ECONOMICS

Paper 9708/11
AS Multiple Choice

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

General comments

1923 candidates took this examination paper. The mean mark was 16.87 per cent. Almost half of the questions produced a correct response rate that was lower than 50 per cent. Candidates dealt with the macroeconomic items less effectively; 10 out of 15 macroeconomic responses were answered correctly by less than 45 per cent of the candidates. For the microeconomic questions, no response was answered incorrectly by less than 45 per cent of the candidates.

Questions 1, 7 and 13 were answered most successfully (above 80 per cent). These questions covered the full range of skills and syllabus topics, although most of these responses related to microeconomic issues. This followed a similar pattern established in November 2020. Questions 18, 22, 23, 26 and 29 were answered correctly by fewer than 40 per cent of the candidates

Comments on specific questions

Question 22

Question 22 was answered correctly by 36 per cent of candidate who chose option D. The question required candidates to explain why an exchange rate rise might be beneficial in the long run when the sum of the price elasticities of demand for exports and demand for imports was greater than 1. Many candidates wrongly assumed that this was linked to the Marshall-Lerner condition and concluded that this would lead to an improvement in the balance of payments in the long run. However, the statement related an appreciation of the exchange rate, therefore B was incorrect. D was correct because an appreciation would make imported raw materials cheaper.

© 2021

Question 23

32 per cent of candidates correctly identified option **D** in response to **Question 23**. This question required candidates to use a table to distinguish between the two terms disinflation and deflation. This difference is frequently misunderstood. Deflation means that the actual price level has fallen while disinflation means the rate of increase in the price level has fallen. The question required the candidate to identify the year in which the previous year, this took place. Option **D** identified the only year when this occurred, because although prices were rising, they were not rising as fast as the previous year.

Question 26

32 per cent chose the correct option **D** while the majority of 48 per cent wrongly chose option **B**. This question required candidates to use a table to decide the effect of a quota on the price of tractors and the domestic supply of tractors. The price would remain unchanged because a quota was used instead of a tariff, but the domestic supply of tractors would increase because a quota would reduce the supply of tractors imported, hence option **D** was correct.

Question 29

The question required candidates to use a diagram to demonstrate an understanding of the Marshall-Lerner condition and how it works in practice. The movement from X to Y on the diagram clearly illustrated the change from a deficit to a surplus on the balance of payments. This would occur provided the sum of the price elasticities of demand for imports and exports was greater than one. However, it was important that candidates recognised that this happens when the currency is depreciated, i.e. the sum of the two elasticities were greater than 1 but would have to have a negative sign to accurately identify the correct answer. In this case it was option **C** –2.0, not option **A** + 2.0. 42 per cent chose option A.

ECONOMICS

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

General comments

The mean mark of 18.47 was marginally lower than that recorded for the equivalent paper in November 2020. Overall performance across individual questions varied significantly. Candidates dealt with both macroeconomic and microeconomic questions equally well. 505 of candidates were able to gain a mark of 60 per cent and above. **Questions 1**, **9** and **24**, were answered most successfully (80 per cent or above).

Comments on specific questions

Question 8

50 per cent of candidates were able to answer **Question 8** correctly. This question required candidates to understand the formula for both the price elasticity of demand and the price elasticity of supply. Candidates were then given sufficient information to calculate, first, the percentage change in price, and then were expected to use this in conjunction with both price elasticity of demand and price elasticity of supply values to calculate the change in demand and then the change in supply. The difference between these two final figures would then represent either a surplus/excess demand or a surplus/excel supply. Option **D** which referred to an excess supply of 30 was correct. A significant number of candidates chose an excess of 20. This suggested a failure to consider the fall in demand when the price rose by 10 per cent

© 2021

Question 9

Question 9 was answered correctly by 89 per cent of candidates. This question required knowledge of factors which affect the supply and demand curves and an ability to apply knowledge and understanding by correctly interpreting a given diagram. It was clear that candidates had been particularly well prepared to answer a question of this nature.

