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ECONOMICS

Paper 9708/12
Multiple Choice

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

General comments

700 candidates took this examination paper, and the mean mark was 17.47. This mark was lower than the mean AS Level mark of 19.57 for the equivalent paper in March 2020. Overall performance across all candidates varied significantly. However it was clear that candidates generally dealt with macroeconomic topics less effectively. Only 6 out of 15 macroeconomic questions were answered successfully by more than 50% of candidates, while 13 out of 15 microeconomic questions were answered successfully by more than 50% of candidates.

Questions 9, **13**, and **15**, were answered most successfully. Responses to these questions achieved a correct response rate of at least 81% in each case. All questions covered a range of skills and all related to microeconomic topics. **Questions 17**, **18**, **26**, and **27**, were answered correctly by fewer than 42%of the candidates. Each of these questions was based on a macroeconomic topic.

It is clear from the above that candidates can improve their performance on questions about the macroeconomic topics.

Comments on specific questions

Question 17

36% of candidates answered **Question 17** correctly. This was the least successful overall response rate for any question on this paper. The question required candidates to identify the size of a subsidy from a supply and demand diagram. The correct answer **C** identified the vertical distance between the original supply curve

S1 and the new supply curve S2. 48% of candidates chose option **D** which simply represented the change in price. This is not equivalent to the total value of a subsidy.

Question 18

Question 18 required candidates to recognise that national defence is a public good and that would be the reason why this good would be provided by the government. Only 40% recognised this and proceeded to choose option **B**, because option **B** contained the key elements associated with a public good. 36% of candidates wrongly chose option **D** which incorrectly stated that a private sector firm would charge a high price for its use.

Question 26

Question 26 was answered correctly by 41% of candidates who chose option **C**. This was correct because the table clearly indicated a fall in the general price index which, in turn, would automatically produce an increase in the purchasing power of money. A significant number of candidates chose option **A** (38%). This option was incorrect because it was not possible to identify a change in the **rate** of inflation from the information provided in the table.

Question 27

39% of candidates correctly identified option **D** for **Question 27**. This question required an ability to interpret graphically representations of inflation, disinflation and deflation. The only time when the real value of money would rise over time, is when the inflation rate is negative over time, i.e. in a deflationary time period. This was consistent with graph **D**. 26% of responses chose option **A** where inflation was increasing most rapidly. The key to a successful response related to an ability to recognise that there is an inverse relationship between the rate of inflation and the real value of money over time.

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Paper 9708/22
Data Response and Essay

Key messages

- Questions may be drawn from any part of the applicable syllabus, and it is essential that candidates are prepared across the whole range of the syllabus. This is particularly essential for the compulsory data response **Question 1**.
- Knowledge and understanding must be accurate, clear, and relevant to the question being answered. Vague knowledge and understanding will gain little or no credit.
- Application is only rewarded when the knowledge and understanding is accurate and correctly used to answer the question. Candidates should avoid unnecessary descriptions/explanations of, e.g. economic concepts and theories which may be correct but are not clearly applied to the set question.
- Analysis involves an assessment rather than a series of unexplained assertions/statements. This involves, e.g. an assessment of the strengths and weaknesses/usefulness of economic theory/ concepts and policies where relevant. Simple or unexplained assertions will receive little or no credit.
- Summative statements/paragraphs do not necessarily result in evaluation marks being awarded. Evaluation must be based on accurate analysis which is assessed to present **an answer to the question**. One mark is generally reserved for a justified conclusion where appropriate.
- Finally, candidates should be encouraged to spend time reading the questions and carefully noting the mark allocations. This should avoid spending unnecessary time and effort, e.g. on low mark questions and presenting accurate yet irrelevant material within the answer and instead focusing on the requirements of the question itself.

General comments

- There was a wide range of marks across the paper and the comments below illustrate some of the reasons for the variation.
- Analysis and evaluation marks could be improved by ensuring that points made by candidates are explained rather than asserted and that evaluation clearly attempts a judgement of the analysis to arrive at an answer to the set question. If done well, this would often move a written script from a low- / mid-range response to a high ranking one.
- Generally, though, there were some very pleasing scripts and much evidence that certain candidates had been very well prepared during a difficult period for learning. There were also very few rubric errors and little evidence that candidates did not have enough time.

Comments on specific questions

Section A Data Response

Question 1

(a) This was a straightforward calculation question. A significant number of candidates were unable to correctly calculate the percentage change and simply subtracted figures which in this instance did give the correct figure but this was due to the closeness of the figures. Candidates do need to know and understand the correct formula for calculating percentage changes.

(b) This was another straightforward question that required candidates to understand that expansionary fiscal policy would be likely to increase government expenditure as a percentage of aggregate expenditure and/or the budget deficit would be likely to increase. The fact that both were falling suggested Japan was not using an expansionary fiscal policy. Most candidates understood this and gained the mark, but a number did not understand the significance of these indicators.

