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Paper 9708/12
AS Level Multiple Choice

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

General comments

Overall performance across all candidates varied significantly. Candidates generally dealt with macroeconomic and microeconomic topics equally effectively.

Questions 1, **2**, **6**, and **8**, were answered most successfully. **Questions 5**, **9**, **11**, **20**, and **27**, were answered correctly by fewer than 46 per cent of the candidates. These questions were spread evenly across microeconomic and macroeconomic topics.

Comments on specific questions

Question 5

45% of candidates answered this question correctly. It required candidates to explain why a supply curve will normally slope upwards from left to right. 42% correctly chose option **D** which linked an upward sloping supply curve to rising costs. A significant number of candidates (27%) chose option **B** which suggested that an increase in productivity was consistent with an increase in the supply curve. An increase in productivity would shift the supply curve downwards to the right, rather than cause an upward movement along an existing supply curve.

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Question 9

This required candidates to recognise the links between the price mechanism, the allocation of resources and the provision of public goods. Only 44% of candidates were able to correctly identify these links. When preferences for public goods rise, then, because public goods are not provided via the free market, it is reasonable to conclude that a rise in preferences for these types of good is **least** likely to induce a re-allocation of resources via the market (option **B**). 35% of candidates incorrectly assumed that the successful operation of the price mechanism would depend upon the availability of sufficient factors of production.

Question 11

This was answered correctly by 42% of candidates who chose option **C**. This was correct because when consumers identify quality with the level of price charged, then a significant number of consumers are likely to purchase goods when their price has risen. This is sometimes described as ostentatious demand.

Question 20

42% of candidates correctly identified option **A**. This question required candidates to assess the impact of a removal of a quota on the price and income received by a domestic manufacture. Price would decrease because more goods could now be imported and sold at a lower price and income for domestic manufacturers would decrease because they would now sell fewer products at a lower price.

Question 27

This was dealt with least effectively with only 28% of candidates correctly identified option **A**. This question required candidates to link changes in productivity to output and the subsequent impact of these changes on comparative advantage. After calculating these changes there would be no change in comparative advantage, therefore the correct option was **A** which concluded that country X would continue to produce drink.

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Paper 9708/22
AS Level Data Response and Essay

Key messages

- Data response questions are compulsory and may arise from any part of the syllabus. It is therefore necessary that candidates are fully prepared across the whole breadth of the syllabus.
- Application of knowledge and understanding must be both accurate and relevant to the question asked and consequently, candidates should carefully read the questions set to ensure their answers are appropriate. This should then prevent time and effort being wasted on unnecessary and irrelevant responses.
- Analysis must be well directed, accurate and sufficiently developed to cover all aspects of a question. It should make clear use of economic theories, concepts, and information as appropriate. Simple assertions without any explanation are not credited as analysis. In **part (b)** of the essay questions, definitions and simple knowledge and understanding of concepts within the question may be used to strengthen analysis but will not be rewarded in isolation.
- Evaluative comment should be balanced and clearly drawn from appropriate analysis and sufficiently detailed to lead to a reasoned conclusion that answers the question. Normally, this will require the candidate to clearly compare the strength of two or more arguments.

General comments

Overall, the question paper produced a wide range of marks even within the same centre.

Knowledge and understanding were generally sound although some common misunderstandings persist as detailed in the comments on specific questions.

The main cause of low marks, apart from flawed knowledge and understanding, was a tendency to assert rather than explain / analyse the points made. This also led to a lack of suitable evaluation in **part (b)** of the essays.

There were very few rubric errors and no evidence of insufficient time to complete the paper. However, it is clear that some candidates continue to disregard the mark allocations and thus spend a disproportionate amount of time on 2 and 4 mark questions at the expense of the 6, 8 and 12 mark questions.

Comments on specific questions

Section A Data Response

Question 1

(a) The focus of this question was the change between August 2019 and April 2020 and the simple answer was that the current account balance had changed from a **surplus** to a **deficit.** This was all that was required for 2 marks and detailed descriptions of all the changes in the balance within that time period were irrelevant. Candidates are also required to use the correct terminology, i.e., surplus and deficit and not use terms such as positive and negative (which are evident from the figures) or use value judgements such as 'worsened'. Unfortunately, in many responses, far too much time was taken up with unnecessary description.

