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ECONOMICS

Paper 9708/12
Multiple Choice

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

General comments

Overall performance across all candidates varied significantly and candidates generally dealt with microeconomic and macroeconomic topics equally effectively. **Questions 9**, **22**, **26** and **29**, were answered most successfully. **Questions 2**, **3**, **10**, **12**, and **30**, were answered correctly by fewer than 50 per cent of the candidates. Questions on macroeconomics were answered better than those on macroeconomics.

Comments on specific questions

Question 2 was answered correctly by 28 per cent of candidates, who chose the key **C**. A significant number of candidates (58 per cent) chose option **B**. Opportunity cost is defined as the next best alternative foregone. In the context of this question, this would be the payment for three hours work. This would total $120, hence option **C** was the key.

28 per cent of candidates answered **Question 3** correctly. This was found to be the hardest question on this paper. The majority of candidates (58 per cent) chose option **B**. They did not recognise that the statement '*It is in the public interest that key services are nationalised*' is a normative statement. It is a normative statement because it represents a point of view, and cannot be tested objectively.

Question 10 was answered correctly by 44 per cent of candidates. Option **A** was the key. Fertiliser is a by-product of electricity production, so this means an increase in demand for electricity will lead to higher levels of electricity production, which will automatically lead to an increase in the supply of fertiliser. An increase in the supply of fertiliser will, assuming other things remaining the same, lead to a fall in the price of fertiliser and a rise (extension) in demand for fertiliser. This is consistent with option **A**.

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43 per cent of candidates identified the key, **B**, for **Question 12**. This question required an understanding of the relationship between price elasticity of demand and different points along a given demand curve. Price elasticity of demand will fall when price falls and there is a downward movement along the demand curve. All points below the halfway point on this curve will be price inelastic.

Question 30 was answered correctly by 44 per cent of the candidates. Option **C** was the key. The balance of payments was in surplus, therefore too much demand for the domestic currency would occur. The best way to address this would be to decrease the interest rate and encourage an outflow of currency.

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Paper 9708/22
Data Response and Essay

Key messages

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

General comments

Some high quality scripts were seen and some high marks were awarded. On the other hand, a number of candidates had insufficient knowledge and understanding of the areas of the syllabus tested on this paper and scored low marks. In addition, some candidates did not utilise their grasp of the key concepts to good effect because their answers were often incomplete or poorly focused on the specific question.

Comments on specific questions

Section A: Data Response

Question 1

(a) (i) To score both marks here candidates needed to use the data in Fig. 1.1 to calculate the US balance of trade in goods in the two periods and go on to state that there was a deficit in Q1 2010 which had increased by Q1 2018. Many candidates did not score here. They simply showed the calculation in both quarters with negative totals, often without the appropriate currency denomination, and without reference to the fact that the figure obtained indicated a deficit. Those candidates who did the calculation and stated simply that the deficit had increased gained both marks.

(ii) Most candidates were able to explain that the imposition by China of tariffs of 25 per cent on cars from the US would lead to a rise in the price of US cars in China and that this would result in a fall in demand for these products in China. This, they explained, would lead to a fall in US export revenue that would result in a rise in the deficit in the US balance of trade in goods. Some candidates did not score here because they appeared confused. Some for example, explained the impact of US tariffs on China's balance of trade.

(b) (i) This was generally well done with most candidates interpreting the data correctly to conclude that the yuan had depreciated against the US dollar.

(ii) Responses here were, on the whole, disappointing. Many candidates were able to explain the impact of the exchange rate change on China's balance of trade in goods. However, the question required the identification and explanation of one factor that would determine the impact of the change. Many candidates did not address this requirement. The most successful responses explained why the price elasticity of demand for China's exports and imports was a key factor that would determine the impact of the depreciation.

(c) Most candidates were able to score marks for explaining that a strong US dollar would increase the price of US exports and reduce the price of US imports and that this was expected to reduce export earnings and increase import expenditures leading to a trade deficit. Fewer were able to explain that a large fiscal deficit could contribute to a trade deficit in two ways. First, the higher level of aggregate demand would encourage imports. Second, the high aggregate demand might generate inflationary pressures in the US that might make US goods uncompetitive in world markets. Either approach was acceptable. Disappointingly many candidates were unable to explain that a 'robust economy' would be expected to have high levels of employment and income. This would encourage imports and contribute to a trade deficit.