Question 11

Question 11 was answered correctly by 47 per cent of candidates who chose option **D**. This question required candidates to be able to locate producer surplus, this would be done by sketching a supply and demand curve. Then establishing the link between a change in the elasticity of supply and a change in producer surplus. Producer surplus would be identified by the area between the horizontal price line, the supply curve, and the vertical axis. Then by sketching a change in the price elasticity of supply and showing it be less steep, one could then identify the new area representing producer surplus, this area would be less than the original area.

Question 14

35 per cent of candidates were able to correctly answer **Question 14**. This question was dealt with least effectively on the paper. This was surprising given that this question simply required candidates to be aware that a nationalised industry does not have shareholders, therefore no share dividends would have to be paid. Hence option A was the correct response.

Question 17

Candidates also found **Question 17** difficult. Only 47 per cent chose the correct option **A**. The question focused upon knowledge recall in relation to different types of taxation. This knowledge was tested by using a table which summed a range of different types of taxation. Candidates were required to calculate the total amount of revenue raised by indirect taxation. 31 per cent of candidates chose option **B** and based on the figures given in the table, one assumes that capital gains tax was wrongly included in the final calculation. Capital gains tax is not an indirect tax.

ECONOMICS

<div>

Paper 9708/13

AS Multiple Choice

</div>

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

General comments

64 candidates took this examination paper the mean mark of 15.8 was significantly lower than previous cohorts. Overall performance across all candidates varied significantly, from 22 per cent to 81 per cent success rate. Candidates generally dealt with macroeconomic topics less effectively and this was consistent with performance over the last two examination sessions.

Question 11 (81 per cent), and **Question 13** (80 per cent) were answered most successfully. Both questions covered microeconomic topics. These questions covered knowledge recall and analysis based on a diagram

Questions 1, **16**, **24**, and **29**, were answered correctly by fewer than 31 per cent of the candidates. Three out of these four questions were based on the macroeconomic section of this syllabus.

Comments on specific questions

Question 1

In relation to **Question 1** a surprisingly large number of candidates were unable to identify the milk as a private good. It is a private good because resources are required to produce it and it can be sold on the free market. 30 per cent correctly identified option **C**. 45 per cent chose option **D**, i.e. that milk is a public good. This was probably due to associating the provider, in this case, a government with a public good. However, candidates should have been aware that key characteristics of a public good relate to being non-rival and non-excludable, these criteria would not apply to milk

Question 16

This was answered correctly by 22 per cent of candidates while 70 per cent of candidates chose the incorrect option **C**. The question required candidates to identify the total revenue received by a firm after receiving a subsidy. Those who wrongly chose option **C** failed to realise that when a subsidy is given, the firm keeps the benefit of the subsidy plus the sales revenue gained after the subsidy therefore the total revenue received was area OERY, i.e. option **A** not area OGNY, i.e. option **C**.

Question 24

22 per cent were able to correctly identify option **A** while 41 per cent incorrectly chose option **C**. This question required candidates to link their understanding of price elasticity of demand and supply to the impact on government revenue when a tariff on the import of cars was imposed. Most candidates recognised that when the tariff causes a price rise and demand is inelastic then the government's revenue would rise. Far fewer failed to recognise that when a tariff is imposed and the price rises, if the domestic supply of cars is inelastic, i.e. limited, there would be more imported cars each paying a tariff to the government, therefore government revenue would rise. Hence option **A** was correct.

Question 29

This was correctly answered by 30 per cent of who identified option **D**. 47 per cent chose option **B**. This question was a little more demanding because it required a Level 4 skill which meant candidates had to evaluate the **most** effective policy to address a deflationary situation. Option **D** would have been likely to have had more impact because removing uncertainty and increasing investment would have had the double impact of increasing both consumption and investment expenditure, whereas option **B** would be likely to stimulate consumer spending while **reducing** prices at the same time.

