

ECONOMICS

Paper 9708/11
Multiple Choice

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

General comments

Overall performance across individual questions varied significantly. Candidates dealt with both macroeconomic and microeconomic questions equally well. Only four questions out of 30 were answered successfully by more than 70% of candidates. **Questions 5, 14, 20, 27, and 30 and 24**, were answered most successfully (74% or above).

Comments on specific questions

Question 4

23% of candidates were able to answer this question correctly. This question required candidates to use production possibility diagrams to demonstrate what might happen when countries take part in international trade. 31% of candidates chose option **D**. Option **D** was not possible. However, it was clear from the diagram that X should specialise in producing drink and Y should specialise in producing food. Therefore, before trade took place X would produce at X2 and Y would produce at Y1. These two combined would equal a total output consistent with point R. Therefore, option **C** was correct.



Question 9

This question was answered correctly by 31% of candidates who chose option **D**. Again this question required candidates to be able to use a diagram to illustrate price elasticity of supply. In each case, price elasticity of supply can be measured by using the formula $P/Q \times \text{slope of the line}$. In all cases the slope was constant because all four lines were straight. Line 4 started at the vertical intercept, therefore the price elasticity to begin with would be $P/0 \times \text{slope} = \text{infinity}$. Hence all points further along that line would be less than infinity because Q would rise. This would mean that the price elasticity of supply would fall continuously from that point, therefore, option **D** was correct.

Question 23

35% of candidates were able to correctly answer this question. 46% chose option **A**. This was surprising given that this question simply required candidates to use a table to identify the difference between absolute and comparative advantage. It was possible to see from the table that country X had an absolute advantage in relation to the production of both rice and tables but also a comparative advantage in relation to the production of tables, i.e. country X was twice as good as country Y regarding the production of tables but only 1.5 times as good at producing rice. This meant country Y therefore had a comparative advantage in the production of rice. Hence option **D** was the correct response.

Question 28

Candidates also found this question difficult. Only 27% chose the correct option **D**. The question focused upon knowledge recall to link different macroeconomic outcomes to different economic policies. 33% of candidates incorrectly chose option **B**. This was due to an inability to identify the outcome of a monetary policy based on a devaluation. A devaluation would make all exports cheaper and this would increase aggregate demand and therefore constitute an expansionary outcome. The outcome would not be contractionary as set out in option **B**. The outcome in all three cases would be expansionary therefore option **D** was the correct response.

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Paper 9708/12
Multiple Choice

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

General comments

Overall performance across individual questions varied significantly. Candidates dealt more effectively with microeconomic questions. It was notable that 80% of candidates were able to gain a mark of 50% and above. **Questions 2, 10 and 15**, were answered most successfully (89% or above in each case).

Comments on specific questions

Question 2

This was answered correctly by 96% of candidates. This question required knowledge of the key functions of money. Questions of this type are frequently asked and it was clear that candidates had been particularly well prepared to answer a question from this part of the syllabus.

Question 18

41% of candidates were able to answer this correctly. This question required candidates to understand the links between the price elasticity of demand, the price elasticity of supply and the impact of a subsidy on the total amount of goods sold. Although most candidates understood that the impact on sales would be very limited when the price elasticity of demand was low, 41% who chose option **C**, instead of the correct option **D** needed to recognise that the impact on sales would also be limited when the price elasticity supply was low. Perhaps the relationship between a fall in price, the price elasticity of supply and the final effect on the amount sold might be looked at carefully when covering this part of the syllabus.



Question 21

This question was answered correctly by 38% of candidates who chose option **C**. It required candidates to demonstrate their knowledge and understanding of the key components of the balance of payments accounts and why, because these payments are treated like all payment accounts, the sum of these payments must always balance. This question was dealt with the least effectively on the paper. It is important to focus on why these payments must always balance because the payments are essentially an accounting concept. Hence teachers might choose to emphasise the role of the 'balancing item' when working through these accounts. The balancing item would now constitute part of the financial and capital account.

Question 30

39% of candidates were able to correctly answer, **A**. This question also produced a low success rate compared to the rest of the questions on this paper.

This question was quite demanding in that it required knowledge, understanding and application in relation to different types of exchange rate regimes, alternative policies to address the problem of inflation plus an understanding of the concept of purchasing power parity. The majority of candidates understood the relationship between changes in direct taxation and inflation but a significant number needed to recognise that a new fixed exchange rate set above the existing purchasing power parity would help to reduce inflationary pressure. Perhaps teachers might look carefully at that part of the syllabus which explains the concept of purchasing power parity.

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Paper 9708/13
Multiple Choice

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

General comments

Overall performance across individual questions varied significantly. Candidates dealt with both macroeconomic and microeconomic questions equally well. 70% of questions gained a mark of 60% and above for the whole cohort. **Questions 2, 3, 18 and 30**, were answered most successfully (90% or above success for each response).

Comments on specific questions

Question 2

This was answered correctly by 96% of candidates. This question required knowledge recall to identify the key characteristics of a mixed economy. Few candidates failed to recognise that this type of economy would incorporate both a state and a private sector.

Question 5

36% of candidates were able to answer correctly. This question required candidates to demonstrate how an increase in demand and an increase in supply might change consumer surplus. Option **D** was the correct response because both increases would lead to an increase in consumer surplus. A significant number of candidates incorrectly chose option **B** because they failed to recognise that an increase in demand would also lead to an increase in consumer surplus. Although price does rise, more is sold therefore more consumers can benefit from consumer surplus.

Question 14

This was answered correctly by 46% of candidates who chose option **A**. This question required candidates to understand the relationship between the price elasticity of supply and the incidence of this tax in relation to the price paid by the consumer. Candidates would have benefited by drawing a brief sketch to show how a tax will have an effect on supply and price depending upon the price elasticity of supply. A correct sketch would show that if the supply was perfectly inelastic, a tax would have no effect on the price, therefore no effect on the consumer. Alternatively, a tax on a good that was in perfectly elastic supply would raise the price by the full amount of the tax. Therefore, it would be correct to assume that the more elastic the supply, the greater the proportion of the price rise paid by the consumer.

Question 20

43% of candidates were able to correctly answer. This question was quite demanding because it required knowledge, understanding and analysis. Candidates were required to link an elastic demand for exports, the effect of a subsidy on this type of export and subsequently identify how these changes might impact on both the balance of trade and the terms of trade. Although 43% did correctly identify option **B**, a surprisingly large percentage of candidates (44%) chose option **A**. The key explanation related to not recognising that a subsidy on exports will reduce the price of exports. And, when the price of exports falls, provided the price of imports remains the same, then this will cause a fall in the terms of trade. This was part of the correct option **B**. Option **A** incorrectly stated that the terms of trade would rise.