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(c) This was generally well answered provided candidates understood what was meant by deflation. Some confused it with disinflation which is clearly not the same and some adopted a micro approach and focused on specific products. Provided the candidate clearly understood the meaning of deflation and the likely consequences of deferred purchases and/or increased uncertainty, the full 2 marks were easily gained.

(d) This question was not particularly well answered by many candidates. The question asked for a diagram to show either an increase in supply of the Yen or a fall in demand of the Yen to illustrate an expected depreciation of the Yen against the US$. Unfortunately, diagrams were often inaccurate and/or labelled incorrectly and therefore did not show the correct movement in the value of the Yen. Obviously, the best answers occurred when candidates understood why the supply and/or demand for the Yen would change in this way as money flowed out of Japan and were able to illustrate this diagrammatically to come to a logical conclusion. For many, this area of the syllabus continues to cause some confusion.

(e) Most candidates demonstrated an understanding of what is meant by expansionary monetary policy although there was occasional confusion with fiscal policy. Most candidates then focused on consumption rather than investment or net exports and consequently analysis was often undeveloped and/or assertive. Consequently, evaluation was often weak or missing altogether and based on an assertion that AD and therefore prices would rise as a result rather than examining reasons why they might not.

(f) Most candidates gained some marks on this question which basically asked whether the impact of a fall in exports on AD and therefore, e.g. unemployment could be offset by an increase in government spending. Candidates who gained higher marks were able to fully explain the points they made and arrive at a reasoned conclusion. Weaker answers tended to make assertive points, i.e. without explanation and lacked any reasoned judgements. Some candidates did ignore the reference to the risks of a downturn in foreign economies and merely discussed the impact of an increase in government spending which failed to answer the question.

Section B Essays

Question 2

(a) This question required candidates to distinguish between a movement from a point within the PPC as a result of an increased use of existing labour and a shift outward of the PPC due to an increased availability of existing resources. Many candidates were able to gain some credit via correct diagrams, but explanations were often partial and tended to ignore any reference to the impact on an economy's output. Some candidates thought both scenarios would lead to the same outcome, normally an outward shift and there were a number who incorrectly labelled diagrams as P and Q.

(b) This question was slightly different to previous questions about supply side policy as it focused on increasing the supply of two factors of production, labour, and entrepreneurship, rather than the output of the economy. This clearly confused a number of candidates who seemed to fail to recognise this and simply discussed the possible success of supply side policy in general. Consequently, good answers were rare and where the question was correctly addressed, most answers focused on training and education rather than other possible policies such as fiscal policies such as taxes and grants. The important point to make is that it is important to read questions carefully.

Question 3

(a) This was a popular question and generally was answered quite well. Most candidates were able to explain cross-elasticity of demand and apply it to the demand for cars in the two scenarios of a rise in the price of fuel and a rise in the price of public transport. The better answers were differentiated by a closer examination of the size of the coefficient and not just whether it would be negative or positive. For future questions of this nature, candidates should be advised not just to consider whether goods are complements or substitutes, but also the strength of the relationship based on the value of the coefficient.

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(b) The question concerned protection of a country's car manufacturing industry and whether such protection could ever be justified through import controls. Most responses answered the question in general terms rather than with specific reference to car manufacturing and were generally stronger in terms of the reasons why protectionism may be justified. Some candidates focused on descriptions of the tools of protection which was not the question. Strong analysis which considered the strengths and weaknesses of both sides of the argument was rare and as such evaluation was often missing or very limited. As referred to in the **Key messages** and **General comments**, candidates need to be encouraged to explain arguments rather than make assertions and attempt to bring together the various arguments when attempting to make evaluative judgements.

Question 4

(a) Most candidates were able to explain that equilibrium occurs in a market when supply equals demand but did not elaborate this to further explain that this meant that there is no tendency to change. This meant they did not gain the full two marks available for knowledge and understanding. Most candidates were, however, able to distinguish between the effects causing an increase in costs for a good due to an increase in wage costs and an increase in demand (or fall depending on the nature of the good) because of wages for all workers rising. Consequently, there were some pleasing answers. Weaker responses tended to focus on the increase in supply costs and suggested an increase in AS rather than an individual firm's supply and ignored any impact on demand for its product or suggested that AD would be affected.

(b) Most candidates focused on policies such as minimum prices and/or maximum prices although subsidies were occasionally referred to. Once again, there was a tendency to explain the mechanics of the policies rather than directly addressing the question of whether the policies could ever improve the allocation of resources in a market. It is important to note that simply displaying knowledge and understanding of, e.g. a concept is not analysis. It requires some assessment of its usefulness, e.g. via an explanation of strengths and weaknesses in the context of the question. Such an approach leads to a more meaningful judgement and conclusion whereas simply demonstrating knowledge and understanding invariably leads to unjustified assertions, The difference between these two approaches distinguishes between higher and lower marks.