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(b) A significant number of candidates continue to confuse 'Terms of Trade' with 'Balance of Trade' even when the correct formula is reproduced. This misunderstanding was also compounded in many cases with a suggestion that a fall in the rate of inflation meant that prices would fall. Consequently, a number of candidates made the incorrect assertion that Terms of Trade improved because export prices had become more competitive. Those who did understand that inflation had led to a rise in the index of export prices gained one mark but often failed to receive the second mark by recognising that Terms of Trade would only have been improved if the index of **import** prices did not increase by the same percentage.

(c) This question required candidates to use the concept of price elasticity of demand to explain why consumer price inflation in Turkey had led to the current account moving into deficit. Most candidates were able to offer a definition and/or the formula for PED but a many of those were unable to clearly apply the concept to answer the question. Common errors involved a vague application of the concept, e.g., elastic PED means demand changes a lot when price changes or simply ignoring PED and instead stating that demand falls when price rises, Candidates should be reminded that PED measures degrees of responsiveness and this needs to be explained more clearly. Even those who correctly explained elasticity and understood that an elastic PED would mean that a price rise for exports would lead to a larger percentage fall in demand for exports tended to discuss this in terms of export volume rather than export revenue as used in the measurement of the current account. The impact on import expenditure was rarely referred to along with the need for the Marshall Lerner condition to be fulfilled to cause the change from surplus to deficit. Consequently, marks for this question were often very low.

(d) (i) It was apparent that most candidates did not have clear knowledge of what a standard of deferred payment meant and consequently, marks for this question were generally low. Some candidates referred to the redistribution between lenders and borrowers because of inflation without any link to this function of money and some referred to the exchange rate in their answer which was clearly not relevant.

(ii) This part was answered more convincingly although some candidates confused store of value with unit of account. Most knew that savers were affected although the impact on borrowers and consumers was also referred to which adversely affected the overall level of understanding. Marks awarded though were higher for this part of the question.

(e) This question produced some good answers and low marks were often the result of assertions without explanation and/or inaccurate AS/AD diagrams. To gain marks, accurately labelled diagrams (i.e., price level, GDP, output etc but **not** P/Q on the axes, with AS and AD clearly shown along with relevant equilibrium positions) were needed. Explanations as to why AD would increase and how this would generate economic recovery were also needed. The counter argument was whether inflation would also be generated, and this is clearly a result of AS which needed to be explained. It was not sufficient to merely read off a new price level on a simple SRAS/AD diagram and assert that inflation would occur without any explanation. A considered conclusion was required for the final mark. Many candidates received 4+ marks out of 6.

Section B Essay questions

Question 2

(a) This was a popular question, and most candidates were able to explain the short run impact on consumers using an accurate production possibility curve and the identification of a movement along the curve itself. The long run impact was less well explained and many simply asserted that more goods would be produced rather than using a production possibility curve to show the likely outward shift in the curve. As a result, marks of 4 or 5 maximum were quite common. Some candidates persist in labelling the diagram axes as P and Q and/or do not draw the curve touching both axes. Other common errors showed an outward swivel of the curve to show the short run reallocation of resources rather than a movement along the curve and there were many answers that included irrelevant analysis of opportunity cost, descriptions of attainable, unattainable and points within the curve etc. Clearly, these have been the focus of previous questions but not this one and demonstrates the dangers of pre-prepared answers.

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(b) This part of the question was answered reasonably well, and most candidates were able to discuss some of the key advantages to consumers of a transition from a planned economy to a market economy and by implication, the disadvantages of a planned economy. Likewise, the disadvantages of the transition were also reasonably well discussed. The most common weaknesses that persist were a lack of explanation and too much assertion. This often meant that genuine evaluation was lacking as it consisted mainly of a summary of the various conclusions rather than an attempt to evaluate the question of whether the transition will **always** be better for consumers. Some candidates did examine the impact on the domestic and external economy in general and occasionally discussed the benefits of a mixed economy, neither of which addressed the question set and therefore scored low marks.

Question 3

(a) Most candidates were able to correctly define price elasticity of supply and then went on to consider possible factors that could influence PES, such as the availability of resources, the number of producers, the extent of spare capacity, the ease of storing stocks, the time period, the extent of factor mobility and the length of the production process, giving appropriate examples of products with an elastic and an inelastic PES. A few candidates failed to understand that the question was concerned with the price elasticity of supply and wrote about the price elasticity of demand instead. Occasionally, as with all discussions of elasticity, a degree of imprecision persists despite an accurate definition, i.e., elastic is often discussed as a big change and inelastic as a small change or even no change. This suggests a learned definition but a lack of real understanding when applying the concept in a question such as this.

