation targets formed the discussion element.

(a) (i) Candidates understood that weights reflected the relative importance of individual items within consumer spending. Surprisingly few went on to refer to the value of weights in establishing a more accurate measure of inflation.

(ii) It was usual for candidates to identify relevant influences on the lower weight for alcohol and tobacco and the higher weight for transport. Health issues, taxation, changing incomes and changing prices were often mentioned. Higher marks required an explanation in economic terms rather than an assertion of the outcome. Not all candidates attempted both cases. It was transport that tended to be overlooked. Some tried to argue that transport was a merit good.

(b) (i) The standard definition that refers to a sustained increase in the general price level was sufficient for the two marks. A small number did not seem to have learned a precise definition and appeared to be attempting to produce their own version. These rarely gained both marks. Long descriptions of the types and levels of inflation were not required.

(ii) Year by year descriptions of inflation in Paraguay and Venezuela were counterproductive and rarely scored. Brief, direct comparisons were needed. Short successful answers concentrated on the relative rates of inflation and the contrasting trends in the two countries. A tariff of two marks does not demand a long answer.

(iii) While it is reasonable to accept that a 'low' rate of inflation may differ between countries, quoting rates of 40% as acceptable is unconvincing. While there were significant periods in which Paraguay achieved low and stable inflation, the data does not support the often suggested conclusion that Paraguay was successful in achieving this target. Candidates made sweeping statements that were sometimes directly contradicted by the evidence offered. Weaker responses offered long descriptions of the data and some made no reference to 'low and stable'. Stronger answers dealt with the two elements separately. It was not necessary to explain how inflation may

have been reduced. References to Venezuela were not required. The use of the pr t extent' was intended to alert candidates to the need to make a judgment.

(c) There were some thorough considerations of the arguments about a 3% inflation target. commonly answers were rather one-sided with the benefits being given a greater prominence was acceptable to concentrate on the 3% aspect or the desirability of a target figure or to address them both. There were many descriptions of the effects of inflation that failed to make clear what level of inflation was being considered. This undermined the strength of the argument. Similarly the need to clarify any assumptions was overlooked. This was particularly necessary when the level of competitors' inflation was needed to justify a trade improvement argument. Good answers referred to stability, confidence, the ability to plan and the generation of investment among other advantages. Against this, mention was made of the realism of the target, the ability to achieve it and the differing circumstances and objectives of different economies. Candidates need to be precise in interpreting the effect of low or lower rates of inflation, it does not mean falling prices. Better answers explained rather than asserted how benefits or harm arose.

Essays

There was no noticeable most or least favoured question.

Question 2

This question examined the link between factors of production and the production possibility curve before considering comparative advantage as an explanation of trade patterns. As is often the case comparative advantage proved a stumbling block for those who had tried to memorise rather than understand the model.

(a) The most effective answers started by establishing the nature of the factors of production before considering their influence upon the quantities produced of two goods with different factor requirements. The next step was to show how changes in quantities and quality of factors might cause the production possibility curve to change. Less successful were those candidates who wrote 'all I know' answers about the production possibility curve. These lacked the focus on factors of production. Two errors were evident. Firstly capital was considered by some only in financial terms and secondly there was confusion between a shift inwards of the curve and a movement to a point within the curve.

(b) It is most disappointing that candidates find it difficult to raise the standard of performance on comparative advantage questions, despite the frequent identifications of the difficulties raised in Principal Examiner Reports. The confusion between absolute advantage and comparative advantage continues. Probably more considered the former than the latter. A numerical approach was common and this is probably the easiest way to demonstrate the essential features of the model. Too many ignored the word 'trade' and wrote about production. This missed the opportunity to set an exchange rate and demonstrate an improvement for both countries. Other weaknesses were a one-sided approach praising the theory, although some did discuss its limitations, a wish to change the question to one analysing free trade and a lack of any attempt to see the operation of comparative advantage in real world terms. Useful examples were rare.

Question 3

The focus of the question was the socially undesirable overproduction of some goods and the merits of national defence and public parks as examples of public goods. There were answers that demonstrated a thorough grasp of the issues.

(a) Negative externalities and demerit goods were known to candidates. The strongest answers made a clear distinction between the generation of external costs and inadequate information in decision making. It was less persuasive when they were treated as one case. A diagram illustrating either of the two cases was acceptable. Many showed the welfare loss of the overproduction. A misunderstanding was to treat the question as one of market disequilibrium. It was not necessary to deal with examples that related to underproduction, notably merit goods.

(b) Most gave clear definitions of non-excludability and non-rivalry after identifying essential features of public goods. A small number were unable to clearly distinguis Some introduced non-rejectability which gave an additional avenue to explore. The poi question was to examine the extent to which the two examples met the criteria. Defenc usually suggested as the better example. There was wide variation in the ability to justify conclusion with only the better answers able to get beyond a response that simply repeated the definition of the terms. There were some convincing responses which dealt with the possibility of a public park lacking sufficient capacity to satisfy all would-be users and the possibility that a fee might be charged for entry to the park. Relevant comments were also made about the possibility of private provision. The weakest answers did not go beyond the idea that a public good is one supplied by the government and quoted hospitals and education as examples of public goods.

Question 4

Consumer surplus was the topic examined in part **(a)**, while the benefits for consumers of indirect taxes and maximum price laws were examined in part **(b)**. There was considerable detail offered in part **(b)**, although part **(a)** produced fewer high marks than had been anticipated.

(a) Although the expression was sometimes less exact than it might have been, there was general understanding of consumer surplus. Most made use of a diagram to illustrate the idea. Detailed answers considered situations that affected the quantity of consumer surplus. These included changes in price and the price elasticity of demand of the product. The need to clarify the assumptions in the elasticity case was sometimes overlooked. Comparing elasticity of products with different prices and different quantities does not necessarily prove the case. A small number confused consumer surplus with surplus production.

(b) The analysis of the effects of a tax increase and the introduction of a maximum price was done very competently by a large number of candidates. What identified the best answers was the ability to weigh up the benefits and drawbacks for consumers of the two actions. The focus of the answer needed to be the consumer not society in general. In the case of indirect tax the need to pay a higher price (frequently identified) and the loss of consumer surplus (less frequently mentioned) were set against the benefit of a tax on a demerit good improving the consumer's welfare. There was however much irrelevance about the sharing of the tax burden between consumers and producers, which some made the central part of their answer. Only in the case of totally elastic demand will the consumer not be made worse off, but that is not the same as being made better off. With the maximum price the stronger answers made it clear that while some may benefit (those who buy the good at the lower price), others will lose by failing to obtain the good or by paying still higher prices. There were some brave attempts to show the effect of the maximum price on consumer surplus. Very few succeeded. Teachers might like to set the exercise for their candidates to test their powers of analysis.