ECONOMICS

Key messages

- Candidates need to ensure they focus on the particular command word that is being used in a question, such as '**describe**', '**calculate**', '**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 direct provision of goods and services by the government prevents the price mechanism from working **effectively** or in **Question 3(b)** which required candidates to discuss the extent to which knowledge of the income elasticity of demand for its product was likely to be **more useful** to a business than knowledge of the cross elasticity of demand for its product or in **Question 4(b)** which required candidates to discuss how likely it was that monetary policy would be successful in reducing inflation in an **economy with a floating exchange rate**.
- It is also important that candidates understand the need to include the use of relevant diagrams in their answers where these are explicitly asked for in a question, such as in **Questions 3(a)** and **4(a)**.
- Candidates need to ensure that diagrams are correctly drawn and clearly labelled. There were several examples of poor labelling and, in some cases, no labelling at all. As has been pointed out above, diagrams were required in **Questions 3(a)** and **4(a)**, but there were other questions where diagrams could have been used to good effect to support an answer, such as **Question 1(c)**.
- It is important that candidates read the questions very carefully to avoid making an error in their answer. For example, in **Question 1(a)(i)**, some candidates described what happened in every quarter between **Question 1** 2017 and **Question 2** 2018 rather than describing the overall trend, while in **Question 2(b)**, some candidates wrote exclusively about the advantages and disadvantages of nationalisation or planned economies rather than about whether the direct provision of goods and services by a government would prevent the price mechanism from working effectively.

General comments

Diagrams were explicitly required in two of the questions in *Section B*; **Questions 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 word being used in the question. It is important that candidates do recognise whether they are being asked to '**describe**', '**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 how likely it was that monetary policy would be successful in reducing inflation in an economy with a floating exchange rate, and yet some candidates provided answers that made no reference to the existence of a floating exchange rate.

Comments on specific questions

Section A

Question 1: Compulsory Data Response

(a) (i) Most candidates were able to correctly describe the overall trend in Vietnam's current account balance between **Question 1** 2017 and **Question 2** 2018, stressing that it had generally increased or improved over the period with one exception, moving from a deficit to a surplus. Some

candidates, however, gave a description of what happened in every quarter. It is important that candidates understand clearly what is meant by a 'trend'.

(ii) The majority of candidates were able to correctly calculate the value of Vietnam's exports of fruit and vegetables to China in the first four months of 2018. The answer was US$1.001 billion.

(b) Many candidates were able to explain one possible demand factor and one possible supply factor that could have caused the increase in Vietnam's export sales of fruit and vegetables. Demand factors included an increase in income, more effective advertising, population growth and a change in tastes and preferences in favour of fruit and vegetables, such as in relation to healthy living. Supply factors included the use of more land, more favourable weather conditions, an increased use of technology and an increase in the efficiency of production.

(c) Many candidates were able to explain how complying with administrative burdens on trade could affect Vietnam's supply of fruit and vegetables for export, stressing that this would lead to higher costs of production which would shift the supply curve to the left, decreasing the amount available for export. Although a diagram was not explicitly asked for in this question, a number of candidates included one to support their explanation.

(d) The majority of candidates were able to discuss whether the risks of Vietnam relying very heavily on the Chinese market for the export of its fruit and vegetables were greater than the potential benefits. The discussion of the risks included the fact that a very high proportion of trade in fruit and vegetables was with China (77 per cent) and the possibility of a recession in the Chinese economy which could have a negative impact on demand for the products. The discussion of the potential benefits included a consideration of the relative security of trade in fruit and vegetables with China and the consequent effect of this on Vietnam's current account. Unfortunately, some candidates did not offer a conclusion, even though it was a '**discuss**' question.

(e) Some candidates made a good attempt to use aggregate demand and aggregate supply analysis to discuss the possible impact on Vietnam's economy of a sustained increase in its net exports. The discussions included both the potential advantages, such as an increase in incomes and employment, and the potential disadvantages, such as the fact that an increase in exports could mean that less was available for the domestic market. Unfortunately, as in **part (d)**, several 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 explain whether private goods, free goods and public goods would all be sold in a free market economy. The distinction between private goods and public goods was made clear by most candidates, using appropriate examples of each, but in many cases, there was a great deal of confusion as to exactly what was meant by a free good. For example, some candidates explained that a free good was something provided by a government that was consumed at zero price at the point of consumption, such as in the case of education. The better answers did make it clear that while private goods would be sold in a free market economy, this would not be the case with free goods or public goods because of the difficulty in establishing a market price for either. There were some good explanations of the 'free rider' problem in relation to public goods.