(b) The wording of this question was slightly unusual in that it was asking candidates to consider the uses of fiscal policy in stimulating **aggregate supply** and not, as is most common, **aggregate demand**. Nor was the question asking candidates to compare the use of fiscal policy with the use of supply side policy or monetary policy although this could form part of the conclusion. Many candidates did recognise this and there were some good responses with reasonable evaluation. However, a significant number did focus purely on aggregate demand and tried to redress this, unconvincingly by suggesting that AS would simply increase in line with AD which once again suggests a pre prepared response to a different question. Such answers tended to gain credit only insofar as they made a direct link to AS (normally in the context of government spending on training and education) and inevitably gained no evaluation marks in assessing the overall effectiveness of fiscal policies in increasing AS.

Question 4

(a) Clear understanding of the term protectionism was rare. Most candidates were able to refer to the fact that it offered an advantage for domestic industries / protected them against foreign competition but very few added that this was done by interference with the free market / trade. The most common methods applied were tariffs and quotas although embargoes and red tapism were also referred to. Weaknesses lay in incomplete application of how the methods actually worked and how they gave an advantage to domestic industry by interfering with the free market and/or restricting free trade. One method frequently quoted was the use of subsidies which often received little or no credit as the candidate failed to say they would in fact be export subsidies. Consequently, there was a wide range of marks although full marks were rare due to the frequent imprecision of the definition.

(b) This part of the question was generally well answered, with candidates discussing the potential advantages of protection, such as in relation to the need to protect infant and declining industries, the need to protect employment and the need for protection against firms who were dumping products at a price below cost, and the potential disadvantages of protection, such as an inefficient allocation of resources, higher prices, and the possibility of retaliation. However, weaker candidates tended to offer lists without any explanation which did lead to some low marks. Unfortunately, relatively few candidates responded to the reference to ‘overall benefit’ at the end of the question and instead merely summarised the analysis. This meant that marks for evaluation were often very low.

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Paper 9708/32
A Level Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **4**, **5**, **11**, **13**, **14**, **18**, **22**, **24** and **30**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **10**, **23**, **25**, **26**, and **27**. These questions were answered correctly by fewer than 50 per cent of the candidates.

Comments on specific questions

Question 10 was answered correctly by 34 per cent of the candidates who chose option **C**. 43 per cent chose option **A**, 17 per cent chose option **B** and 6 per cent chose option **D**. When the average cost curve shifts, the marginal cost curve would also shift causing the intersection of the marginal revenue and the marginal cost to be further to the right at an increased output.

Question 23 was answered correctly by 31 per cent of the candidates who chose option **D**. 13 per cent chose option **A**, 6 per cent chose option **B** and 50 per cent chose option **C**. Of the people of working age, the number actually in work is 40.5 million. This is 94.8 per cent of 42.7 million. The employment rate is defined as a measure of the extent to which available labour resources (people available to work) are being used. Those who chose option 6 included those who were not actively seeking work as being available to work.

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Question 25 was answered correctly by 34 per cent of the candidates who chose option **D**. 2 per cent chose option **A**, 49 per cent chose option **B** and 15 per cent chose option **C**. The output gap is an economic measure of the difference between the actual output of an economy and its potential output. Potential output is the maximum amount of goods and services an economy can produce at full capacity. The difference should be measured, in this case, using AD_2 and AS_2. Those who chose option **B** used AD_1.

Question 26 was answered correctly by 36 per cent of the candidates who chose option **C**. 22 per cent chose option **A**, 28 per cent chose option **B** and 14 per cent chose option **D**. This question is near the end of the paper and it is likely, given the distribution of responses, that the candidates were short of time and guessed the answer.

Question 27 was answered correctly by 40 per cent of the candidates who chose option **B**. 26 per cent chose option **A**, 19 chose option **C** and 15 per cent chose option **D**. The multiplier is a concept that indicates how an injection of new spending (exports, government spending or investment) can lead to a larger increase in final national income that is larger than the original injection. Option **B** expresses that idea. A change in the injection, called investment, will lead to a change in national income.

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Paper 9708/42
A Level Data Response and Essays

General comments

Many candidates produced some very good answers to this paper. The question on indifference curves resulted in some poor diagrams that did not add to the written explanation but on the whole, the answers were clear and, where required, an attempt at an evaluative comment was made.