ECONOMICS

Paper 9708/23

Data Response and Essay 23 (Core)

General Comments

There was an unusually small entry based on seven Centres in New Zealand. The extent to which the performance can be taken to be more generally typical is debatable, although a reasonably wide spread of performance was evident.

From the treatment of the data response several familiar comments seem to be worth repeating. Long descriptions of data are not useful in a question format that requires brief answers. This is further supported by looking at the mark allocation. Responses must concentrate on economic aspects rather than general description. Any assumptions underlying a line of reasoning need to be made clear.

The essays revealed difficulties in essay writing technique. These might be reduced if more time is given to considering the individual words of the title and not rushing to make a start. This will also avoid the outcome where material written in part **(a)** has to be repeated when its greater relevance to part **(b)** is realised. At this session there seemed to be less divergence between the performances on the two sections than usual. This was possibly a combination of improved data response work and less impressive essay work.

Comments on specific questions

Data Response

Question 1

The focus of the question was Chinese bicycles and the market for bicycles and cars.

(a) (i) Few candidates found any problem with summarising the data. The clearest were very concise while others gave unnecessary detail.

(ii) A successful approach was to link comparative advantage to the factors that favour bicycle production in China. Low labour costs and appropriate technology were often mentioned, while interesting references to China's exchange rate appeared occasionally. The issue of outsourcing was raised by a small number. A simplified mention of changes in demand did not score highly.

(b) Too many candidates spent a lot of time in clarifying the case for anti-dumping measures rather than assessing the effects of their introduction. It was not always understood that an import duty acts as a tariff rather than as a quota. A straightforward line of reasoning from higher prices, through to reduced demand and output, on to revenue, profit or marketing changes gained full marks.

(c) (i) The data handling was done well with references to the differing rates of increase of the two products. Two distinct periods could be distinguished rather than decade by decade approaches.

(ii) Candidates showed familiarity with recent economic developments in China and usually selected increased incomes as the major influence on the pattern of transport spending. Stronger answers made use of technical concepts of income elasticity, inferior goods and substitution. The possibility of differences in relative prices was also raised.

(d) The key to success with this part was to apply economic thinking to the side-effec adopting an overly descriptive approach. Most started with a clear definition of an exter the more thorough also brought out the distinction between the positive and negative case pleasing that many candidates considered both positive and negative externalities for both fo transport. Answers that stopped at identifying the effect e.g. pollution, congestion etc. gained marks. Higher marks accrued where the third party affected was explicitly considered. The reasoning sometimes seemed dubious because of the failure to clarify the assumptions being made. The most obvious example was the omission of the fact that cycle use needed to be replacing car use if the externalities were to operate. A common error was to identify some aspects of cycling as positive externalities when they were clearly private benefits to the cyclist.

Essays

Question 2

This concentrated on the concept of scarcity and the operation of the mixed economy. It was overwhelmingly the most popular selection, although the standard of response was variable.

(a) While virtually all candidates recognised the existence of limited resources and unlimited wants, surprisingly few explained in detail or went on to clarify the term scarcity. While some chose consumers, firms and government as economic decision makers others ignored the 'different' in the title and treated them as one group. This went counter to the purpose of the question. The best answers examined the resource restriction on the decision maker and the unlimited nature of what they were trying to achieve. There were a considerable number of answers that seem prepared for any question on any aspect of the economic problem. These contained much that did not gain credit. The outcome was that the performance on this part fell below what is usually seen.

(b) Most candidates knew a wide range of benefits and problems of the free market economy and the planned economy. They also were able to state the motive for the adoption of the mixed economic system. Integrating these two aspects into a discussion was not always achieved. Long descriptions and analyses were not used to maximum effect when they left it to the Examiner to amalgamate the information into a coherent whole. This seemed to be a problem with essay writing technique rather than economic understanding. Another weakness was the tendency to assert rather than explain points. Despite this there were some good responses that also included reference to relevant examples.

Question 3

Inflation was the topic here, with consideration of anticipated and unanticipated inflation and the relative importance of different sources of inflation. It produced probably the strongest responses, with high marks scored in both parts.

(a) There was sound understanding of the implications of unanticipated inflation for consumers, firms and the government. The most impressive answers brought out the counter-measures that groups might adopt to protect themselves from the effects of a known rate of inflation. Weaker responses tended to drift into the general effects of inflation.

(b) This produced well structured and detailed answers. What emerged was an understanding of the different types of inflation, the changes that might trigger each type and the classification of these changes into domestic or international influences. There were good evaluative judgments as to their relative importance. These were usually linked to the position in New Zealand. The impact of exchange rate changes and commodity price rises (international influences) were contrasted to government fiscal and monetary actions and wage and spending changes (domestic influences).

Question 4

This question focused on the effects of devaluation and the influences on a floating exchange rate. It attracted such little attention that it is difficult to generalise about performance.

(a) While the Marshall-Lerner condition and the J-curve were known, fuller detail needed to be established. Namely that it is the combined elasticities that are relevant and that the J-curve shape results from factors such as existing contracts and difficulties in finding alternative supplies.

(b) The nature of a floating exchange rate was known, as were some influences such as international investment that might affect it. Government intervention, 'dirty floati speculative movements might also have been considered. The basis of high marks was the to consider the relative importance of these factors in different economies. It was intended candidates might refer to economies that had great involvement in trade e.g. China, or in financia flows either as an originator the oil-producing states, or recipient the African and South American countries. No great knowledge of different economies was expected only what is in the general news. As a minimum the position in the candidate's own country could have been cited.

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Paper 9708/31

Multiple Choice 31 (Supplement)

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

General Comments

There were 1129 candidates with a mean of 13.8 compared to 15.9 last year, and the marks ranged from 29 marks to 2 marks. Five questions **Question 19, 24, 26, 27** and **28,** were felt to be hard as less than 25% of candidates answered these questions correctly. All five were macroeconomic questions which may or may not be significant. The majority of questions discriminated between candidates.