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<p>Paper 9708/21 Data Response and Essay</p>
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Key messages

- Candidates need to ensure they focus on the particular ‘command’ or ‘directive’ word that is being used in a question, such as ‘**compare**’, ‘**explain**’, or ‘**discuss**’.
- It is important candidates understand that in the second part of the ‘**discuss**’ questions in **Section B**, a certain number of marks can be awarded for ‘**evaluation**’. There is often a clue in the question to guide candidates towards this, such as in **Question 2 (b)** which required candidates to discuss whether the advantages of a transition from a planned economy to a market economy **always** outweighed the disadvantages or in **Question 3 (b)** which required candidates to discuss whether decisions made by a business were **more likely** to be influenced by knowledge of the price elasticity of demand for its product or by knowledge of the price elasticity of supply of its product.
- It is also important that candidates understand the usefulness of relevant examples in their answers, even when these are not explicitly asked for in a question, such as in **Question 3 (a)** where they were asked to explain the consequences for consumers and producers of introducing a minimum price in the market for a product.
- Candidates need to ensure that diagrams are correctly drawn and clearly and accurately labelled. There were a number of examples of poor labelling and, in some cases, no labelling at all. A diagram was required in **Questions 1(b), 2(a), 3(a) and 4(a)**, but there were other questions where diagrams could have been used to support an answer.
- It is important that candidates read questions very carefully to avoid making an error in their answer. For example, in **Question 1(a)**, some candidates wrote about deflation rather than inflation, while in **Question 1(c)**, some candidates wrote about a characteristic or an attribute, rather than a function, of money. In **Question 2(b)**, some candidates wrote about a transition from a planned economy to a mixed, rather than a market, economy, while in **Question 3(a)**, some candidates wrote about the consequences for consumers and producers of introducing a maximum price, rather than a minimum price, in the market for a product.

General comments

A diagram was explicitly required in one of the questions in **Section A, Question 1(b)**, and in three of the questions in **Section B, Questions 2(a), 3(a) and 4(a)**, but despite these instructions, some candidates did not include one.

It was obvious in some answers that candidates had not looked closely at the ‘command’ or ‘directive’ word being used in the question. It is important that candidates do recognise whether they are being asked to ‘**compare**’, ‘**explain**’ or ‘**discuss**’ something.

It is also important that candidates focus on whether there is any additional guidance provided in a question, such as in **Question 4(b)**, where candidates were required to discuss whether expenditure-reducing policies were likely to reduce the current account deficit of the balance of payments for an economy with a floating exchange rate. Some candidates simply wrote about the various expenditure-reducing policies that could be used to correct such a deficit without considering the fact that the economy had a floating exchange rate.

Comments on specific questions

Section A

Question 1: Compulsory Data Response

- (a) Most candidates were able to correctly explain how inflation could reduce the 'real value' of money, by commenting on its reduced purchasing power, but relatively few were able to explain that the 'real value' of money would be halved when prices of products doubled.
- (b) A number of candidates were able to explain why rapid price rises encouraged panic-buying by consumers, going on to explain that this was likely to cause shortages that would have the effect of further increasing inflation. It was expected that candidates would adopt a macro approach to the question, but candidates could adopt either a macro or a micro approach to answering the question, although if a micro approach was adopted, it was expected that candidates would refer to the rise in price of more than one product. Some of the diagrams were of a good standard but some were poorly drawn and/or poorly labelled. This was especially the case with the macro diagrams where the vertical axis was often labelled 'P' rather than 'price level' and the horizontal axis 'Q' rather than 'real output'.
- (c) Many candidates were able to refer to one function of money, such as a medium of exchange, a unit of account/a measure of value, a store of value/wealth or a standard for deferred payment. However, a number of candidates referred to a characteristic or an attribute of money, rather than a function, such as portability or acceptability. Some of the answers were rather vague in terms of linking the function to hyperinflation, leading to Zimbabwe abandoning its currency in 2008.
- (d) A number of candidates did make a good attempt to discuss whether it was possible to use monetary policy to achieve both a high level of investment and a low rate of inflation, although many of them focused on one or the other objective, but not both. The better answers pointed out that both objectives could be achieved if an economy had spare capacity and there were some good references to the horizontal LRAS curve. A few candidates made no reference to aggregate demand and aggregate supply analysis in their answers, despite the fact that the question explicitly required candidates to do so. Some candidates wrote very generally about monetary policy without focusing on the two objectives stated in the question. A number of candidates did not offer a conclusion, even though it was a '**discuss**' question.
- (e) Many candidates made quite a good attempt to discuss whether everybody in an economy would be worse off as a result of hyperinflation, contrasting the potential disadvantages of inflation, such as the reduction of purchasing power and the existence of menu and shoe leather costs, with the potential advantages, such as the benefit to borrowers and the possible increase in firms' profits. Unfortunately, a number of candidates did not offer a conclusion, even though it was a '**discuss**' question.

Section B

Essays

Question 2

- (a) In this part of the question, candidates were required to compare what happens to an economy's resources to cause a movement along its production possibility curve with what happens to an economy's resources to cause a shift of its production possibility curve. Most answers demonstrated a sound knowledge and understanding of the differences between the two, with a movement involving opportunity cost and a reallocation of existing resources whereas a shift would involve an expansion in the productive capacity of an economy, actual economic growth and the ability to produce more of both goods. The question required a diagram to be drawn and two errors with the diagrams were noticeable on many scripts. Firstly, the axes were often labelled 'P' and 'Q' rather than 'Good A' and 'Good B' or 'agricultural goods' and 'manufactured goods'. Secondly, the production possibility curves often failed to touch the two axes; it is a characteristic of such curves that they must touch the two axes. In a few cases, the reference to a production possibility curve was not understood and candidates drew a demand and supply diagram instead of a PPC.

- (b) In the second part of the question, candidates were required to discuss whether the advantages of a transition from a planned economy to a market economy always outweighed the disadvantages. Most candidates were able to provide quite a reasonable analysis of the various advantages, such as the operation of the price mechanism in signalling consumer preferences and the possibility of competition between firms leading to greater efficiency, and the various disadvantages, such as the under-production of merit goods, the over-production of demerit goods and the non-provision of public goods. There was a very clear 'steer' in the question, which focused on whether the advantages would '**always**' outweigh the disadvantages, strongly indicating that this might not always be the case. A few candidates misread the question and wrote about a transition from a planned economy to a mixed economy rather than to a market economy. Most candidates provided little, if any, evaluation, even though four marks were available for evaluation in addition to the eight marks available for analysis.

Question 3

- (a) In this part of the question, candidates were required to explain the consequences for consumers and producers of introducing a minimum price in the market for a product. Most candidates were able to consider some of the consequences for consumers, such as the fact that they would be required to pay a higher price for the product than would otherwise be the case, although many of them pointed out that if this discouraged the consumption of the product by consumers, this would be beneficial to them if the product was a demerit good. Most candidates were also able to consider some of the consequences for producers, such as the fact that it would be likely to create a situation of excess supply. A number of candidates made some useful references to the impact on consumer surplus and producer surplus. The question required a diagram to be drawn and although most of these showed the position of the minimum price above the equilibrium position, a few of them incorrectly showed the price below the equilibrium position.
- (b) In the second part of the question, candidates were required to discuss whether decisions made by a business were more likely to be influenced by knowledge of the price elasticity of demand for its product or by knowledge of the price elasticity of supply of its product. There were a number of good answers which did attempt to analyse the impact of both elasticities on a business. In terms of PED, there was some useful analysis of how price changes could affect the revenue of a firm. In terms of PES, there was some useful analysis of how a firm would need to act in terms of its spare capacity and in relation to the amount of stock to hold. Unfortunately, a number of candidates focused on describing the two types of elasticity and yet there were no knowledge and understanding marks available. There were eight marks available for analysis and four marks for evaluation, but the quality of the evaluation was unfortunately rather limited, with candidates writing very little on which was likely to have the greater influence on a business.