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Paper 9708/32
Multiple Choice

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

General comments

863 candidates took this paper, and the mean mark was 17.8 which was lower than the mean last year of 19.9.

The questions for which most candidates selected the correct answer were **5**, **14**, **21** and **26**. These questions were answered correctly by 75% or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **4**, **6**, **8**, **17** and **28**. These questions were answered correctly by fewer than 50% of the candidates.

Comments on specific questions

Question 4

Question 4 was answered correctly by 48% of the candidates who chose option **D**. 2% chose option **A**, 3% chose option **B** and 47% chose option **C**. Candidates who chose option **C** did not take account of the fact that the consumer could also have bought the combination shown at H. This would have been possible with the income that was available.

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Question 6

Question 6 was answered correctly by 27% of the candidates who chose option **A**. 40% chose option **B**, 12% chose option **C** and 21% chose option **D**. Average total cost is calculated by dividing the total cost by the output. Graphically this is shown by the smallest angle at the origin created by a line from the origin to the total cost curve. On the diagram this is the line to the total cost curve at output Q_3.

The point where the total cost curve cuts the vertical axis represents the level of fixed cost. Graphically this would be drawn as a horizontal line. The difference between that line and the total cost curve is the variable cost. To represent the minimum point of the average variable cost (option **B**) a similar angle would need to be shown but this time drawn from the point where the total cost curve meets the vertical axis.

Question 8

Question 8 was answered correctly by 26% of the candidates who chose option **C**. 15% chose option **A**, 46% chose option **B** and 13% chose option **D**. Diminishing returns relates to a change in the marginal output or the marginal cost. In a standard cost diagram marginal cost at first falls and then rises. Diminishing returns occur at the point where the marginal cost rises. It rises before it reaches the minimum point of the average variable cost curve (option **B**).

Question 17

Question 17 was answered correctly by 47% of the candidates who chose option **A**. 15% chose option **B**, 24% chose option **C** and 14% chose option **D**. If the cost of labour is a small percentage of total cost, then any change in the cost of labour would not affect the demand in any significant way. This is like saying that when the price of a product that forms a small percentage of a household budget rises, then the demand for that product would not change significantly.

Question 28

Question 28 was answered correctly by 49% of the candidates who chose option **D**. 18% chose option **A**, 6% chose option **B** and 27% chose option **C**. Those who chose option **C** may have confused the direction of the migration. If restrictions on leaving the developing country are removed for skilled labour, then the chance of skilled labour leaving the country will increase and this would not be beneficial for the developing country.

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ECONOMICS

Paper 9708/42
Data Response and Essays

General comments

Many candidates produced some very good answers to this paper and are to be congratulated. The most common concern was that candidates did not direct their answer to the particular question asked but instead wrote a general answer on the topic. This was especially evident in **Questions 1(b)**, **1(d)**, **2**, and **4(b)**.

Comments on specific questions

Section A

Question 1

(a) In economics, a free market is one in which the decisions regarding the distribution of resources are guided by the price mechanism which responds to the forces of demand and supply. There is no government intervention. Most candidates were able to answer this question accurately, but some confused the economic term of a free market with a market where all the goods were given away without a need to pay for them.

(b) The question required a response that was specifically related to the article where there are comments that refer to imperfect markets. They include price control; price discrimination; exploitation of consumers; concentration of market power and control; growth of very large firms; high profits; inequality of rewards and detrimental effects on local economies. A considerable number of candidates wrote generally about imperfect markets and dealt with the theory of oligopoly and monopoly.

(c) Most candidates were able to explain what equality means and were able to give two policy measures from the article that could promote equality. The understanding of equity was not as precise. The idea of 'fairness' was not explained. Instead, the idea of an equal distribution was repeated.

(d) As with **Question 1(b)** some candidates wrote general theory answers about large firms, dwelling, for example, on the advantages of economies of scale. These are not mentioned in the article. The article does give some evidence for both the advantage and disadvantage of large firms. Beneficially, it states that the merits of large firms are that they pay higher wages, are more productive, are better in international markets and add disproportionately to a country's economic growth. The article gives GDP comparisons to illustrate this latter point.

Some critique of the GDP comparisons could have been made. For example, only three countries are cited, and the evidence is not conclusive. Spain, with smaller number of larger companies than Germany has higher GDP rate. Italy, which also has a smaller number of larger companies, does not.

The article also presents points that are not beneficial. For example, firms practice price discrimination (this can lead to the exploitation of consumers); the concentration of power adversely affects local economies; local businesses must work longer hours to compete, and large companies can cause inequalities.

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Section B

Question 2.