Comments on Specific Questions

Although the discrimination score for **Question 9** was satisfactory, roughly the same number of candidates opted for B, C and D (the correct answer), which would suggest that many candidates were resorting to guess work. More classroom attention needs to be given to the relationship between elasticity and marginal revenue for a downward-sloping demand curve.

Question 19 also proved difficult. This was a standard item which was quite similar to items that have appeared on previous papers. One possible explanation is that Samuelson's 45^0 cross diagram has been largely superseded in classroom teaching by an approach based only on AD-AS analysis. However, teachers should be aware that the aggregate expenditure function (AE), components of AE, and income determination using the AE-income approach, remains, very much part of the syllabus.

The majority of candidates struggled with **Question 24,** with the main problem being a failure on the part of most candidates to work out that as incomes increase over time, the demand for goods that have a low income elasticity of demand is likely to fall, thereby lowering their relative price.

Eliminating distracters is a perfectly legitimate way of arriving at the correct answer to m questions and a useful examination technique. In **Question 25,** it was anticipated that candidate have been fully aware that a reduction in regional unemployment disparities would cause a downwa the Phillips Curve, but one might have expected them to realise that B and D would cause the curve t in the opposite direction, while C would produce a movement along the curve rather than a shift in the cu In the event, 64% of the candidates, in total, wrongly opted for either B or D.

A fall in a country's exchange rate can be expected to push up the price of imported goods. While this might improve the trade balance it is also likely to increase the rate of inflation. It was anticipated that most candidates would be able to work this out.

In **Question 28** a decrease in government expenditure on goods and services is likely to result in an increase in unemployment. However it is only through a process known as *hysteresis,* that this could conceivably cause an increase in the natural rate of unemployment. However, hysteresis is not a concept with which one would expect A-Level candidates to be familiar. The question specifically asks which of the options is *most likely* to lead to an increase in the natural rate of unemployment, and the answer to that question is unequivocally C.

ECONOMICS

Paper 9708/32

Multiple Choice 32 (Supplement)

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

General Comments

The overall performance of candidates on this paper was very satisfactory. There were 6201 candidates with a mean of 17.3 compared to 15.9 last year, and the marks ranged from 30 marks to 1 mark, with 18 candidates achieving full marks. One question, **Question 10**, was found to be easy i.e. more than 80% of candidates answered the question correctly, while two questions, **Questions 25** and **27**, were relatively hard i.e. 25% or fewer candidates answered the question correctly. The majority of questions discriminated well between the candidates.

Comments on Specific Questions

All that was required of candidates to answer **Question 10** was to compare price per unit with the variable costs per unit and it is not entirely surprising that this did not present candidates with a major challenge.

Only 31% of the candidates answered **Question 18** using the correct key, A, compared with 34%, including many of the better candidates, who wrongly opted for C. Why this happened is slightly puzzling. This was a standard item which was quite similar to items that have appeared on previous papers. One possible explanation is that Samuelson's 45^0 cross diagram has been largely superseded in classroom teaching by an approach based only on AD-AS analysis. It is worth noting that the aggregate expenditure function (AE), components of AE, and income determination using the AE-income approach, remain very much part of the syllabus.

Eliminating distracters is a perfectly legitimate way of arriving at the correct answer to multiple choice questions and a useful examination technique. In **Question 25**, it was anticipated that candidates might not have been fully aware that a reduction in regional unemployment disparities would cause a downward shift in

the Phillips Curve, but one might have expected them to realise that B and D would cause the ft in the opposite direction, while C would produce a movement along the curve rather than a shift in In the event, only 24% of the candidates chose the correct response, A, while 38% opted for D.

In **Question 27** both a decrease in government expenditure on goods and services and an increase interest rates can be expected to lead to an increase in unemployment. However it is only through a process known as *hysteresis,* that this could conceivably cause an increase in the natural rate of unemployment. However, hysteresis is not a concept with which one would expect A-Level candidates to be familiar. The question specifically asks which of the options is *most likely* to lead to an increase in the natural rate of unemployment, and the answer to that question is unequivocally C.

ECONOMICS

Paper 9708/33

Multiple Choice 33 (Supplement)

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

General Comments

Three of the four candidates who took this paper did remarkably well. One managed to answer 28 out of the 30 questions correctly, and two others each produced 25 correct answers. With just 4 candidates, it would not be appropriate or meaningful to subject each of the individual items to the statistical tests normally applied to multiple choice papers. Suffice it to say that none of the 30 items were answered incorrectly by all 4 candidates, and, indeed, there was only one item, **Question 18**, which was answered incorrectly by 3 of the candidates. There were a further 8 items which were answered correctly by two out of the four candidates. In the case of one of these items, **Question 25**, two of the candidates who performed well on the paper overall failed to work out which was the correct response.

Comments on Specific Questions

Why **Question 18** proved to be difficult is slightly puzzling. This was a standard item which was quite similar to items that have appeared on previous multiple choice papers. One possible explanation is that Samuelson's 45^0 cross diagram has been largely superseded in classroom teaching by an approach based only on AD-AS analysis. It is worth noting that the aggregate expenditure function (AE), components of AE, and income determination using the AE-income approach, remain very much part of the syllabus.

Eliminating distracters is a perfectly legitimate way of arriving at the correct answer to multiple choice questions and a useful examination technique. In **Question 25**, it was anticipated that candidates might not have been fully aware that a reduction in regional unemployment disparities would cause a downward shift in the Phillips Curve, but one might have expected them to realise that B and D would cause the curve to shift in the opposite direction, while C would produce a movement along the curve rather than a shift in the curve.

ECONOMICS

Paper 9708/41

Data Response and Essays 41 (Supplement)

General Comments

The overall performance was very much in line with that of recent years. Performance varied, both within Centres and between Centres. This variation was more pronounced regarding the latter.

It was pleasing to note that there were very few 'wasted' papers and the quality of written expression was generally good. There were also very few instances of 'rubric infringement'.

Candidates should be reminded of the importance of reading their chosen question very carefully before proceeding. This failure frequently resulted in the loss of a significant number of marks. Candidates should also be made aware of the need to define key terms and to ensure that they identify the key 'command' words contained within the questions.

Comments on specific questions

Data Response

Question 1

(a) This question required knowledge of what constituted the four main components of aggregate demand and then an ability to use the extract to identify which of these were not mentioned in the first paragraph. Most responses were able to correctly identify government spending and investment and hence gained two marks.