Question 4

- (a) In this part of the question, candidates were required to explain, with the aid of a diagram, how a central bank might intervene to maintain a fixed exchange rate when a country was experiencing a current account deficit on its balance of payments. There were some reasonable answers in terms of what a central bank might do in such a situation, such as in relation to buying the currency by using foreign currency reserves and/or increasing interest rates. However, relatively few candidates made it clear that such a current account deficit would cause downward pressure on the exchange rate. In terms of the diagram, a common error was the incorrect labelling of the vertical axis as 'P'; if the diagram is showing the value of one currency in terms of another, this needs to be made clear by labelling the vertical axis as the value of one currency in relation to the value of another or by simply labelling it 'exchange rate'.
- (b) In the second part of the question, candidates were required to discuss whether expenditure-reducing policies were likely to reduce the current account deficit on the balance of payments for an economy with a floating exchange rate. There were a number of reasonable answers on expenditure-reducing policies, but these did not always focus on the reduction of the deficit and when they did, there was often no link provided with the existence of a floating exchange rate. Unfortunately, some candidates wrote about expenditure-switching, rather than expenditure-reducing, policies. Only a minority of candidates offered a sound evaluation in terms of exercising some judgement on whether expenditure-reducing policies were likely to reduce the current account deficit for an economy with a floating exchange rate.

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<p>Paper 9708/22 Data Response and Essay</p>
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Key messages

- As emphasised in previous reports, 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. Equally 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

Most candidates displayed a good level of knowledge and understanding across the question paper. However, some misunderstandings persist as detailed in the comments on specific questions. The main issues, however, often resulted from knowledge and understanding not always correctly applied to the question set and this will also be detailed in the comments on specific questions. Most candidates also attempted some evaluative comment although in most cases this was a summary of the analysis with a brief conclusion and/or a conclusion that did not compare the strengths of the arguments needed to answer the question. Consequently, evaluation marks were often low.

Overall, there were very few rubric infringements e.g., answering more than one essay question and most candidates did appear to have sufficient time to complete the paper. However, in some instances, candidates should take better note of the marks allocated and apportion their time spent answering the question more appropriately. For example, one- and two-mark questions will require far less time and writing than six-mark questions.

Comments on specific questions

Section A Data Response

Question 1

- (a) The data gave percentages for consumption, investment, government, and export expenditure in relation to total demand. Candidates were asked to calculate the percentage of import expenditure. This required knowledge of the formula to calculate total demand and an understanding that the total value must be 100%. Most candidates knew the formula, and many wrote it down, but many failed to apply this knowledge. A common error was to simply add up the figures given which came to 118.5% and give this as the answer rather than recognising that the excess over 100% represented the amount of import expenditure, i.e., 18.5%.



- (b)(i) The first part of a two-part question. This required candidates to recognise that a cut in income tax would increase disposable income and that economists would therefore use YED to calculate the impact on demand for different goods. This knowledge plus some understanding of what YED measures was sufficient for both marks. Whilst many candidates did get full marks, many answered **part b** instead by focusing on the nature of scooters and smartphones and either failing to refer to the concept of YED or confusing it with PED therefore gaining 0 marks.
- (ii) Candidates who gained full marks on **part (i)** often gained both marks for **part (ii)**. However, in complete contradiction of the evidence in the data, some candidates claimed both scooters and smartphones were normal goods therefore failing to answer the question. Those candidates who had effectively answered **part (ii)** in **part (i)** often failed to reproduce their answer and made vague attempts to answer this question. This does emphasise the need to read the questions fully before attempting an answer.
- (c) Responses to this question were generally very good and candidates were normally able to identify a valid supply side policy and apply it to explain how this would make Indian businesses more competitive. When approaching a 3-mark question of this type, there is generally 1 mark for identification of the policy, 1 for a brief explanation of how it works, and the 3rd mark is to develop this explanation – in this case to clearly show how Indian businesses would be made more competitive i.e., in terms of price and/or quality. In some cases, the policy was explained by reference to its effect on demand rather than supply and this gained 0 marks. Other problems included a lack of explanation and a simple reference to reducing the price OR a great deal of unnecessary explanation with no clear link to price and/or quality competitiveness. Both these latter problems meant that marks were reduced by at least 1.
- (d) Again, responses to this question were very pleasing and many candidates gained at least 4 marks out of the possible 6. Most candidates recognised the fact that a reduction in interest rates would lead to an increase in AD or at least one of the components. However, often a great deal of time was wasted in explaining why AD may increase at the expense of analysing the impacts on the Indian economy which was the focus of the question. The advantages discussed were normally an increase in employment and economic growth etc., and the main disadvantages discussed were demand pull inflation and a deficit on the current account due to possible extra spending on imports. The question did however expose a confusion between savings and investment as many candidates suggested that FDI would fall as interest rates fell which of course is not necessarily the case. It does emphasise the need to ensure that candidates fully understand the distinction between savings and investment in economics as this is an extremely common error. A fall in interest rates may lead to a fall in hot money inflows but this is not FDI. The fall in interest rates may also lead to a fall in the exchange rate and this was frequently referred to as a disadvantage without explaining why this may be the case. Clearly it may also be an advantage if it leads to an increase in exports and candidates need to be careful to explain the outcomes and not merely assume a depreciation is a disadvantage. Evaluation was generally quite weak with few candidates moving beyond a simple summary or unexplained conclusion.
- (e) This question was not answered very well, and the main problem continues to be a lack of understanding of what a public good is. Many candidates either asserted that roads and bridges are public goods or merely grouped all infrastructure as a public good. Whilst it is true that the government funds and provides roads in many countries, they are not true public goods and because of their characteristics of being potentially excludable and rivalrous, they could be provided by the private sector. The distinction between public goods, private goods and merit goods needs to be emphasised to candidates to accurately answer such questions in future. The concept of 'quasi' or 'semi' public goods is accepted but of course this still means that the private sector could provide them. Overall, marks were low and valid evaluation was rare.

Section B Essays

Question 2

- (a) This was the least popular essay question probably due to the content of **part (b)**. Most candidates were able to score at least half marks by drawing an accurate PPC diagram and demonstrating the concept of opportunity cost. However, the fact that this is demonstrated by a movement along the curve was rarely made clear and many candidates struggled to demonstrate the idea and cause of increasing opportunity cost and the significance of the concave shape of the curve.