This type of question requires the candidate to consider the proposition given and to comment upon its validity. Negative externality is cited as cause of market failure. First, it was necessary to consider what is meant by a negative externality and explore its link to efficiency and market failure. In this case market failure would be identified as an allocatively inefficient use of resources. Further analysis of the link between government intervention and possible solutions to this type of market failure was then necessary with a comment as to whether government intervention was the only possible means of overcoming the market failure. There were many excellent answers to this question. The weakness of other answers was mainly that the response was weighted too heavily towards positive externalities and government intervention to deal with positive externalities.

Question 3.

(a) It was expected that the key characteristics of a firm operating in perfect competition would be identified. Each of the potential short run outcomes mentioned in the question, supernormal profit, loss and normal profit should have been explained. Similarly, the long run position indicating normal profit should have been analysed with an assessment of the link between the market and the firm. The connection between the market price and the output of the firm was expected to be established. This question was chosen by many candidates with resulting commendable responses.

(b) A good response, it was expected, would explain three types of efficiency: allocative efficiency; productive efficiency and dynamic efficiency. A comparison could then be made between efficiency outcomes associated with both perfect competition and monopoly. Most candidates were able to show that productive and allocative efficiency were achieved by a perfectly competitive firm in the long run and were able to compare this with the potentially less efficient outcomes relating to monopoly. The more developed answers referred to opportunities to benefit from dynamic efficiency as being restricted to monopoly, although it was possible that a monopoly could suffer from X-inefficiency.

Question 4

(a) The answers to this question were, overall, clear and precise. They defined the concepts of transfer earning and economic rent and established the key difference between the two. This question required the use of diagrams and it is to be noted that, with very few exceptions, the diagrams that were presented were accurate and clearly labelled. It was by using diagrams that most of the answers were able to illustrate the link between transfer earnings, economic rent and how the elasticity of supply could be important in determining the wage rate.

(b) The answers to this part of the question were not as precise as those for **part (a)**. Candidates could have analysed traditional labour markets where wage rates are determined by the supply of and the demand for labour. It is possible to argue that trade unions can raise wages, without loss of jobs, by increasing training and ultimately increasing marginal revenue productivity. Unions might be able to achieve this also in a bilateral bargaining situation where unions negotiate with a monopsony buyer.

A significant number of answers spent a disproportionate amount of time analysing minimum wage policy by the government rather than attempts by a trade union to increase wages.

Question 5

(a) The most common weakness in the definitions was that there was no mention of a time period. Production describes the level of output of goods and services in a particular time period while productivity describes the efficiency obtained when producing this level of output. Efficiency would be measured by the unit of output produced per unit of input in a given time period. Candidates were able to comment on why productivity in a developing economy is likely to be lower than in a developed economy, citing, for example, inadequate infrastructure, insufficient capital investment, a focus on primary production, a lack of skills/education or the unavailability of skilled managers.

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(b) It was important that candidates recognised there were two aspects to this question. Some answers addressed only one of them. There were, though, some good answers that suggested that the problems from a rising population in a developing economy could relate to the high dependency ratio based primarily on a high birth rate. The answers discussed the links between population growth, dependency and economic growth. Those who recognised there were two aspects to the question then dealt with the developed economy. In this case, however, they commented on an ageing population with a falling birth rate. Many commented on the long term need to provide a work force in the future to support a growing number of individuals who are no longer able to work.

Question 6

Few candidates answered this question and those that did gave answers that were directed to the question. They, for example, used a circular income flow model to explain the concept of equilibrium and then analysed Keynesian demand side policies to explain how increasing injections based on government spending might achieve a full employment equilibrium. Others commented on a monetarist explanation that identifies equilibrium unemployment which can occur due to frictions in the market and is described as the natural rate of unemployment. Measures in this case concentrated on the supply side and included both direct government intervention and market intervention using taxation and subsidies.

Question 7.

(a) This question was answered by many candidates. Most gave a clear definition of the term economic growth. They then mentioned each of the other key macroeconomic goals. There were a considerable number of well-reasoned answers that compared the ability to achieve economic growth with the ability to achieve the other aims, suggesting, for example, that economic growth might sometimes be the catalyst for achieving aims such as full employment. Contrary to this, it was suggested that the achievement of economic growth might prevent other goals such as low inflation being achieved. Thus, it was recognised that the goals are linked and achieving/not achieving one goal might have a significant impact on the potential to achieve other goals.

(b) This section of the question was also well answered. There were clear explanations of the meaning of a persistent balance of payments deficit. Alternative ways of solving a balance of payments deficit were discussed. Expenditure reducing, expenditure switching and direct intervention were assessed in the light of how these policies might have an impact on other macroeconomic aims. For example, an expenditure reducing policy based on raising interest rates, might have a negative effect on investment, economic growth and employment but a positive effect on inflation.