(b) In the second part of the question, candidates were required to discuss whether the direct provision of goods and services by a government would prevent the price mechanism from working effectively. Unfortunately, some candidates focused on the direct provision of goods and services by a government and wrote extensively about the features of either nationalised industries or planned economies or both. The focus of the question was the effective operation of the price mechanism and so candidates needed to discuss the operation of the price mechanism in terms of its functions of rationing, signalling and the transmission of preferences in the context of the direct provision of goods and services by a government. Most candidates provided little, if any, evaluation, although some candidates did try to exercise some judgement on whether such direct provision by a government would prevent the price mechanism from working effectively.

Question 3

(a)   In this part of the question, candidates were required to explain how consumer surplus was affected by a decrease in the price of a luxury product with many substitutes and of an essential product with few substitutes. Most candidates recognised that PED would be relatively more elastic in the first situation and relatively less elastic in the second situation and they then went on to explain that the increase in consumer surplus would be more significant in the first than in the second situation. The question explicitly required diagrams to be drawn to support the explanation, but these were not drawn very clearly by a number of candidates, and it was not always easy to see exactly which area was showing the consumer surplus.

(b)   In the second part of the question, candidates were required to discuss the extent to which knowledge of the income elasticity of demand for its product was likely to be more useful to a business than knowledge of the cross elasticity of demand for its product. Candidates were generally able to analyse YED in relation to normal and inferior goods and XED in relation to substitutes and complements, but there needed to be a clearer focus on the use of the two concepts by a business. As in **Question 2(b)**, little evaluation was provided by the majority of candidates in relation to the use of these two concepts by a business, despite the fact that there was a steer towards a conclusion in the wording of the question when it asked candidates to discuss which of the two concepts was likely to be **more useful** to a business.

Question 4

(a)   In this part of the question, candidates were required to explain, with the aid of a diagram, one demand factor and one supply factor that would cause the value of a currency in a floating exchange rate system to depreciate. A demand factor could be a fall in the demand for a country's exports, while a supply factor could be an increase in interest rates in other countries. Most candidates included an appropriate diagram to support the explanation, but these were often incomplete for two reasons. Firstly, in an exchange rate diagram, the vertical axis must clearly indicate that it is the value of one currency in terms of another and yet many candidates just wrote price. Secondly, it is important that the change in equilibrium is shown in the diagram to indicate the depreciation.

(b)   In the second part of the question, candidates were required to discuss how likely it was that monetary policy would be successful in reducing inflation in an economy with a floating exchange rate. There were some good descriptions of the use of contractionary monetary policy as a way of controlling inflation in an economy, but there needed to be more consideration of this in relation to a floating exchange rate. As in **Questions 2(b)** and **3(b)**, only a minority of candidates offered a sound evaluation in terms of exercising some judgement on how likely it would be that monetary policy would be successful in reducing inflation in an economy with a floating exchange rate.

ECONOMICS

Paper 9708/22
AS Data Response and Essay

Key messages

- Data response questions are compulsory and may arise from any part of the syllabus. It is therefore essential that all elements of the syllabus are covered to be able to answer all parts of the set questions.
- To score well it is essential that candidates are able to apply their knowledge and understanding to the set questions. It is not enough to simply list elements of knowledge and understanding or to explain them without direct reference to the question. This refers to both data response and essay questions.
- Consequently, careful reading of the question requirements is essential to ensure that the answer provided is relevant and appropriate.
- 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.
- Evaluative comment should be balanced and clearly drawn from appropriate analysis and sufficiently detailed to lead to a reasoned conclusion that answers the question.

General comments

Most candidates displayed a reasonable knowledge and understanding of economic concepts and theories tested. Marks would have been improved in many cases with improved focus on the questions that were set for example in **Question 3(b)**. In some cases, there were clear gaps in knowledge and understanding and this led to some answers being incorrect or far too vague to gain any credit. As referred to in the key messages, analysis must be relevant to the question, accurate and explained which was not always in evidence. In addition, even when analysis was thorough and well directed, evaluation was lacking as the evidence was not sufficiently discussed to reach valid conclusions that addressed the question. Consequently, where relevant, evaluation marks were often low, and many candidates continue to score no marks for evaluation.