Comments on specific questions

Section A

Question 1

(a) This question did not cause difficulties for the majority of the candidates who were able to define the two types of cost and give examples. The requirement of the question was for the examples to be given from the article. Candidates mentioned the licence fee for fixed cost and fuel and maintenance for the variable cost. Some candidates gave general examples of each cost that were not from the article and were not, therefore, credited.

(b) This was the most challenging of the sections in **Question 1**. The example of cross-subsidisation was the surcharge mentioned in the last paragraph of the article that was used to subsidise the repair work on the underground railway. Those who correctly identified the surcharge mentioned that the justification can be associated with the pollution that traffic causes, which was expressed as a negative externality, and the associated improvement in efficiency of the railway. The drawback to the surcharge was likely to be the effect on the employment and profits of the taxi drivers. A significant majority of the candidates incorrectly suggested that the cross-subsidisation was the introduction of the new taxi service in 2011.

(c) Candidates were able to describe the characteristics of a monopoly market and apply them to the New York taxi service. Before 2011 the entry to the yellow taxi market was restricted by a licence system. After 2011 the entry was restricted for competitor firms by limiting number of other types of taxis and preventing them picking up passengers in central area. These restrictions are types of barriers to entry; they support the idea of a monopoly or oligopoly market. Against this idea candidates were able to state that there are other forms of travel. There are private cars and the metro. These do not support the idea of a monopoly.

(d) There were some good answers commenting on the introduction of a minimum wages and the limitation on the number of new taxis. The minimum wage could cause an increase in costs, fares could increase as a result. The change in the revenue and profits is uncertain and would depend on how demand reacted. As the company operates on basis of low wage costs it is likely that profits would decrease. The restriction in the number of competitors would cause a reduction in supply so fares may increase. But increases in demand as population changes or becomes wealthier may occur. Effect on profits is uncertain. In 2018 there was also no increase in the medallion fee. This would keep one of the fixed cost constant with a possible increase in profits.

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Section B

Question 2

(a) This was a popular question and the many answers provided a clear explanation of the meaning of dynamic efficiency, referring to the use of profits to re-invest in research and development resulting in a reduction in the long-run average total costs. Candidates provided an accurate diagram to illustrate the change. A significant majority then provided a summary of the types of market structure. Of these, firms operating in a perfectly competitive market and firms operating in a monopolistically competitive market, they stated, were unlikely to be able to achieve dynamic efficiency, primarily because of the difficulty of gaining sufficient profits to enable investment in research and development. Monopoly and oligopoly firms were likely to be large and have enough market control to be able to generate sufficient profits to enable investment in research and development and gain dynamic efficiency. Some candidates did comment that monopolies might simply use profits to increase shareholder dividends and dynamic efficiency might not be achieved because of X inefficiency. A significant number of candidates confused dynamic efficiency with either productive or allocative efficiency, spent most of the answer explaining these two types of efficiency and concluded that the most likely market structure to find dynamic efficiency was, therefore, perfect competition.

(b) Those candidates who wrote most of the answer to **part (a)** dealing with allocative efficiency had to repeat their answer for this section. Those who concentrated on dynamic efficiency in **part (a)** dealt with this section very well. They explained allocative inefficiency, related it to the over/under production of a good and applied it to the pollution caused by car congestion. The alternative government policies candidates mentioned that could be used included: taxation, legislation, regulation, advertising and subsidising alternative methods of transport. There were some good evaluative points mentioned for each of the policies.

Question 3

(a) As with **Question 2**, this was a popular question and there were some clear and well-explained answers. The nature and characteristics of indifference curves and their link to consumer satisfaction was described. Budget lines were also clearly explained and the point of consumer equilibrium was derived. The question did ask for an evaluation of the usefulness of the theory so it was important for candidates to note that the equilibrium point can only be attained by rational consumer decision making. Better answers commented on the underlying assumptions of this rationality: that consumers always want to maximise satisfaction, that consumers can measure the total satisfaction obtained when consuming a combination of goods and that no external influences, for example advertising, fashion, trends, might lead to irrational decision making. Some candidates, while producing very clear analysis of the consumer equilibrium point, often using a diagram, did not make any evaluative comment.

(b) Candidates were often able to distinguish between a normal and an inferior good and explained the income and substitution effects of a price change. Sadly, some spent too long dealing with this part of the question and did not make any reference to the elasticity of the change in demand. For a given price change, the negative income effect for an inferior good is likely to mean that the increase in demand will be less than the increase in demand for a normal good which has a positive income effect. Price elasticity of demand would, therefore, be lower for the inferior good. There were some excellent diagrams produced to illustrate the answers but unfortunately a significant number of scripts had diagrams that were small, badly labelled and unclear. Some candidates confused the income and substitution effects.