(b) Candidates were required to make a simple calculation bases on figures given in the text relating to the percentage increase in GDP. It was imperative that candidates read the question carefully before responding. The question required a calculation relating to the dates 1 July to 1 October. This meant calculating quarterly growth rate by simply dividing the annual rate of 4% by four and producing an answer of 1%. Many candidates gained no marks because they subtracted the forecast rate of 3.1% from the given annual rate of 4% and incorrectly deduced that the answer was 0.9%

(c) Many candidates gained full marks for this question because they could successfully demonstrate that when the trend of the line depicting the depreciating exchange rate of the dollar was upward, then this would mean that more dollars would have to be supplied to purchase the euro.

(d) The key command word in this question was 'discuss'. This gave better candidates the opportunity to provide some analysis of the linkages between changes in interest rates and the housing market. Marks were gained for recognising that a reduction in interest rates would increase discretionary income, reduce the opportunity cost of not saving and generally lead to an increase in consumer expenditure. Links to reduced mortgage payments were also established and the cost of borrowing in general would be lower. Few were able to expand their answer to incorporate issues relating to the effect on the supply of housing but a significant number were aware that the policy could pose an inflationary risk in the medium/long term.

(e) Again candidates were given the opportunity to discuss 'to what extent' the data supported the viewpoint that the USA economy was facing 'conflicting policy objectives'. These key command word should ensure that candidates use the data to present a case for or against the statement in question and, ideally come to some conclusion. On this basis the question proved to be a very good discriminator. Weaker candidates simply reproduced information from the data but failed to use this to support a particular argument. There was often misunderstanding demonstrated in

relation to the potential effects of an increase in oil price rises and also the impact o the value of the dollar upon important macroeconomic indicators such as inflation. some candidates were able to focus upon important areas of potential conflict relating to policy options and their associated outcomes, especially in relation to the 'trade off' betwe use of lower interest rates to address the housing problem and the potentially 'inflationary' effe on the average price level.

Essays

Question 2

(a) Many candidates attempted this question and a significant proportion gained a pass grade or above. It was clear that many candidates had been well prepared to answer a question of this nature. Candidates seemed more 'at ease' with the concept of productive efficiency then they were with allocative efficiency. Clear, accurately labelled diagrams were often provided for the former either using average total cost curves or production possibility curves or sometimes both. These diagrams were usually combined with clear explanation. Allocative efficiency was generally dealt with in a more cursory manner. Better candidates were able to describe the Pareto-optimum condition relating to allocative efficiency and establish the general rule that this would be obtained when price was equal to marginal cost. The long run equilibrium position of a firm in perfect competition was correctly established to further illustrate the two concepts of efficiency. Some responses gained further marks for reference to dynamic efficiency. Less effective answers hardly progressed beyond a discussion of market equilibrium, explaining what it meant and why it might be important. In these cases efficiency was hardly discussed, hence many marks were not gained.

(b) There were many excellent responses to this part of the question. It was pleasing to note that many candidates could identify and explain and discuss a wide range of factors which might lead to market failure regarding the allocation of resources. References were made to positive and negative externalities, public goods and monopoly practice. Candidates almost invariably provided sound explanation supported by clear accurate diagrams. The key distinguishing element of these responses related to the depth to which each type of market failure was examined. Weaker responses tended to simply state the problem and perhaps give a supporting example but the better responses actually explained **why** some of these factors would lead to a misallocation of resources, stating, for example that negative externalities would be likely to lead to an overproduction of a particular product whilst also providing a relevant diagram to illustrate this analysis.

Question 3

(a) Responses to this question varied quite extensively. There were some excellent responses which demonstrated a thorough grasp of the concept of price discrimination. These responses provided a detail explanation of the necessary conditions for successful price discrimination to take place. Candidates were aware that these conditions were closely linked to a monopoly market structure, the ability to segment and separate markets and the existence of different price elasticities of demand operating in each market segment. In addition, some candidates were able to break down price discrimination further by establishing the conditions for first degree, second degree and third degree discrimination respectively. Moreover, this theory was then subsequently applied to the evidence given by the statement in question. On this basis, candidates gained very high Level 4 marks.

Less impressive answers focused upon the evidence given and made very little attempt to apply any relevant theory. This approach meant that little analysis was in evidence and a Level 2 mark was frequently awarded.

(b) This question provided the opportunity to discuss subject matter which is frequently tested and which forms a mainstream part of most economics syllabuses at this level. Many candidates were clearly familiar with this subject matter and this was often reflected by some very detailed, wide ranging responses which demonstrated both knowledge and understanding. This ability to provide a reasoned and full discussion generally produced some very high marks. The question also worked quite well as a discriminator because marks were gained largely to the extent to which a range of different market structures were covered. Rather predictably, most candidates focused on

the contrast between a monopoly market structure and that associated with perfec
Better candidates were able to deal equally effectively with monopolistic competition an
as well as the above.

Question 4

Although questions on the labour market are relatively common, it is important for candidates to realise that each question is unique to a particular exam paper. This question was no exception. The stated claim regarding the labour market needed to be read very carefully and reflected upon before attempting this question. Unfortunately there was a lot of evidence based on scripts read, that this was not done. Far too many candidates seemed to think that this was an opportunity to describe/discuss every thing that they knew about the labour market. Therefore many candidates proceeded to describe both perfectly competitive labour markets and then compare these with imperfect labour markets. The question was more subtle than this and required some attempt to decide how far economic theory could be relied upon to adequately explain the level of wage rates. Very few recognised this key requirement and as such lost the opportunity to gain higher marks. This emphasises the need to read each question very carefully before attempting.

On a more positive note it was reassuring to note that many candidates were sufficiently familiar with labour market theory and its application to enable at least a Level 3 pass grade. As has been the case over recent years, candidates who were familiar with and could successfully apply marginal revenue product theory as opposed to basic supply and demand analysis, were able to gain much higher marks. The most successful candidates were able to introduce issues relating to the role of trade unions and government intervention in the labour market and then use this to assess the truth of the claim.