Comments on specific questions

Section A

Question 1

(a) The data for this question was found in Table 1.1. This clearly showed that consumer prices had increased in each year for both Myanmar and Cambodia because for both countries the figures were positive. Furthermore, the data clearly also showed that the increase in consumer prices in Myanmar was greater in 2018 than it had been in 2016 whereas for Cambodia, the increase in consumer prices was smaller in 2018 than it had been in 2016. The question set was to compare the changes in the price level for both countries between 2016 and 2018. Many candidates incorrectly stated that prices had fallen in Cambodia between the two years and failed to recognise that it was the rate of increase that had fallen rather than the price level. Such answers gained no credit. Some other responses either attempted to describe the changes in each year rather than comparing the change between the two years or attempted a mathematical manipulation of the data that was completely unnecessary. Unfortunately, full mark answers were rare because of a lack of data handling/comprehension skills.

(b) This question was answered better than the preceding one. Most answers recognised that the negative signs in Table 1.2. meant that both countries were experiencing a current account deficit rather than simply stating both had negative balances. However, most failed to recognise that

these figures were not absolute values but that they showed percentages of national income and that consequently, the absolute values could not be directly compared. This meant that most did not gain full marks as candidates often asserted that the deficit was higher in Cambodia which could not be ascertained from the data itself, only that the deficit was higher in Cambodia as a percentage of national income. Again, this results from a lack of data handling/comprehension skills

(c) The question asked for an explanation of two policies that could be used to improve the competitiveness of rice sold by Myanmar and Cambodia in the EU market. The word 'policies' suggests actions by the respective governments of Myanmar and Cambodia, although actions by the EU were also accepted. This was generally well answered and most at least referred to the use of subsidies as quoted in the text. Many referred to a policy of devaluation, although a significant minority referred to this as depreciation which is not a policy unless linked to a specific government action to manipulate the exchange rate downwards. Unless the link to government action was made clear, depreciation was not accepted. Most candidates gained at least two marks for an explanation of subsidies, and many did gain full marks by also referring to (usually) supply-side policies to improve competitiveness

(d) Candidates were asked to discuss two factors that will determine the extent of the impact of the EU tariffs on the economies of Myanmar and Cambodia. The key words were 'discuss', 'factors', 'extent', and 'economies'. PED is an obvious factor, and many did refer to it and better answers clearly distinguished between an elastic and an inelastic measure and were able to explain the impact on the level of exports in each case and how this would impact the economy, normally by reference to the balance of trade. Less effective answers had vague conclusions and a common error was to state that an inelastic PED would mean export revenue would rise which is incorrect in the context of a tariff. The asserted impact on the economy was often that it would get worse or improve with no reference to the part of the economy affected and therefore did not receive a third mark. There were also occasional and irrelevant references to the Marshall-Lerner condition and the J curve effect which received no credit as the question was focused on the impact on exports from Myanmar and Cambodia into the EU and not imports from the EU. Cross-elasticity of demand was also often cited as a factor although this was often a direct copy from the text and the words 'extent to which EU consumers consider rice to be a good substitute for Cambodian rice. Consumers in Europe may not mind paying a bit more for Cambodian rice.' were regularly seen. Direct copying from the text cannot be credited unless it is used as a direct quotation and applied accordingly. Other less effective answers ignored the word 'factor' and simply described the effects of a tariff which although accurate, did not answer the question. For these reasons, full marks were rare although there were some particularly good answers where candidates had clearly read and understood the question and could clearly explain and evaluate the extent of the impact for two separate factors.