(d) Many candidates ignored the instruction in the question to refer to economic theory. The most appropriate economic theory to use to assess whether the US economy was likely to benefit from the trade war with China was the principle of comparative advantage. This is used to show that given certain assumptions free trade will lead to a more efficient distribution of resources. Those who failed to refer to economic theory lost a mark, but despite the absence of a theoretical framework many candidates were able to provide a balanced answer that considered both the possible benefits to the US economy of the trade war and the possible costs that might arise. This allowed them to reach a conclusion on whether there would be an overall benefit. These approaches scored well, but the lack of reference to a theoretical framework meant that full marks could not be awarded.

Section B: Essays

Question 2

This was the least popular of the three essays.

(a) The effect of a rise in incomes in an economy on the equilibrium price and equilibrium quantity of a good is determined by the nature of the good. In the case of normal goods, the rise in incomes will cause an increase in demand represented by a shift to the right of the demand curve and a rise in equilibrium price and equilibrium quantity. An inferior good, which has a negative income elasticity of demand will see a shift to the left of the demand curve and a fall in equilibrium price and quantity. Goods classified as necessary will see a limited increase in demand and the increase in equilibrium price and quantity is determined by the degree of necessity. Disappointingly, a number of candidates failed to grasp the significance of income elasticity of demand in determining the impact of the rise in incomes on equilibrium price and quantity and scored poorly.

(b) Many candidates were aware of measures that might be adopted to ensure that food was available for consumers in an economy to alleviate food shortages that are disrupted through drought. Measures explained included price controls, increased food imports and government schemes to manage stockpiles. Many candidates provided good explanations of these measures, but very often did not go on to assess their effectiveness. It was insufficient, for example, simply to explain how maximum prices work to ensure that those with lower incomes can afford to buy food. It was necessary to go on to assess how the food shortages that maximum prices would create might be alleviated, for example through a rationing system. Candidates are advised to think carefully about the wording of the essay to ensure that they have considered all aspects of the question set.

Question 3

(a) Most candidates who answered this question were aware that goods are classified according to criteria including excludability and rivalry. However, when candidates attempted to apply these concepts to toll bridges and streetlights many answers revealed that these terms were not fully understood. Many candidates wrote that since both products were paid for by taxes they must be public goods. Successful responses explained that a toll bridge was excludable because free riders could be excluded through the imposition of a toll, whereas streetlights were classified as a public good because free riders could not be excluded and there was no rivalry in consumption.

(b) Some good answers were produced that compared direct and indirect taxes in terms of both criteria. These answers showed good understanding of progressive and regressive taxation and also the type of tax that was more likely to be evaded and which was more likely to lead to demotivation of labour. Some responses made good reference to the canons of taxation to construct their answers. Unfortunately, many answers were superficial and there was some inaccuracy in the explanations of direct and indirect taxes and progressive and regressive taxes. In

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addition, some candidates considered only one aspect of the discussion. Many considered only fairness and ignored the reference to effectiveness.

Question 4

This was the most popular essay question and many good answers were provided.

(a) Most candidates were able to distinguish between cost-push and demand-pull inflation and made good use of an aggregate demand and aggregate supply framework. Some candidates, however, labelled the required diagrams incorrectly. It was disappointing that many used microeconomic labels such as 'price' and 'quantity', rather than 'general price level' and 'output'. A further weakness was that some provided incomplete explanations of how each type of inflation was generated. Some, for example, examined the components of the aggregate demand curve and explained that a shift in this curve would be caused by a change in its components, but failed to explain what might cause such a change to occur. For a full answer it was necessary to explain that demand-pull inflation could be caused by a rise in (for example) consumption that might result from a fall in income taxes, which would increase disposable incomes.

(b) Some good discussion was provided on monetary policy measures and their likely effectiveness in correcting a high rate of inflation. The weaker answers tended to explain the measures without a thorough consideration of their likely effectiveness. This undermined their ability to provide evaluative comment and to reach a conclusion. Nevertheless, most candidates showed good knowledge and understanding of monetary policy and how effective it might be in correcting inflation and some good marks were awarded.