Question 5

(a) This was a very straightforward question which proved to be very popular with a large number of candidates. Questions relating to the distinction between developed and developing countries are frequently examined and it was clear that many candidates had prepared for this eventuality. The overwhelming majority gained at least a Level 2 pass grade and a significant number gained a Level 3 mark or above. The most effective responses progressed beyond general description and provided a number of key indicators which are traditionally used to identify this distinction. GDP per capita and reference to the Human Development Index were good examples of the use of appropriate indicators. Better candidates were able to elaborate further from these indicators to discuss these differences in some depth. For example references to life expectancy, infant mortality rates and levels of literacy all gained additional marks. Also marks were gained for recognising how the basic structure of each type of economy might differ depending upon the relative importance of each of the primary, secondary or tertiary sector.

Less effective responses focused upon generalised comment relating to health, education or poverty but which did not provide any detailed comment. Also this type of response suggested that certain macroeconomic indicators such as the level of inflation and/or a balance of payments deficit would act as key distinguishing features when this is clearly not the case.

(b) Part **(b)** was more demanding. Once again this required careful reading of the text and some reflection before attempting an answer. The evidence suggests that this requirement was not always met. Discussion was required based on the information given. Many simply repeated the information given and added little to the overall argument. Good answers attempted to examine both sides of the argument and then come to some kind of reasoned conclusion. It was expected that candidates would refer to the benefits of comparative advantage which might be lost, the waste associated with surplus production, the increased opportunities to conserve resources relating to reduced transport costs, less pollution etc. It was essential that candidates attempted to make some kind of conclusion based on evidence provided, to gain a high mark. Far too many responses just moved off the point and made comments which were not consistent with answering the specific question.

Question 6

(a) At first sight this would appear to have been a very straightforward question from a ma part of the syllabus which would appeal to many candidates. This was not borne out. It was popular question and those who did attempt it often failed to address part **(a)** effectively. question did nevertheless prove to be a good discriminator. It was expected that candidates would realise that the whole focus of this question revolved around the concept of the multiplier, how it is calculated and what changes might influence its value. A surprisingly large number of candidates made no reference to the Keynesian multiplier at all. Very general commentary was provided which tried, mainly unsuccessfully, to answer the question by pointing to differences in economic policy which might exist depending upon whether the economy was mixed or closed or both. Invariably this approach failed to get to the core of the question. As such candidates failed to gain a mark beyond Level 2. In contrast, some responses provided very clear explanations of the multiplier effect along with appropriate formulae and, and more importantly, how changes in leakages from the circular flow would have a significant impact on the value of the multiplier and how this in turn would explain how a change in investment might affect national income. This ability to explain theory and apply it to a given scenario invariably gained high marks.

(b) Candidates generally provided better responses to this part of the question. A significant proportion of answers were able to point to a range of policy options including: fiscal, monetary, direct regulation and supply side policies. Moreover, these policies were discussed and their relative effectiveness evaluated.

Marginal efficiency of capital (MEC) curves were provided to illustrate the possible relationship between changes in interest rates and the level of investment. Also candidates were aware of the fiscal option which might focus on the effects of a reduction in corporation tax.

Weaker responses tended to adopt a list approach which consisted of simply stating relevant policies but which failed to elaborate or discuss in more detail. Such responses would normally be awarded a Level 2 mark or below.

Question 7

This question required a carefully structured argument in three separate parts. Again this question demanded some reflection before beginning to construct an appropriate argument. Each of the three parts of the subsequent argument would relate to each of three assertions contained within the body of the statement. Candidates needed to start by explaining utility theory and the theory of consumer equilibrium. Unfortunately most of the candidates who did attempt this question failed to provide this explanation. This was an essential prerequisite to gaining a high mark for this question. It was then important for candidates to follow this by considering how far the theory elaborated does take account of changes in income and the extent to which advertising is likely to impact upon the rational choice which is generally assumed within the theory. Finally, good responses would attempt to consider whether the overall conclusion of the argument is correct.

Generally this question was not dealt with effectively. This was probably due to the nature of the subject matter under consideration. Consumer equilibrium theory is abstract and candidates often find this difficult to relate to the 'real world' situations. Also, as stated above, this answer did require some careful structuring and an ability to summarise the argument within a reasoned conclusion and this was often not forthcoming.

ECONOMICS

Paper 9708/42

Data Response and Essays 42 (Supplement)

General Comments

In ***Section B***, **Questions 4** and **6**, or **4** and **7**, or **6** and **7** were the most popular combinations answered. The popularity of the other **Questions** was **2**, **3** and **5** in that order. **Question 5** was answered the least often but candidates who did attempt it were usually able to achieve a good mark on the question.

High marks were obtained in the three most popular **Questions 4, 6, and 7**, although weaker candidates tended to perform poorly in **part (b)** of **Question 6** when the discussion of the affect of an increase in unemployment was very limited.

Question 2 (a) also tended to generate lower marks than might have been possible because many only explained what is meant by market failure but left the examiner to determine which group benefited and which group lost from the failures mentioned. Without any extra information, an evaluative conclusion directed to the question would also have improved the mark.

A similar point was true of **Question 3 (a)** where some candidates described a range of market structures but did not indicate which might be the more likely for a car manufacturer.
In this question in particular diagrams were often used. It is commendable that candidates illustrate their answer with diagrams but it is important that they present them well, clearly and accurately labelled, rather than scribble them in the corner of the page without proper labels for the curves.

As is always the case some candidates tended to lose the focus of the question and, it appeared, wrote all they knew on the syllabus area of the question without relating their material explicitly to the question asked. Nevertheless, there were many sound performances and such candidates are to be congratulated

Comments on specific questions

Data Response

Question 1

(a) For this section candidates did try to search the data to find indications of improvement in the economic situation. Points which they could have mentioned include the fact that spending increased in January and February; the fact that price changes were no longer negative; the fact that income also rose in January, although this was offset by a fall in February.

(b) There were three groups of candidates' answers to this section.

The largest group consisted of candidates who did not use the data at all. These answers gave theoretical principles of the link between income and spending, or prices and spending, but did not illustrate these principles from the data. The second group did try to use the data and gave illustrative points but did not answer the question about whether any changes they illustrated showed a consistent pattern. The third much smaller group used the data and directed the material they used to the question of consistency. In the data there is no apparent consistency between income and spending either in direction or amount. Even if spending is considered in the subsequent month to the income change, there is no consistency. There is more consistency between the overall price change and spending in the direction of the change in the same month, but not in the extent of the change.