(e) Most candidates were able to recognise that this was a question discussing the benefits of free trade. Better responses focused on standard type answers i.e., the benefits and drawbacks of free trade and at least made direct reference to the market for rice. Less effective answers ignored the fact that the market was for rice and were often vague as to which countries were affected. An additional common misconception was to assume that the EU was one country and to discuss the impact in those terms. Many did gain most of the analysis marks though, but evaluation once again was mainly weak. It was often ignored or simply a summary of what had already been discussed or a vague reference to it being a good or a bad thing. Candidates were expected to evaluate the relative strengths of both sides of the argument and arrive at a reasoned conclusion related to the EU market for rice. This skill needs to be emphasised for future series.

Section B

Question 2

(a) This question was generally very well answered, and most candidates were able to explain what a demerit good is and how an indirect tax would shift the supply of a good to the left because of an increase in the cost of production thereby raising the price and reducing demand. Less effective answers often resulted from vague knowledge and understanding of the meaning of a demerit good and the link to overconsumption. Consequently, the reference to a fall in consumption of demerit goods and an improvement in the allocation of resources in the market for sugar sweetened drinks for the final two marks, was often unclear. Occasionally, candidates incorrectly still state that an

increase in price will shift the demand curve to the left which of course also means that any diagram drawn will also be incorrect.

(b) Good answers focused on answering the question that was set and analysing the effectiveness of policies in improving public health rather than describing how the policies work. Much time was spent for example in drawing a minimum price diagram but not analysing how a minimum price might reduce the consumption of demerit goods to improve public health. Likewise, candidates often showed a surplus on the diagram but the significance of this was not explained in any meaningful analysis. Candidates do need to understand that a clear diagram is a tool rather than analysis and needs to be explained in the context of the question. Alternative policies often focused on the use of information provision and the best answers explained this in economic terms such as nudge theory and the impact on demand rather than just asserting that letting people know about the negative effects of consumption would make people demand less. Evaluation was often very brief and not particularly well directed towards answering the question. A common evaluative comment was to combine both policies is the best solution which may be true but needs to be explained after a comparison of the effectiveness of both policies. The best answers often made direct and accurate reference to short and long run effectiveness.

Question 3

(a) This was an extremely popular question and proved to be very accessible to most candidates. The concept of cross elasticity of demand is clearly well understood and many candidates achieved full or close to full marks. Poor answers were rare, and they often related to an unclear understanding of the concept which led to errors in applying the knowledge. Examples of errors included an inversion of the formula and its meaning and an incorrect application of the values of a complement and a substitute i.e., a positive value for a complement and a negative value for a substitute. This suggests an attempt to learn the concept rather than to fully understand it.

(b) Similar questions have been asked many times previously but unfortunately, common problems in answering this type of question persist. Good answers focused on the use of the concepts of income elasticity of demand and price elasticity of demand for an entrepreneur specifically in a time of falling incomes and recession. Far too many candidates explained at length the various price elasticities of demand and the meaning of normal, necessity, luxury, and inferior goods but not in the context of the question. As a result, much time was wasted with many diagrams which often had little relevance as their use to an entrepreneur in a recession was often not referred to or merited a noticeably short reference. Of the two concepts, income elasticity of demand was often applied more successfully to this situation but not always very convincingly. Evaluation was exceedingly rare beyond an assertion that one was better than the other or that they should be used together. Responses to this part reinforce the need to read the question fully and answer the one that is set rather than simply writing out elements of knowledge that are not properly analysed in the context of the question.

Question 4

(a) This question was generally very well answered, and most candidates understood what the term deflation meant, and explanations were often clear and concise. Diagrams were often clear and accurate and were used to show how a fall in aggregate demand and aggregate supply respectively would lead to deflation. The possible causes of both a fall in AD and AS were also often correctly identified. The most common errors leading to a loss of marks were to use micro analysis and label diagrams as P and Q and the curves as S and D but overall, such responses were still comparatively rare.