- (b) Answers to this question were generally not strong. Although most candidates had a vague grasp of the principle of comparative advantage and some spent a great deal of time drawing diagrams or preparing tables to show knowledge of the concept, very few used this knowledge to analyse whether a movement to free trade would benefit an economy. Some candidates omitted the principle from their discussion and answered a different question about the advantages and disadvantages of free trade. Marks were often very low and it re-emphasises the need to read the question carefully as in this case the focus was on using the principle of comparative advantage to analyse the benefits of free trade. Also, it provides a reminder that analysis and not simply knowledge gains the available marks in **part b** of essay questions.

Question 3

- (a) A popular question that was well answered by most candidates who attempted it. Most candidates were able to accurately define consumer surplus although a significant number were unable to precisely define it as the **difference** between the price the consumer is prepared to pay and the price they do pay. Diagrams were generally accurate although in some cases more care needs to be taken to ensure they are clear and legible and of a reasonable size. The main issues were a tendency to reproduce pre-prepared answers to questions which are often set in this area, namely the impacts on both producer and consumer surplus and the different tax burdens. Although tax burden clearly has an impact on the size of the consumer surplus, it was not the question and nor was the impact on producer surplus. Candidates do need to answer the question that is set rather than one they may have prepared for. In a few cases, answers were completely undermined by drawing diagrams that showed a shift in the demand curve instead of or alongside a shift in the supply curve. Also, occasionally it was not possible to see any discernible difference between the slope of an elastic and an inelastic demand curve. Alongside the fact that the diagrams needed to show identical supply curves and supply curve shifts, it was sometimes difficult to identify or explain the different changes in consumer surplus.
- (b) Most candidates were able to display accurate knowledge and understanding of maximum pricing and subsidies and there was little evidence of confusion with minimum pricing. However, the main issue was that whilst a great deal of effort went into explaining the mechanics of both policies alongside generally accurate diagrams, a significant number of candidates were less successful in applying this knowledge to the question i.e., how successful they may be in alleviating hunger in a period of food shortages. Therefore, good answers accurately used knowledge and understanding to analyse likely success and were able to make direct comparisons of strengths and weaknesses of the different policies within evaluation whereas weaker answers were descriptive, focused on knowledge and far less well applied to the question. Evaluation in the latter case was often summative and did not address the question. Candidates must recognise that knowledge and understanding is not analysis and that summaries do not represent evaluation unless focused on answering the question.

Question 4

- (a) **Question 4** was the most popular essay question and was generally answered well. The majority of candidates who attempted this question were able to accurately define inflation and produce diagrams showing the correct macro approach and were able to score between six and eight marks overall. The most common omissions were a lack of explanation that demand pull inflation results from an excess of aggregate demand over aggregate supply and that cost push inflation resulted from a fall in aggregate supply. Incorrectly labelled diagrams and explanations both showing a micro based approach were comparatively rare.
- (b) Again, there were some very good answers, and most candidates were able to clearly and accurately distinguish between domestic and external effects. There were also some good attempts to evaluate their relative seriousness often in different scenarios, most commonly the degree of openness of the economies. Weaker answers either failed to distinguish effectively between domestic and external effects and/or simply asserted effects without explanation. For example, fiscal drag may well be an effect but without explanation it is simply knowledge and gains no credit. Some candidates also attempted to evaluate the general effects of inflation and/or the policies used to deal with inflation which of course was not the question and therefore could not be credited.

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<p>Paper 9708/23 Data Response and Essay</p>
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Key messages

- There was a wide variation in marks on this paper suggesting large differences in the way in which and the extent to which candidates were prepared.
- Whilst some basic knowledge and understanding was in evidence in most scripts, there was a wide variation in how well this was applied and analysed in the context of the set questions.
- Candidates should be encouraged to read questions carefully and answer appropriately rather than using pre-prepared responses to other, differently worded questions on the same topic.
- Assertions and lists of facts/knowledge cannot be credited as application or analysis without suitable, relevant explanation.
- Answers to **Question 1** (data response) must use the information accurately from the data provided. This necessitates careful reading and data handling before attempting to answer the questions.
- Definitions of key terms and concepts within essays will only receive credit in **part (a)** and not in **part (b)** which is focused on analysis and evaluation. In **part (b)**, knowledge and understanding should be used only where relevant and to analyse the economic theories and concepts needed to answer the question. Evaluation should then directly compare the strengths and weaknesses of various arguments as appropriate to directly answer the question itself.

General comments

The full range of marks was in evidence on this paper. Stronger candidates clearly have an excellent grasp of topics in the syllabus and can apply this knowledge and analyse it to answer both data response and essay type questions. However, there is still a significant minority who have very little appropriate knowledge and understanding or who cannot apply it to the set questions. As mentioned in previous reports, when questions require candidates to discuss or analyse, merely showing knowledge is insufficient as this must be explained and analysed in the context of the question to gain any credit. For example, in **Question 3b** of this paper, displaying knowledge of all aspects of cross elasticity and income elasticity of demand only received any credit when it was clearly used to analyse how the concepts would help a business in making pricing decisions.

Overall, there were very few rubric infringements, and it did not appear that candidates ran out of time.

Comments on specific questions

Section A Data Response

Question 1

- (a) Candidates do need to take note of the mark allocations when answering questions. As a two-mark question, there is no need for a great deal of writing and often two simple statements or a simple statement with some development is all that is required depending on the command word. This question involved simple data handling and simply asked for a description of changes in contribution of the different components of AD between two years. Consequently, there was no need to describe the changes year by year nor was there a need to describe the changes in real output growth. Two accurate changes over the period gained 2 marks and could have been obtained in two simple sentences.
- (b)(i) As cars in general may be considered a normal good, as real output rises so would real income and therefore a positive correlation might be expected. Most candidates recognised this, but a lot of

time was wasted in stating it through very lengthy explanations for only 1 mark. Some candidates attempted to reverse the statement i.e., a rise in output means more cars but this did not answer the question.

- (ii) Again 2 marks only here. Answers were often far too lengthy as the data suggests the relationship is broadly consistent which gained a mark with a piece of supporting evidence for the second mark. Consequently, a lot of unnecessary time was spent writing the answers to the first three questions which may have been better spent on the higher mark questions.
- (c) This was probably the most accessible data response question and most candidates who attempted it were able to score full marks. Most were able to identify a relevant protectionist measure and apply it to show relevant impacts on both consumers and producers. There were very few weak answers that were unaware of what was meant by protectionist measures although a very small minority described measures that could be taken by China and not the USA which was irrelevant.
- (d) The quality of response was generally good. However, there was a significant minority who confused direct taxes with indirect taxes and therefore discussed the impact of PED rather than YED or simply assumed that demand for all goods would increase because of a fall in either direct or indirect taxes. Such answers gained 1 mark or 0 marks depending on whether they had accurately explained the rise in disposable income (1) by showing accurate knowledge of a fall in direct taxes or by a reference to a fall in prices (0) i.e., by confusing direct taxes with indirect taxes. For those who recognised the impact of YED and a reference to both normal and inferior goods plus a brief explanation of both, provided there was a brief conclusion then full marks were obtained. Those who scored less than full marks were often let down by references to normal and inferior goods with no explanations.
- (e) Answers to this question were often quite weak. Many answers were descriptive rather than analytical and focused on how consumption may be increased rather than the benefits of doing so. Also, because the level of consumption had remained reasonably constant between 2010 and 2017, it was often assumed it could not be changed. On the other hand, net exports were regularly offered as an alternative as their contribution had increased over the same period but the impact of a trade war with the USA was ignored. Better answers compared the benefits of increasing consumption notably, the impact on employment and relative insulation from external factors against the possibility of inflationary pressure. This then allowed candidates to compare an alternative approach such as encouraging investment. Good evaluation was rare as analysis was often very limited.