(c) Candidates were usually able to answer this question very well. A fall in spending will cause a fall in demand and, therefore, expected revenue/profits to business will decline. If the decline is

significant, or if it is protracted, and it is thought that the trend will continue then the
revenue with which to invest and, therefore, no incentive to do so.

(d) For this section many candidates were able to discuss the principles involved and expla
paradox of thrift. A rise in saving could mean more funds available to lend which will stimulate
economy. However, if everyone saves more, we know from the multiplier that this means reduced
injections into the economy as people spend less. We are told that spending accounts for more than two-thirds of GNP in the US economy. Increased saving and low spending will affect businesses; it could also cause more unemployment. It would also affect the government which would probably have to spend more supporting the unemployed and also receive less in tax revenue. The data says that US government is proposing to reduce taxes but this will come at a cost later, either in a switch of government expenditure – so some anticipated projects will not be funded - or in subsequently raised taxes which will not be welcome.

Essays

Question 2

Many candidates answered this question well. They briefly explained the market mechanism and succinctly stated why this system, based upon the idea of market clearing where demand equals supply, had beneficial results for everyone. Such results, however, rest upon the existence of perfect information and perfect markets. They then explained that with imperfect markets and imperfect information market failure occurs. This could be because of monopoly influences, with resulting higher profits for producers and higher prices for consumers – together with possibly less choice. It could be because of externalities, which may affect consumers but would not necessarily have to be accounted for by producers. It could be from a lack of information – it is often likely, although not always, the case that producers will have more information about the quality of a product than consumers. In each case of market failure that was mentioned the better candidates clearly discussed whether the consumer or the producer was the winner or the loser. Weaker candidates gave competent explanations of market failure but, sadly, did not then suggest who might be the winner or the loser. This was such a pity, for with only a little extra application their mark could easily have been increased. It is always best to try to relate material explicitly to the question and context of the question asked rather than only explain the principles involved.

(b) There were some very competent answers to this section. Better candidates discussed a range of measures which included the possibility of government intervention through regulation, through taxation, through control or through ownership. Better candidates attempted to make a judgement about which measure might be best in a given situation of market failure, recognising that the choice was not straightforward and would depend upon the specific example or industry being considered.

Question 3

(a) It was expected that candidates would suggest that the market structure for the car manufacturer was one of oligopoly. Many candidates did choose this structure and clearly explained the characteristics of such a market and its effect on pricing policy. Good accounts of the theoretical pricing and output decisions that might be found were given. Some candidates suggested that the market structure was one of a monopoly. In reality, or in legal terms, a monopoly is a term used for a company that is not the sole manufacturer in the industry but has a dominant role producing a large percentage of the output (normally defined as over 25% of market share). This approach to the question was also accepted – provided the candidate did not suggest that there was only one car manufacturer in the industry - and some good accounts were given of this structure also.

(b) Microeconomic theory usually suggests some advantages of large organisations because of increased efficiency, economies of scale and resources for research and development. However, it also comments on their disadvantages – increased market power which can lead to higher prices, diseconomies which could lead to higher costs, higher profits which might be caused by restricting choice, price discrimination or lower output. Many candidates were able to discuss the balance of these arguments and suggest that the support by governments would depend upon the specific information about the particular company being discussed.

Weaker candidates, in discussing the micro dimension concentrated solely on an explanation of possible economies of scale. Better candidates, not only mentioned other micro issues but also

introduced a macro element into their answers. Macroeconomic theory could be us the idea of increasing subsidies to encourage industry. Subsidies could bring life t declining regions and stimulate growth, employment and incomes. It was expected that ca would give a conclusion to their answer. Although this conclusion might not say any more tha already expressed it is always necessary in questions which involve discussion to let the Exami know that the candidate has formed an opinion and explicitly drawn a conclusion. Examiners loo for a statement from the candidate which gives such a conclusion.

Question 4

(a) Part **(a)** of this very popular question required the candidates to analyse an individual's supply curve in order to explain its slope and to examine whether or not an individual will always work longer hours if wages increase.

The better answers explained that a supply curve slopes upwards and indicates that, normally, workers will work longer hours as wages increase. However, there might come a point at which the increasing opportunity cost of work causes a worker to reduce hours of work and take more leisure time, thereby resulting in a backward sloping supply curve.

The best candidates explained the change in slope in terms of both substitution and income effects. At first the substitution effect will be stronger than the income effect as the worker substitutes more work for leisure. After a point (which will vary between individuals) the income effect will be stronger than the substitution effect when workers feel the need to work is less and prefer more leisure, thus causing a backward sloping supply curve. The diagram of the supply curve needed to be labelled accordingly.

Many candidates were well-versed in the principles behind the individual supply curve and used the terminology effectively and succinctly. Good explanations included accounts of the substitution effect, the income effect and their relationship to opportunity cost.

More moderate answers gave a generalised account and wrote about a preference for work over leisure and vice-versa. For these candidates, the diagrams they used were not well presented and were often badly labelled. It is a pity when a candidate knows the material but presents a diagram in an untidy or almost scribbled manner without an accompanying explanation.

Many weak answers failed to make any attempt to analyse the individual's supply curve and instead provided an irrelevant account of why wages increase using demand and supply analysis.

(b) Required a thorough explanation and application of the theories which help to analyse the determination of wages under both perfect competition and imperfect competition.

Market forces were analysed by the better candidates in terms of marginal revenue productivity (demand) and marginal factor cost (supply). This model was then contrasted with imperfections in the market created by the actions of trade unions and the government, contrasting the motives of each of these institutions.

The better answers explained that trade unions were successful in determining wages when their membership dominated the workforce and explained how they were able to restrict labour supply. The presence of 'closed shops' and use or threat of strikes were explained in that regard.

The best answers questioned the effectiveness of trade unions to obtain wage increases above the equilibrium wage, by explaining how it could lead to unemployment for some members. Other answers analysed how globalisation had undermined trade union power in general by the ability of companies to switch production from high wage to low wage economies in the long run.

The action of governments was confined to the legal imposition of a minimum wage to protect largely non-unionised labour from being exploited by employers. The adverse effects of creating unemployment were usually considered.

Very few candidates discussed the fact that the government is a major employer in "mixed economies" and that this brings them into conflict with trade unions, especially when the government acts as a monopsonist, paying wages below the market equilibrium levels.