(b) This question expected candidates to analyse how both monetary and fiscal policy could be used to boost AD and therefore induce a degree of demand-pull inflation to solve the problem of deflation. There were some excellent responses that recognised both the strengths and weaknesses of both policies and the need to also consider the significance of AS and spare capacity. Really good answers also considered the degree to which both policies may have supply side effects and therefore offset any inflationary impact. Less effective answers simply explained how both policies may raise AD without necessarily developing these explanations to analyse how the problem of deflation may be solved. Some of these responses suggested that a weakness of expansionary policies was that they would create inflation which is a standard response but not relevant for this question – that is the aim of the policy in this context and is not a weakness. The better responses invariably led to some excellent evaluation that considered the effectiveness of

both policies both in the short and long run whilst the weaker responses had the usual conclusions that a mix of policies would work best or that an alternative, usually supply-side policy should be used. How this would solve the problem of deflation was not considered and it suggested a pre-learned answer to a quite different question about solving a problem of deflation. There were occasional errors in failing to accurately distinguish between monetary and fiscal policy or by incorrect references to contractionary policy when discussing expansionary policy, but these were rare.

ECONOMICS

Key messages

- There was a clear division in the level of knowledge and understanding displayed by candidates. Some candidates had excellent knowledge and understanding across the syllabus whereas for others, it was clearly incomplete and therefore it was not possible for them to apply relevant economic concepts, correctly apply and analyse them and form evaluative judgements. This emphasises the need for candidates to be fully prepared across all areas of the syllabus.
- Candidates need to read the questions carefully to ensure that their answers are appropriate and relevant to the question set.
- Analysis must be well directed and sufficiently developed to cover all aspects of a question. Assertions without explanation will not provide the analysis required to gain a good mark.
- Evaluative comment should be balanced and sufficiently detailed to lead to a reasoned conclusion. Comments must clearly be developed from relevant analysis and must be clearly used to answer the question that has been set.

General comments

As referred to in the key messages, some candidates produced scripts that displayed the required knowledge and understanding of the economic concepts tested and were able to apply these concepts where necessary. They were also able to develop analysis and make evaluative judgement and thus gain some excellent marks. An equal number of candidates displayed significant weaknesses in their grasp of economic concepts and exam technique and were thus unable to fully develop their answers to apply and analyse relevant economics knowledge and thus form appropriate judgements to gain good marks.

Comments on specific questions

Section A

Question 1

(a) (i) Candidates were required to examine simple data in Figure 1.1 with line graphs showing the trend in passenger journeys by bus within and outside London and by train. They were then asked to describe the changes over the period for bus journeys only. This was a simple opening question, and many answered it accurately although some went into excessive detail. Many referred to the number of buses rather than journeys although this was allowed if the meaning was clear. Many, however, struggled to make any sense of the data which suggests weak data handling/interpretation skills.

(ii) Many candidates appeared to find this question quite difficult because they did not realise what the graph in Figure 1.2 represented and interpreted it as an extension of Figure 1.1, i.e. the number of journeys by each type of transport, when in fact it represented the cost as measured within the overall CPI over the same period. Explanations for the changes identified in the previous question were then obviously confused and few candidates gained any marks for this question. Again, this reflects weak data handling/interpretation skills.

(b) Few candidates attempted a definition of what opportunity cost measures although application using the data was in evidence in most responses to show some level of understanding. This was rarely enough to gain both marks as there was insufficient clarity of understanding that it is the cost of the next best option foregone.

(c)   The concept of free goods has rarely been examined but it is on the syllabus. Many candidates took it literally i.e., a good with no price or more confusingly suggested it is a public good and went on to define it in those terms. Many candidates who did gain a mark did so almost accidentally by referring to the fact that it did come at a cost to the government/taxpayer. This does emphasise the need to cover all parts of the syllabus.

(d)   Generally, the question was quite well answered by most candidates who knew what a minimum price was and the impact of price elasticity of demand in making it less effective. Fewer candidates were able to discuss the surpluses that may arise and the consequence of informal markets along with the cost to the government of enforcing the legislation. Justified conclusions were often rare because analysis was often basic. It did tend to be the best answered data response question though and most candidates did gain some marks.

(e)   Most candidates did focus on the idea of a good being made free and the costs to the government. Economic analysis was rare though and very few understood the idea of 'the best way' and consequently did not analyse alternative policies and therefore also missed the opportunity to gain an evaluation mark. Candidates do need to be reminded that if a question asks whether a policy represents the best way, this suggests another method should also be analysed and compared. Other policies that could have been considered were subsidies, maximum pricing, transfer payments for public transport users but these were rarely referred to. Some candidates did suggest using the money spent providing free public transport on upgrading or expanding seats to generate more demand and this was credited.