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Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **4**, **5**, **10**, **12**, **13**, **18**, **19**, **20**, and **27**. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **11**, **23**, **26**, and **30** These questions were answered correctly by fewer than 50% of the candidates. On this paper, questions on microeconomics were generally answered better than those on macroeconomics.

Comments on specific questions

Question 11 was answered correctly by 37 per cent of the candidates, who chose the key **A**. 39 per cent chose option **B**, 10 per cent chose option **C** and 14 per cent chose option **D**. In the long run in monopolistic competition and in perfect competition there will be normal profit (option **B**), and there will be a large number of firms (option **C**). The demand curve in monopolistic competition will be less elastic than in perfect competition (option **D**). However, in monopolistic competition there will be a difference between the ideal (optimum) output and the output actually attained in the long run causing excess capacity. This will not occur in perfect competition.

Question 23 was answered correctly by 26 per cent of the candidates, who chose the key **A**. 28 per cent chose option **B**, 2 per cent chose option **C** and 44 per cent chose option **D**. Cyclical unemployment is involuntary unemployment due to a lack of aggregate demand for goods and services. An increase in spending on infrastructure will definitely increase aggregate demand in the short run and through the multiplier process increase demand in the long run, thus reducing unemployment. Any change that occurs with a reduction in indirect taxation (option **D**), would depend on the price elasticity of demand for the products and the type of product.

Question 26 was answered correctly by 36 per cent of the candidates, who chose the key **A**. 25 per cent chose option **B**, 22 per cent chose option **C** and 17 per cent chose option **D**. Option **A** is consistent with the information given: the higher average working week was because Greece has a higher percentage of its workforce in full-time employment than the Netherlands. The other options cannot necessarily be concluded from the information supplied.

Question 30 was answered correctly by 30 per cent of the candidates, who chose the key **C**. 13 per cent chose option **A**, 13 per cent chose option **B** and 44 per cent chose option **D**. The output an economy can produce depends on the resources and technology that the country has available. This is the idea embodied in the long-run aggregate supply curve, which is vertical at the economy's potential output. If the economy is operating at this level then this may prevent a faster rate of growth being achieved.

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Paper 9708/42
Data Response and Essays

Key messages

- Evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes in response to the question – such a statement can be a preface to the answer rather than an addendum but it needs to be made somewhere.
- When using diagrams or examples to support an answer, candidates need to explain the significance of this in terms of the question being asked.

General comments

As last year, there were some very clear answers to the questions on this paper and candidates are to be congratulated. Compared with last year, although there were exceptions, the diagrams were much better presented and clearly labelled. Sometimes candidates did not consider all parts of the question. For example, there was often no conclusion about the necessity for government provision of goods in **Question 2**, little reference to demand in **Question 3(a)**, and no mention of the considered superiority of indifference curves in **3(b)**.

Comments on specific questions

Section A: Data Response

Question 1

(a) Candidates answered this question well stating that the article mentioned expansionary fiscal policy using reductions in taxation or increases in government spending. Some stated that the article also mentioned regulation and contractionary monetary policy. There was a good analysis of how these might affect aggregate demand and thus income, growth and employment.

(b) Most candidates commented on the possibility that cost-benefit analysis (CBA) could account for at least some of the wider effects of projects including any externalities, both positive and negative. The text also refers to the distribution of the effects of any project on different groups. The use of CBA could highlight these effects.

(c) Better candidates stated that GDP is not such a good measure of well-being as HDI. It is the HDI value that could be used to assess well-being, the higher the HDI the better. They recognised that the table gives total GDP, not GDP per capita, and it is difficult to make a judgement using GDP alone. Most candidates made some comparison between the values of GDP and the values of HDI and gave examples. Using the table, on the basis of rank order, apart from Germany, there is seemingly no correlation between high GDP and well-being.

(d) Candidates gave good comments on different existing conditions in an economy and therefore the different possible effects of changing interest rates. They gave instances of

such differences. For example, reduced interest rates could encourage growth when there is unemployment.