A significant weakness in answers was the use of diagrams which were either wit
reflected misunderstanding through false labelling, especially when illustrating issue
minimum wages and monopsony. A common error was to refer to prices rather than wages

Question 5

This was an unpopular question which may indicate that this is a neglected part of the syllabus. Answers to this question were polarised as either irrelevant accounts of demand and supply theory and determination of market price under perfect competition or were very good answers which explained diminishing marginal utility and the consumer equilibrium, and discussed the equi-marginal principle. Those who answered the question well explained how total utility from consumption rises but after a point marginal utility (MU) diminishes as consumption increases. They then explained how diminishing marginal utility was applied to determine the negative slope of the demand curve and furthermore to analyse the response of demand to price (P) when purchasing several different goods.

Sound answers explained equi-marginal returns as $\frac{MUofx}{Pofx} = \frac{MUofn}{Pofn}$ within a limited budget.

Evaluative comment was also provided in terms of measuring satisfaction, impulse buying and advertising. A conclusion was provided on whether the theory was of any practical validity. The best answers critically assessed the problems of applying the theory and explained that, in reality, marginal utility was difficult to measure, that it was difficult to compare marginal utility between goods and that the underlying assumption of rational consumer behaviour was undermined by advertising, impulse buying and expectations of future price changes (speculation effect).

Question 6

(a) The first part of the question was answered well and candidates were able to demonstrate a sound knowledge and understanding of the various causes of unemployment. A few candidates, however, were uncertain about the precise meaning of some of the causes, especially cyclical unemployment and structural unemployment. Some candidates adopted a list-like approach which prevented them from explaining the different causes.

(b) The majority of the candidates found the second part of the question much more difficult than the first part. Most were able to explain the transactions and precautionary motives reasonably well, but relatively few had a very clear understanding of what was meant by the speculative motive. However, those who clearly explained the meaning of the terms were also able to evaluate and discuss what might happen to liquidity preference if there were an increase in unemployment.

Question 7

There were a number of very good answers to this final question. The majority of candidates were able to demonstrate a sound knowledge and understanding of what is meant by standard of living, especially in relation to a low standard of living, and were then able to discuss the advantages and disadvantages of multinational companies and their connection with the possible exploitation of natural resources. It was pleasing to see that candidates were able to offer a very balanced answer, comparing the relative advantages and disadvantages of multinational companies. This assessment was then contrasted with the alternative, suggested in the question, of increasing expenditure on education and health. Again, the quality of many of the discussions was very good and a useful conclusion was given in terms of which might be the better way for a country to proceed.

ECONOMICS

Paper 9708/43

Data Response and Essays 43 (Supplement)

General Comments

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A similar point was true of **Question 3 (a)** where some candidates described a range of market structures but did not indicate which might be the more likely for a car manufacturer.

In this question in particular diagrams were often used. It is commendable that candidates illustrate their answer with diagrams but it is important that they present them well, clearly and accurately labelled, rather than scribble them in the corner of the page without proper labels for the curves.

As is always the case some candidates tended to lose the focus of the question and, it appeared, wrote all they knew on the syllabus area of the question without relating their material explicitly to the question asked. Nevertheless, there were many sound performances and such candidates are to be congratulated

Comments on specific questions

Data Response

Question 1

(a) For this section candidates did try to search the data to find indications of improvement in the economic situation. Points which they could have mentioned include the fact that spending increased in January and February; the fact that price changes were no longer negative; the fact that income also rose in January, although this was offset by a fall in February.

(b) There were three groups of candidates' answers to this section.

The largest group consisted of candidates who did not use the data at all. These answers gave theoretical principles of the link between income and spending, or prices and spending, but did not illustrate these principles from the data. The second group did try to use the data and gave illustrative points but did not answer the question about whether any changes they illustrated showed a consistent pattern. The third much smaller group used the data and directed the material they used to the question of consistency. In the data there is no apparent consistency between income and spending either in direction or amount. Even if spending is considered in the subsequent month to the income change, there is no consistency. There is more consistency between the overall price change and spending in the direction of the change in the same month, but not in the extent of the change.

(c) Candidates were usually able to answer this question very well. A fall in spending w ll in demand and, therefore, expected revenue/profits to business will decline. If the significant, or if it is protracted, and it is thought that the trend will continue then there wi revenue with which to invest and, therefore, no incentive to do so.

(d) For this section many candidates were able to discuss the principles involved and explain the paradox of thrift. A rise in saving could mean more funds available to lend which will stimulate the economy. However, if everyone saves more, we know from the multiplier that this means reduced injections into the economy as people spend less. We are told that spending accounts for more than two-thirds of GNP in the US economy. Increased saving and low spending will affect businesses; it could also cause more unemployment. It would also affect the government which would probably have to spend more supporting the unemployed and also receive less in tax revenue. The data says that US government is proposing to reduce taxes but this will come at a cost later, either in a switch of government expenditure – so some anticipated projects will not be funded - or in subsequently raised taxes which will not be welcome.

Essays

Question 2

Many candidates answered this question well. They briefly explained the market mechanism and succinctly stated why this system, based upon the idea of market clearing where demand equals supply, had beneficial results for everyone. Such results, however, rest upon the existence of perfect information and perfect markets. They then explained that with imperfect markets and imperfect information market failure occurs. This could be because of monopoly influences, with resulting higher profits for producers and higher prices for consumers – together with possibly less choice. It could be because of externalities, which may affect consumers but would not necessarily have to be accounted for by producers. It could be from a lack of information – it is often likely, although not always, the case that producers will have more information about the quality of a product than consumers. In each case of market failure that was mentioned the better candidates clearly discussed whether the consumer or the producer was the winner or the loser. Weaker candidates gave competent explanations of market failure but, sadly, did not then suggest who might be the winner or the loser. This was such a pity, for with only a little extra application their mark could easily have been increased. It is always best to try to relate material explicitly to the question and context of the question asked rather than only explain the principles involved.

(b) There were some very competent answers to this section. Better candidates discussed a range of measures which included the possibility of government intervention through regulation, through taxation, through control or through ownership. Better candidates attempted to make a judgement about which measure might be best in a given situation of market failure, recognising that the choice was not straightforward and would depend upon the specific example or industry being considered.