Question 4

(a) The answers to this question usually began by describing perfect competition. Unfortunately, this sometimes related to perfect competition in the product market. This question referred to the factor market so the answer was not relevant. Those that did refer to the factor market sometimes omitted to explain the link between the firm in perfect competition and the level of the wage rate in the industry. The firm is a ‘wage taker’. The wage is determined by the industry market and the supply of labour is perfectly elastic. If a firm in perfect competition allowed an increase in its worker’s wages it would no longer maximise profits at the new level of output. Therefore, this would support the statement in the question. However, both wages and employment could rise at the same time if

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any of the conditions which determine market demand or market supply changed. In this case each firm will receive a perfectly elastic supply of labour at a higher wage rate.

(b) A government's aim in setting a minimum wage might include: to increase basic living standards; to ensure a more equitable distribution of income; to encourage individuals to get a job and to encourage labour productivity. Those who answered this question were able to explain the possible results of an effective minimum wage at the micro level in different market structures. Fuller answers then commented on the potential benefits for the macro economy, mentioning, for example, possible increases in labour productivity, employment and spending. Against these benefits some answers did mention that a rise in a minimum wage could lead to higher costs, increased prices and job losses. This could result in the need to increase in government expenditure, possibly financed by higher taxation.

Question 5

This question required candidates to address three elements. First, is it true that many undeveloped countries do rely heavily on the production and export of primary goods, secondly is this the cause of low levels of economic growth and, thirdly, is this the explanation for low standards of living. There were many answers to the question that followed this requirement. They explained that some developing economies did rely on the production and export of primary products, although this did not apply to all developing countries. Some had a large tertiary sector in the form of tourism. They then commented this often meant that the demand for the country's exports is likely to be inelastic because food is essential, that the supply is likely to fluctuate because of changes in the weather with resulting changes in both market prices and incomes. This, together with relatively small secondary (manufacturing) did have an effect on economic growth.
Lastly, the answers recognised that there are other factors that might contribute to low growth rates, for example, low investment in training and education and these had repercussions for the standard of living. Answers also commented that living standards are not determined only be economic growth rates and referred to measures of living standards that do not focus on economic growth.

Question 6

This was not a popular question but those who answered it presented some good analysis and clear evaluative comments. Budget deficits used to solve the problem of unemployment are generally associated with Keynesian demand management policies. This policy approach is adopted to address the specific problem of cyclical unemployment where there is insufficient aggregate demand in an economy. A budget deficit will produce net government spending which, in conjunction with the multiplier effect can lead to an increase in demand that can help solve the problem of cyclical unemployment. However, natural unemployment relates to those workers who remain unemployed even though the labour market is in equilibrium, primarily caused by market frictions on the labour market which result in frictional and structural unemployment. In this situation, policies which rely upon budget deficits stimulating aggregate demand are unlikely to be successful. For these, alternative policies that focus upon the supply of labour are more appropriate, for example, trades union reform, subsidising new growth industries.

Question 7

(a) There were few answers to this question but, as with **Question 6**, those that did answer the question provided some good analysis and evaluation. Links between expenditure, output and employment were analysed. The answers commented on the potential impact of a fall in the rate of interest on withdrawals or injections. The extent of the potential impact was analysed, for example, a fall in interest rates is likely to reduce the level of savings and increase the level of consumer spending producing higher levels of output and employment. Fuller answers explained that the impact on output and employment depends upon factors such as the interest elasticity of investment and/or the current level of confidence of potential investors.

(b) If a government makes a formal announcement that it is going to fix the exchange rate at a lower rate, this is a de-valuation. Attempts to fix the currency at a higher rate would constitute a re-valuation. When exchange rates are fixed, the main instruments of monetary policy would be changes in interest rates and/or changes in the money supply. If then, interest rates are raised to reduce aggregate demand, in an attempt to reduce the level of inflation, this will produce short term capital inflows which will put upward pressure on the domestic currency. To maintain the fixed exchange rate the central bank will sell the domestic currency in exchange for foreign currency. However, this will increase the money supply which is then likely to make it more difficult to reduce the level of inflation. Thus, it is likely that there will be a conflict when a government attempts to fix

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exchange rates and control inflation at the same time. Alternative approaches may use supply side policies which might reduce inflation without having a significant impact on the balance of payments.

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