Section B Essays

Question 2

- (a) Most candidates were able to clearly and accurately define the fundamental economic problem to gain the two knowledge and understanding marks. A further two marks were also often gained through an explanation of the role of government in a planned economy and the role of the price mechanism in a market economy. However, answers were often vague and generalised beyond that, so it was comparatively rare to gain many more marks. Also, the command word was '**explain**' so an evaluation of the benefits and drawbacks of each system was irrelevant, and a conclusion was unnecessary. Many candidates wasted a great deal of time assessing the relative merits of each system in general rather than answering the specific question which again highlights the need to read the question carefully.
- (b) This question was not answered particularly well and many candidates appeared to miss the point of the question about whether government should only provide public goods or whether there was also a role for them to provide merit goods. Partly this arose through a lack of precise understanding of what a public good is compared to a merit good and this often led to a generalised discussion of the role of government in a mixed economy. This meant that a large part of the answer was irrelevant or inaccurate and that knowledge was rarely successfully applied to analysing the scope of the question. Whilst knowledge must be accurate and relevant, it again needs to be emphasised that only appropriate analysis is credited in **part (b)** of essay questions. Consequently, relevant evaluation was rare.

Question 3

- (a) Candidates are clearly well prepared for this type of question and there were many good answers despite the wording being different to those seen in the past. Most candidates applied their knowledge of the concept of elasticity precisely in terms of proportional or percentage responses rather than vague terms such as 'no change' or 'large/small changes in demand'. Total marks between 6 and 8 were common. Weaker answers were those where knowledge and understanding was lacking or imprecise.
- (b) As is often common with questions of this nature, candidates displayed a great deal of knowledge and understanding of the two types of elasticity but did not apply this to answering the question. Also, because of the reference to pricing decisions in the question, there was occasional confusion with PED. Better answers limited their explanations of YED and XED and focused on how useful they may be to firms in deciding on prices in different situations whereas weaker answers focused on explaining/defining the different measures. For all **part (b)** answers, only relevant analysis is credited along with evaluation that is clearly drawn on this analysis and used to answer the question i.e., in this instance, which measure is likely to be the most useful.

Question 4

- (a) **Part (a)** questions allocate two marks for knowledge and understanding and a further six marks for applying this knowledge and understanding. There were two marks here for knowledge of what inflation is and how it is measured plus three marks for explaining why a rising rate of inflation may be of concern to consumers and a further three marks for the effect on producers. Many candidates concentrated on the mechanics of how inflation is measured and described the whole process with little regard to the impact required by the question and therefore scored low marks. Better responses quickly defined inflation and normally referred to CPI followed up by relevant application and in these instances, scored well, often achieving full marks. Once again, the advice is to spend less time displaying knowledge and understanding and more on applying or analysing this knowledge as required by the question.
- (b) Most candidates had a reasonable understanding of the use of interest rates to control a rising rate of inflation and better candidates were able to consider the negative impacts on growth and therefore were easily able to compare the use of supply side policy. However, many candidates simply stated how interest rates might control inflation alongside other policies without really comparing their effectiveness. The overall effect was to provide an answer which simply listed methods of controlling inflation. Consequently, effective evaluation was extremely rare. Once again, this emphasises the need to address the question and use appropriate analysis rather than simply listing knowledge and understanding.

ECONOMICS

Paper 9708/31
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1, 2, 5, 6, 9, 18, 19, 21, 22, 23, 25 and 27**. These questions were answered correctly by 60% 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, 8 and 26**. These questions were answered correctly by 30% or fewer of the candidates. The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 4

This was answered correctly by 23% of the candidates who chose option **A**. 37% chose option **B**, 6% chose option **C** and 34% chose option **D**. The question states that the consumer is rational and satisfaction is maximised. It also states that the price of both products is the same. For satisfaction to be maximised when the price of both products is the same the marginal utility from the last unit purchased of each product must be equal. (Option **A**)

Question 8

This was answered correctly by 28% of the candidates who chose option **C**, 2% chose option **A**, 63% chose option **B** and 7% chose option **D**. The long-run average cost curve is often drawn as a U-shaped curve (option **B**) but this indicates that there are diseconomies of scale when the curve is rising. The question states that this does not happen and there are always economies of scale in the long run. For this to occur, the curve must continually slope downwards (option **C**).

Question 26

This was answered correctly by 13% of the candidates who chose option **D**, 38% chose option **A**, 26% chose option **B** and 23% chose option **C**. It is suggested that pay responds slowly to changes in a firm's performance, or to changes in the economy, and that there is a 'stickiness' or 'rigidity' in wage changes that makes them not flexible. Also, firms are said to base their decisions on investment on reasons connected with expectations and confidence and that there is not necessarily an immediate link (or elasticity) between interest rates and investment. These ideas are stated in option **D**.

ECONOMICS

Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2, 3, 6, 9, 11, 12, 13, 20, 21** and **23**. These questions were answered correctly by 60% 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 **25, 27**, and **29**. These questions were answered correctly by 40% or fewer of the candidates. The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 25

This was answered correctly by 29% of the candidates who chose option **D**. 40% chose option **A**, 9% chose option **B** and 22% chose option **C**. The national income will increase by a multiple of the increase in investment, the amount of the increase is given by the multiplier. The multiplier is $1/1 - \text{mpc}$ (where mpc is the marginal propensity to consume). The question states that the mpc is 0.6, so the multiplier is 2.5. The increase in national income will be \$250 million (option **D**)

Question 27

This was answered correctly by 27% of the candidates who chose option **C**. 5% chose option **A**, 37% chose option **B** and 31% chose option **D**. With a cash deposit ratio of 5% the credit multiplier will be 20%. When the deposit ratio changes to 10% the credit multiplier will fall to 10%, a drop of 50% (option **C**).

Question 29

This was answered correctly by 29% of the candidates who chose option **A**. 41% chose option **B**, 15% chose option **C** and 15% chose option **D**. Those who chose option **B** may not have noticed that the question asked which policy would conflict with the aim of price stability. Raising income tax would reduce spending, reduce the possibility of price increases and support the policy of price stability, not conflict with it.

ECONOMICS

Paper 9708/33
Multiple Choice

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

General comments

Most of the questions were answered correctly by more than 70% of the candidates. Seven questions were answered correctly by between 51% and 70% of the candidates. The four most challenging questions on the paper were **7, 18, 19** and **22**.