Question 3

(a) It was expected that candidates would suggest that the market structure for the car manufacturer was one of oligopoly. Many candidates did choose this structure and clearly explained the characteristics of such a market and its effect on pricing policy. Good accounts of the theoretical pricing and output decisions that might be found were given. Some candidates suggested that the market structure was one of a monopoly. In reality, or in legal terms, a monopoly is a term used for a company that is not the sole manufacturer in the industry but has a dominant role producing a large percentage of the output (normally defined as over 25% of market share). This approach to the question was also accepted – provided the candidate did not suggest that there was only one car manufacturer in the industry - and some good accounts were given of this structure also.

(b) Microeconomic theory usually suggests some advantages of large organisations because of increased efficiency, economies of scale and resources for research and development. However, it also comments on their disadvantages – increased market power which can lead to higher prices, diseconomies which could lead to higher costs, higher profits which might be caused by restricting choice, price discrimination or lower output. Many candidates were able to discuss the balance of these arguments and suggest that the support by governments would depend upon the specific information about the particular company being discussed.

Weaker candidates, in discussing the micro dimension concentrated solely on an e of possible economies of scale. Better candidates, not only mentioned other micro issue introduced a macro element into their answers. Macroeconomic theory could be used to the idea of increasing subsidies to encourage industry. Subsidies could bring life to par declining regions and stimulate growth, employment and incomes. It was expected that candida would give a conclusion to their answer. Although this conclusion might not say any more than tha already expressed it is always necessary in questions which involve discussion to let the Examiner know that the candidate has formed an opinion and explicitly drawn a conclusion. Examiners look for a statement from the candidate which gives such a conclusion.

Question 4

(a) Part **(a)** of this very popular question required the candidates to analyse an individual's supply curve in order to explain its slope and to examine whether or not an individual will always work longer hours if wages increase.

The better answers explained that a supply curve slopes upwards and indicates that, normally, workers will work longer hours as wages increase. However, there might come a point at which the increasing opportunity cost of work causes a worker to reduce hours of work and take more leisure time, thereby resulting in a backward sloping supply curve.

The best candidates explained the change in slope in terms of both substitution and income effects. At first the substitution effect will be stronger than the income effect as the worker substitutes more work for leisure. After a point (which will vary between individuals) the income effect will be stronger than the substitution effect when workers feel the need to work is less and prefer more leisure, thus causing a backward sloping supply curve. The diagram of the supply curve needed to be labelled accordingly.

Many candidates were well-versed in the principles behind the individual supply curve and used the terminology effectively and succinctly. Good explanations included accounts of the substitution effect, the income effect and their relationship to opportunity cost.

More moderate answers gave a generalised account and wrote about a preference for work over leisure and vice-versa. For these candidates, the diagrams they used were not well presented and were often badly labelled. It is a pity when a candidate knows the material but presents a diagram in an untidy or almost scribbled manner without an accompanying explanation.

Many weak answers failed to make any attempt to analyse the individual's supply curve and instead provided an irrelevant account of why wages increase using demand and supply analysis.

(b) Required a thorough explanation and application of the theories which help to analyse the determination of wages under both perfect competition and imperfect competition.

Market forces were analysed by the better candidates in terms of marginal revenue productivity (demand) and marginal factor cost (supply). This model was then contrasted with imperfections in the market created by the actions of trade unions and the government, contrasting the motives of each of these institutions.

The better answers explained that trade unions were successful in determining wages when their membership dominated the workforce and explained how they were able to restrict labour supply. The presence of 'closed shops' and use or threat of strikes were explained in that regard.

The best answers questioned the effectiveness of trade unions to obtain wage increases above the equilibrium wage, by explaining how it could lead to unemployment for some members. Other answers analysed how globalisation had undermined trade union power in general by the ability of companies to switch production from high wage to low wage economies in the long run.

The action of governments was confined to the legal imposition of a minimum wage to protect largely non-unionised labour from being exploited by employers. The adverse effects of creating unemployment were usually considered.

Very few candidates discussed the fact that the government is a major employ d economies" and that this brings them into conflict with trade unions, especially government acts as a monopsonist, paying wages below the market equilibrium levels.

A significant weakness in answers was the use of diagrams which were either without labels reflected misunderstanding through false labelling, especially when illustrating issues such as minimum wages and monopsony. A common error was to refer to prices rather than wages.

Question 5

This was an unpopular question which may indicate that this is a neglected part of the syllabus. Answers to this question were polarised as either irrelevant accounts of demand and supply theory and determination of market price under perfect competition or were very good answers which explained diminishing marginal utility and the consumer equilibrium, and discussed the equi-marginal principle. Those who answered the question well explained how total utility from consumption rises but after a point marginal utility (MU) diminishes as consumption increases. They then explained how diminishing marginal utility was applied to determine the negative slope of the demand curve and furthermore to analyse the response of demand to price (P) when purchasing several different goods.

Sound answers explained equi-marginal returns as $\frac{MUofx}{Pofx} = \frac{MUofn}{Pofn}$ within a limited budget.

Evaluative comment was also provided in terms of measuring satisfaction, impulse buying and advertising. A conclusion was provided on whether the theory was of any practical validity. The best answers critically assessed the problems of applying the theory and explained that, in reality, marginal utility was difficult to measure, that it was difficult to compare marginal utility between goods and that the underlying assumption of rational consumer behaviour was undermined by advertising, impulse buying and expectations of future price changes (speculation effect).

Question 6

(a) The first part of the question was answered well and candidates were able to demonstrate a sound knowledge and understanding of the various causes of unemployment. A few candidates, however, were uncertain about the precise meaning of some of the causes, especially cyclical unemployment and structural unemployment. Some candidates adopted a list-like approach which prevented them from explaining the different causes.

(b) The majority of the candidates found the second part of the question much more difficult than the first part. Most were able to explain the transactions and precautionary motives reasonably well, but relatively few had a very clear understanding of what was meant by the speculative motive. However, those who clearly explained the meaning of the terms were also able to evaluate and discuss what might happen to liquidity preference if there were an increase in unemployment.

Question 7

There were a number of very good answers to this final question. The majority of candidates were able to demonstrate a sound knowledge and understanding of what is meant by standard of living, especially in relation to a low standard of living, and were then able to discuss the advantages and disadvantages of multinational companies and their connection with the possible exploitation of natural resources. It was pleasing to see that candidates were able to offer a very balanced answer, comparing the relative advantages and disadvantages of multinational companies. This assessment was then contrasted with the alternative, suggested in the question, of increasing expenditure on education and health. Again, the quality of many of the discussions was very good and a useful conclusion was given in terms of which might be the better way for a country to proceed.