Section B: Essays

Question 2

This type of question requires the candidate to consider the proposition given and to comment upon its validity. Externality is cited as cause of market failure. First, it was necessary to consider what is meant by externality and explore the explanatory link to efficiency, indicating whether externalities imply market failure. It was expected that there would then be a discussion on whether the existence of externalities necessarily requires goods and services to be provided by public ownership or whether any such market failure could be dealt with by regulation or control, perhaps through taxation or subsidies.

Most candidates were able to comment on the explanation of the term 'externalities'. The link to market failure was not so well done. Types of government intervention, rather than ownership, were often considered but the final comment on the conclusion in the question was missing.

Question 3

(a) This question required an explanation of the idea that a rational consumer aims to maximise utility, which involves a comparison of marginal utility with prices to determine the amount demanded. Better responses demonstrated an understanding of rationality, and the explanation of the point of equi-marginal utility was usually clearly explained. Weaker answers concentrated on the explanation of consumer equilibrium for one good only. Many candidates did not answer the last part of the question to explain how the demand curve for the good could be determined.

(b) Candidates were able to explain that indifference curve theory shows which quantities of two goods would be demanded to maximise consumer satisfaction. The theory also shows how demand may change as either income or price changes. Better candidates indicated that this change in demand could be split into the income and substitution effects.

In commenting on the whether the analysis is superior to the marginal utility approach in section **(a)** candidates could have mentioned that by isolating the change into income and substitution effects different types of goods can be readily distinguished. They could also have mentioned that the analysis does not require an absolute measurement of utility in 'utils' only a recognition that 'higher' curves indicate more satisfaction.

Against these suggested benefits, however, the analysis still requires some identification of satisfaction to construct the precise level of the curve. This, in reality, is unrealistic. Further the indifference curve diagram also has no direct representation of demand against price.

Question 4

(a) There were some good answers to this part of the question exploring a range of reasons determining the size of a firm. These included entrepreneurial skills and aims, managers and managerial ability, the size of the potential market, availability of finance, the nature of the business (availability of economies of scale), the level of capital required and the availability of labour.

(b) Candidates commented on the usual aim of monopoly, which is thought to be maximising profits, and explained the analysis behind that aim. Better candidates then discussed wider

issues of monopoly suggesting, for example, that even with this aim the price charged would be linked to costs and by demand.

They considered that monopoly has some control over the market which, together with the possibility of price discrimination, could well mean that the price charged is higher than under perfect competition. However, the better candidates recognised that not all monopolies are without potential competition, so there could be a restriction in price due to the likelihood of a contestable market.

Question 5

(a) This question required an explanation of wage rates in a perfectly competitive industry. Most candidates who answered this question gave a reasoned and clear exposition of the analysis. Some used basic demand and supply analysis but the more detailed answers made good use of marginal revenue productivity theory.

(b) Candidates were expected to analyse an imperfect labour market. More comprehensive answers again made use of marginal revenue productivity theory. They also referred to a monopsony and the fixing of a wage rate by the government. They presented a discussion that stated that the outcome of any imposed wage level would depend on where the wage rate was fixed by the government. If it is presumed that the wage rate would be higher than that obtained in the market then this might result in a reduction in employment. Alternative possibilities were also suggested. Using a diagram of a monopsony a wage rate fixed by a government could result in a constant employment level or even an increase in employment and wage compared with the original market situation.

Question 6

This was not a popular question. It was expected that Keynesian explanations of demand-pull and cost-push inflation plus the monetarist explanation of inflation based on the quantity theory of money would be given. Those who attempted it presented a good analysis and made an attempt to evaluate the extent to which each of these approaches might be successful by considering the assumptions and context relating to each alternative.

Question 7

This was a popular question.

(a) The question required a Laffer curve diagram and explanation of the relationship between the percentage rate of taxation levied and the associated total tax revenue expected. Nearly all of the diagrams were easily understood and the explanation was accurate. A few candidates interchanged the labels on the axes. It was expected that the theory should then be linked to government supply-side policies. For most answers, the emphasis was on the use of alternative taxation policies and their subsequent effect on the total tax revenue received and this were argued convincingly.

(b) Responses to this part gave lucid explanations of the meaning of recession together with possible reasons why recessions cause economic problems. The possibility of using a supply-side approach to counter the economic problems of a recession was considered with an identification of alternative policies.