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

Comments on specific questions

Question 7

This was answered correctly by 29% of the candidates who chose option **A**. 24% chose option **B**, 31% chose option **C** and 16% chose option **D**. On the diagram the movement from point R to point S is the 'substitution effect'. The movement from point S to point T is the 'income effect'. The income effect is in the opposite direction to the substitution effect and so the good is an inferior good, although still more of good X is bought as a result of its price fall. It is also shown on the diagram that as more of good X is bought, more of good Y is bought at the same time. The two goods must be complements (option **A**).

Question 18

This was answered correctly by 47% of the candidates who chose option **A**. 42% chose option **B**, 6% chose option **C** and 5% chose option **D**. The output gap is the difference between the actual level of GDP and its long-run estimated potential level. (Option **A**). The potential output does not just relate to the full employment of labour (option **B**).

Question 19

This was answered correctly by 46% of the candidates who chose option **C**. 13% chose option **A**, 11% chose option **B** and 30% chose option **D**. Those who chose option **D** may not have noticed that the question asked what is **not** a valid reason to doubt whether living standards have risen. The preamble to the question mentions GNP per head, so population has already been taken into account in the statistics. Option **C** which deals with population is not, therefore, a valid reason.

Question 22

This was answered correctly by 42% of the candidates who chose option **D**. 41% chose option **A**, 6% chose option **B** and 11% chose option **C**. It is possible that seasonal unemployment (option **A**) can be affected by government policies. The government could provide more information or re-training for other jobs during a period of seasonal unemployment. Similarly, changes in the exchange rate (option **C**) can affect unemployment. Currency depreciation makes exports cheaper and more competitive which could help decrease unemployment.

ECONOMICS

<p>Paper 9708/41 Data Response and Essays</p>

General comments

There were some good answers to this paper and those candidates presented well-balanced and clearly structured answers, accurately related to the question and enhanced by relevant examples and applications where appropriate. As in previous papers, the key weakness in some of the other answers was that the candidate did not direct their response precisely to the question asked. This was particularly evident in **Question 2** where market failure is closely related to allocative and productive inefficiency. These inefficiencies were often missed.

Although no questions explicitly requested the use of diagrams and it is possible to attain high marks without the use of diagrams, candidates should be prepared to develop a diagram if it is relevant to a question. Diagrams can help achieve strong analysis marks and support evaluation. There were opportunities to use diagrams. For example: **Question 2** (efficiencies); **Question 3(a)** minimum wage/elasticity effect; **Question (3b)** trade unions in a monopsony labour market; **Question 4(b)** AD/AS showing potential impact upon the level of employment/economic growth; **Question 7(a)** actual/potential growth supported by relevant production possibility diagrams.

Comments on specific questions

Section A

Question 1

- (a) This question required candidates to comment on the relative significance of the growth in sales of electric cars compared to the sale of all cars. Candidates mostly commented upon the total growth of both but not the fact that the scale of all-electric car growth was a small fraction of total car sales.
- (b) Better responses used the information from the source and considered AFC and AVC in their discussion. Output of electric cars is expected to rise significantly in the long run. As output rises, AFC may well fall because of economies of scale in production.

However, unless battery technology changes, AVC are likely to rise eventually. Batteries are a large component of the cost, and their manufacture depends on finite supplies of component metals. As demand increases, prices will rise as mineral reserves become depleted. This could counteract possible reductions in AFC. Candidates who did not address AFC and AVC did not attain full marks.

- (c) Candidates were expected to consider whether the switch to all-electric cars would substantially reduce world demand for oil. Information from the article was expected to be used in support of responses. There were some good answers although weaker responses tended to be one sided and lacked a conclusion.
- (d) Some understanding about private costs plus external costs equaling social costs was required which many candidates were able to demonstrate.

Answers to this question varied considerably with stronger candidates producing a balanced assessment. Most candidates were able to link petrol and diesel engine emissions to negative externalities due to causing pollution of the atmosphere and health problems especially for those living in urban areas.

Better responses went further to discuss, for example:

- electric car use in terms of lower external costs through reducing emissions but not eliminating problems of traffic congestion
- the beneficial consumption externality of electric cars whereby $MSB > MPB$
- oil dependent transport like ships, planes, heavy goods vehicles
- negative external costs associated with increased mining of metal ores.

A conclusion was required for full marks. e.g. external costs will not be eliminated entirely.

Section B

Question 2

This question required candidates to discuss the cause and extent of market failure in relation to the type of market structure. A number of candidates discussed economic systems rather than market structures. Better responses either linked market failure to the type of good in consideration including merit goods, demerit goods and public goods or linked market failure to different types of market structure including: monopolistic competition, oligopoly and monopoly. It was not necessary to discuss perfectly competitive markets. All cases of market failure will be closely related to allocative and productive inefficiency and this was needed to be mentioned in order to access Level 4 marks.

Question 3

- (a) This question required that candidates identify and explain some key factors which might determine the elasticity of demand for labour. This part was generally well answered. Better responses attempted to link these factors in relation to a government's minimum wage policy.

Poorly constructed diagrams where the demand/supply slopes were not clearly differentiated often did not aid the clarity of an answer.

- (b) There were some excellent responses which addressed both parts of this question. Weaker responses lacked balance with an emphasis on either market failure in relation to the monopsonist or the role of trade unions in the labour market. Both parts required to be addressed equally and a conclusion provided which addressed the question.

Question 4

- (a) This was not a popular question. It was expected that candidates would explain the marginal propensity to consume (MPC) and demonstrate an understanding of basic Keynesian economic theory which assumes that the marginal propensity to consume remains constant regardless of the level of an individual's level of income. More realistically to assume that the marginal propensity to consume will fall as individual income increases. This development was lacking in a number of responses. Government macroeconomic policy focuses on key goals, including high employment; high growth; low/stable inflation; stable balance of payments/exchange rate; re-distributing income. Stronger responses examined at least two policies. The impact of the multiplier effect, determined by the value of the marginal propensity to consume was expected for Level 4 marks.
- (b) The level of savings in an economy will be determined by a number of factors which most candidates were able to identify. The impact of an increase upon key macroeconomic indicators such as growth and employment, was most effectively discussed when candidates used different models to assess the impact of an increase in savings. To attain Level 4 marks discussion relating to the extent of the impact and supported by a relevant conclusion was required.

Question 5

- (a) This question required an explanation of the Quantity Theory of Money. It was hoped the key elements of the equation i.e. $MV = PT$ should be provided, and each variable explained. The majority of candidates were able to do this. Better responses recognised the monetarist approach which assumes that V and T are constant/stable and the theory predicts a direct relation between changes in the money supply and changes in inflation. Any weakness in answers occurred because candidates did not adequately explain why the theory might not work in practice.

- (b) Candidates were expected to identify the four key macroeconomic goals and then to determine whether the control of inflation is the most important. A common approach, although often not clearly explained, was that high inflation will make exports more expensive and that this would have a negative effect on the balance of payments, the exchange rate and the level of employment. Stronger candidates attempted to compare the relative importance of macroeconomic aims and draw a conclusion which addressed the specific question.

Question 6

This was a popular question. Candidates were expected to explain and discuss the three related parts of the statement. Many candidates were able to explain the link between an increase in GDP and the standard of living. Foreign Direct Investment (FDI) required to be explained and there was some good analysis provided as to the extent to which an increase in FDI might produce an increase in GDP. A conclusion was expected as to how far it is possible to agree with the statement under consideration.

Question 7

- (a) A clear explanation of what is meant by infrastructure was expected together with supporting examples. Most candidates were able to explain that economic growth is attained by an increase in real GDP within a specific time period. Fewer candidates made a clear distinction between actual and potential growth, supported by relevant production possibility diagrams or aggregate demand/aggregate supply diagrams. A conclusion was expected recognising that both actual and potential economic growth are likely to be affected but one will be a short run effect and its extent will depend upon the existing state of the economy while potential growth will be attained in the long run and will depend upon the nature and extent of the level of investment.
- (b) Answers to this part of the question were not as strong as for **section (a)** and responses tended to focus upon economic growth leading to a rise in incomes resulting in a higher level of imports thereby causing/increasing a balance of payments deficit. Fewer candidates discussed alternative policies e.g. short run demand side and long run supply side policies, required to promote economic growth, followed by a consideration of the extent of the impact of economic growth on the level of national income and imports.

ECONOMICS

<p>Paper 9708/42 Data Response and Essays</p>

Key messages

It is worth re-iterating the **Key messages** of previous reports:

- Candidates generally demonstrated that they understood the relevant theory and the best answers articulated the analytical aspects within the context of the question. Others did not fully develop the analytical aspects of the question or apply it to the context of the question.
- Many questions contained the trigger word 'Discuss'. This term required an argument or debate within the answer and the drawing of a conclusion to access the higher levels in the mark scheme. Many answers were one-sided or left the examiner free to draw his/her own conclusions.
- Candidates are reminded that a thorough reading of the question is necessary to pick out the full breadth of the question. This is especially true of the questions without sub-divisions.

General comments

The level of English shown by candidates was a high standard. Many answers were again of a high standard in response to the questions.

The common faults were as in previous examinations, but they are worth repetition:

- The use of a badly drawn, or inaccurately labelled diagram, or even a perfectly presented diagram without any reference to it in the answer re-occurred as did the use of pre-learned answers that did not match the question which had been set. These comments, however, should not detract from the impression that the overall standard of responses was high.
- Some candidates wrote at great length. In many examples these responses were poorly directed towards the question set. Candidates who can produce a relevant, concise and well directed answer will always be fully rewarded.

Comments on specific questions

Question 1

Candidates are reminded the paper is titled in part 'Data Response' which implies that reference should be made to the data/text where relevant or specified in the question.

- (a) A large number of candidates correctly identified that the concentration ratio was increasing, and the market structure was becoming an oligopoly. Some made direct reference to the figures quoted in the text which also gained credit.
- (b) Candidates who provided a definition of economies of scale and provided a relevant example were rewarded. Those who also drew a correctly labelled diagram gained full marks. Some candidates either mislabeled the axes or the long run average cost curve (LRAC). Some did not know the correct shape of the LRAC.
- (c) Many candidates were familiar with the concept of a contestable market and correctly defined the term. Some were less sure of the benefits to the consumer.

- (d) The candidates who read the question and understood its requirement were able to access the higher marks. A discussion of the range of competitive behaviours available to firms in an oligopoly was required this could either be through price competition or non-price competition. The better candidates were able to produce an answer which showed an ability to discuss these aspects of competitive behavior within the context of the European airline industry. Those candidates who concentrated on cartels or other forms of co-operative behaviour did not gain marks.

Question 2

This was a very popular question.

- (a) Most candidates had a strong grip on defining and explaining the term 'market failure' and then went on to discuss a range of policies which governments applied to the form of market failure identified. Diagrams whilst not required added to the clarity of many explanations and raised the level of analysis. Some candidates did not develop the level of explanation or analysis of either market failure or the policy suggested to 'solve' the problem and merely described or stated a policy. This occurred most frequently when candidates were considering policies to restrict monopoly practices. Only the very best candidates developed a view on the ability of governments to pursue such policies successfully.

Question 3

- (a) Most candidates were capable of defining the basics of marginal utility analysis; however some candidates were able to use those concepts to explain their relevance to the demand curve via the equi-marginal principle $MU_x/P_x = MU_y/P_y$ and how a change in the price of good x requires a rebalancing of the equation which establishes the inverse relationship of price and quantity of the normal demand curve for a good or service.
- (b) This question required the candidate to demonstrate an understanding of the concepts of indifference curves and the budget line to develop an analysis of how a change in price may be decomposed into the substitution effect and the income effect. Some candidates were able to consider three situations for a fall in price of a good (i) where both substitution effect and income effect reinforced each other, (ii) where the substitution effect was positive but less than the negative income effect and (iii) where the substitution effect was positive but less than the negative income effect. Candidates who omitted elements of this analysis or merely described those elements scored less well.

Question 4

- (a) This was a 'technical' question which required a candidate to explain the concept of diminishing marginal returns (DMR) and then to apply that principle to explaining the shape of the marginal cost curve as it initially falls and then rises. The better candidates were able to do this and then to extend their explanation to the shape of the short run average cost curve. Some candidates fail to take the short run element of the question into account and wrote about the long run average cost curve.
- (b) Those candidates that were able to explain the practice of price discrimination in terms of market division and differing price elasticities of demand were in a good position to discuss whether consumers or producers were more able to benefit from the practice and the best candidates did this. However, some candidates only discussed the impact of price discrimination in terms of consumers or producers and others merely explained price discrimination.

Question 5

This was a popular question.

Good answers showed a wide range of knowledge of gross domestic product (GDP) and many discussed the usefulness and limitation of GDP as a measure of the standard of living. Some candidates extended their response to suggest alternative measures which may be more useful than GDP. Better answers extended the discussion to include the concept of economic development, but these were in a minority. As with other questions those candidates who performed less well did so because of only partial analysis of the three elements of the question.

Question 6

- (a) The question required a detailed explanation of the difference between frictional and real wage (classical) unemployment. Many candidates provided good analytical answers to both elements. However, some confused real wage unemployment with one of the other types of unemployment.
- (b) Those candidates who read the question closely recognised an explanation of the meaning of structural unemployment and an evaluation of possible policies that might reduce it was required. Candidates who were confused in **part (a)** were often unable to explain structural unemployment and thus the selection of policy whilst appropriate to the policy described did not answer the question.

Question 7

- (a) Candidates who defined the four terms of the quantity theory of money (QTM) and clearly stated the assumptions regarding each term were able to explain it as a theory of prices changes/inflation. Better answers suggested the link to government monetary or supply-side policies. A significant number of candidates only defined the terms and stated the relationship between money supply and prices.
- (b) Those candidates who defined 'a more equal distribution of income' and considered the impact of the two aspects (income and expenditure) of fiscal policy on equality made a good attempt to respond to the question. Few candidates considered the word 'alone' and what other policies might contribute to equality.

ECONOMICS

<p>Paper 9708/43 Data Response and Essays</p>

General comments

The answers to this paper were again of a good standard. Clear analysis was used supported by relevant applications where necessary. Many answers were well-balanced and accurately structured. There was a relatively even choice of the optional questions with perhaps **Questions 2, 3 and 6** being the most popular.

It has often been the case that diagrams have not been presented well. With the exception of **Question 3**, this did not occur with this paper. **Question 3**, however, was the exception and for some answers it was very difficult to distinguish the separate movements of the substitution effect and the income effect that were shown on the diagram. It is recognised that indifference curve diagrams can be difficult to draw but it is not helped when the difficulty is also obvious to the candidate resulting in a text that does not match what is presented in the diagram.

Comments on specific questions

Section A

Question 1

- (a) With few exceptions this question was answered accurately. The exceptions were when candidates increased the demand for labour by shifting the marginal revenue productivity curve rather than recognising that it was the supply of labour that had increased.
- (b) Good responses were also evident for this question with relevant comments about job availability, standards of living, welfare systems, education provision and weaker infrastructure.
- (c) Candidates recognised that a minimum wage might increase unemployment if it were set above a market equilibrium wage that was based on the supply and demand for labour. Better answers contrasted the result of a minimum wage set above the market equilibrium with one set below the market equilibrium. They also compared what would happen in a free market with what might happen in an imperfect market.
- (d) There were excellent answers to this part of the question that drew on the information given in the article. They differentiated positive advantageous points with possible negative disadvantageous points. Positive points included comments that the skills of migrant workers might complement those domestic workers and increase productivity and therefore increase economic growth; that the earnings of migrant workers could create jobs and may increase aggregate demand. They also mentioned that the research showed that migrant workers made a positive contribution to the taxes that was higher than payments for welfare and public services spent on migrants.

Negative effects mentioned included the fact that migrant workers might have taken jobs of domestic workers increasing unemployment, that increased competition for jobs drives down wages with a loss of government tax revenues, that migrant workers might be willing to accept lower wages, causing industrial unrest. Comments were also made distinguishing the possible effects of migrant workers being a complement for domestic workers with that of migrant workers being a substitute for domestic workers.

Section B

Question 2

This was a popular question. There were two parts to the question. An analysis of the reasons why government intervention might be thought necessary when there are dominant firms in an industry should have been followed by a consideration of the methods a government might use to control the dominant firm. The weakness of some answers was that one of the parts was hardly mentioned with too much time being spent on the part that was chosen. For the first part there should have been an analysis of a possible lack of efficiency due to overproduction or under production. There could be higher prices, lower output, higher profits. The second part could have considered methods such as taxes, subsidies, requiring licences, regulation, permits, providing information, 'nudge' incentives or nationalisation.

Question 3

- (a) This question required an explanation of consumer equilibrium. Either marginal utility analysis or indifference curves could have been used. One relates the equilibrium directly to a point on the demand curve, the other does not. Both determine the maximum satisfaction for a consumer. It was expected that mention would be made of the equi-marginal principle and that candidates would consider choices between two goods. An analysis of what might happen when the price of one of the goods changes would have substantiated the answer. Weaker answers only gave the static equi-marginal principle equation.
- (b) Candidates understood that with indifference curves there could be a distinction between income and substitution effects and attempted to show how a change in price would cause a change in demand that could be split between these two effects. However, the diagrams supporting the answers were not always clear and the text explaining the diagram did not help. The better answers gave very clear diagrams and the text amply developed the analysis contrasting the luxury good with the inferior good. The weaker candidates confused the income effect with the substitution effect or drew diagrams with indifference curves that crossed each other so that the equilibrium point was uncertain.

Question 4

- (a) There were some clear answers distinguishing between a merger of a firm and the operation of a cartel where the member firms retained their independence. The explanation of integration included comments on vertical and horizontal integration the purpose of which could be to increase size of firm, to ensure supply of inputs, to control sales outlets or get better access to customers. This was contrasted with the organisation of a cartel where a group of firms remained independent but worked together. The aim of the cartel might be to achieve higher profits, control the market by fixing prices and/or quotas. Answers mentioned that cartels were illegal but integration was not illegal.
- (b) It was expected that candidates would consider whether costs necessarily fall, whether consumers necessarily benefit if they do, whether there is no place for small firms and then make a conclusion about the statement. The weaker answers dwelt on one or two aspects of the question and did not consider all three parts. When this happened, it was often because too long was spent on describing and explaining economies of scale, or, alternatively, outlining the reasons why small firms have a role to play in any economy. The balance of the answer and a conclusion to the question of whether the candidate agreed with the statement was lost.

Question 5

- (a) Good answers explained that liquidity preference is that part of an individual's assets that are held in cash rather than government securities or other assets. They referred to key determinants such as the level of income and interest rates. The assumptions that underlie the theory of liquidity preference were mentioned and a discussion of the link between liquidity preference and interest rates was given.
- (b) It was expected that responses would explain the traditional theory of the relationship between interest rates and savings/investment. If there were a surplus/deficit in relation to savings and investment, it was assumed that interest rate adjustment would ensure that these two would return to equilibrium. Keynes argued that savings were more likely to be determined by the level of

individual's income and investment was more likely to be determined by investor confidence. Hence, there was no reason to support the view that interest rates will return to equilibrium based on changes in interest rates. This was not a popular question but those who answered it gave good explanations of the statement in the question and presented a conclusion at the end of the answer.

Question 6

- (a) This question was answered by many candidates. The first section was well done. Candidates mentioned that economic growth can be defined as the change in real GDP in a specific time period. Measurement would require a monetary measure of the value of GDP using either income, expenditure, or output method. The weaker answers dwelt on this part and did not develop an answer to the second part of the question about the importance of the measurement. Those that did consider the importance wrote about the relationship between changes in measured real GDP, changes in wealth and subsequent changes in living standards. Also, it was recognised that this measurement was important because it allows some assessment of the performance of the economy and the ability to compare national economic performance with main international competitors
- (b) This question had two parts and it was expected that candidates would address both parts. The first part was presented with some good analysis. How far economic growth will decrease unemployment was discussed by linking growth to output, income and demand and thus employment. Some answers questioned whether economic growth will always reduce unemployment, they gave the example that new technology might lead to increase in output via increases in productivity, at the expense of jobs. The second part of the question required candidates to discuss possible conflicts between attaining economic growth and other macro aims, for example, controlling inflation and reducing balance of payments deficits. This section was not as well done and was omitted by some candidates, maybe because they spent too long answering the first part and needed the time to answer other questions.

Question 7

This question was answered by many candidates who gave good, reasoned answers that considered each part of the statement in the question. They produced responses that matched what was expected, namely that the answer should focus on examining the potential effects on a developing country of each of the three IMF requirements referred to in the question. They considered in each case whether the negative effects of these requirements might be greater than any benefits associated with the loan. For example, the requirement to remove restrictions on imports might cause balance of payments problems, that of focusing on exporting primary goods might lead to instability of income and low rates of productivity and that of devaluation might lead to cost push inflation.