Section B Essays

Question 2

(a)   This was reasonably well answered although there was often confusion with price elasticity of demand. Also, another common misconception was that the concept of cross elasticity of demand measures the responsiveness of a change in demand for one product to the change in demand for another with no reference to the change in price of the other product. This is clearly an example of attempting to learn a concept without really understanding it. Better responses were able to show good knowledge and understanding and could apply this accurately to both substitutes and complements. The significance of the size of the coefficient in each case was recognised by better candidates but in most cases, this was ignored or glossed over.

(b)   Candidates who attempted this question were normally able to discuss the effectiveness of an indirect tax on government revenue normally using the concept of price elasticity of demand. The main difficulty seemed to be with the second part of the question; how it might reduce tourist numbers. Many candidates simply resorted to repeating the question and making assertions about the impact on tourist numbers. Very few candidates discussed alternative methods of achieving the same objectives and consequently, evaluation was often very weak. Clearly most candidates understood some of the advantages and disadvantages of using indirect taxation to raise government revenue but not for the purpose of reducing consumption which was odd as the same analysis would cover both sides. It appears the aim to reduce tourist numbers had been ignored in most answers suggesting that the question had not been read properly.

Question 3

(a)   Precise knowledge and understanding of the meaning of aggregate supply was rare although the meaning was often sufficient to gain a mark. This however is a key area and candidates should be able to explain the term beyond vague statements. The distinction between short run and long run aggregate supply was less well explained and understanding was only shown in the application and analysis via the examples chosen. Diagrams were not required although they were frequently used but often did not clearly show SRAS and LRAS and many were drawn from a microeconomics perspective. This is a key part of the syllabus, although it is not frequently chosen as an examination topic, and this lack of preparation was evident in the responses seen. Most candidates who attempted this question scored low marks due to a lack of precision and distinction between the short and long run,

(b)   This was a standard question, and many candidates were able to gain reasonable marks. Once again, a diagram was not required although it was clearly helpful to draw an accurate AD/AS diagram showing a shift to the right of the AD curve to highlight outcomes such as an increase in the price level, output, employment etc. Those candidates who did draw accurate diagrams were able to do so although the analysis tended to be narrowly focused on simple statements about employment and inflation. Once again, there was a very wide variation in the quality of responses, and evaluation that clearly addressed the question as to whether an increase in AD would be of overall benefit to an economy after addressing both sides was rare. The weakest responses did not get beyond a vague understanding of what AD measures which does suggest limited syllabus knowledge.

Question 4

(a)   It is not possible to comment on candidate responses as less than 10 candidates attempted this question, and the answers were extremely limited in scope. The question itself should have been accessible as it only required a knowledge and understanding of what a free trade area is and how it differs from a customs union. The application and analysis should have been focused on the benefits of free trade and candidates were only required to explain two reasons why countries might want to move to free trade. This topic is well covered within the syllabus.

(b)   A possible reason for the lack of popularity of this question was in the initial focus on importers and not on exporters. The question did, however, focus on the benefits of free trade which are a key part of the syllabus and merely asked candidates to analyse whether countries who imported more than they exported gained more than those countries for whom the reverse was true. Once again, more careful reading of this question would have revealed that this was a more straightforward one than it first appeared, Every response marked had low marks.

ECONOMICS

Paper 9708/31
A Level Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **4**, **5**, **7**, **19**, **22**, **27** and **28**. These questions were answered correctly by 70 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 **9**, **10**, **14**, **23**, **24** and **26**. These questions were answered correctly by fewer than 40 per cent of the candidates.

Comments on specific questions

Question 9

This was answered correctly by 35 per cent of the candidates who chose option **D**. 17 per cent chose option **A**, 28 per cent chose option **B** and 20 per cent chose option **C**. The monopoly profit would be the difference between the average revenue and the average cost multiplied by the output. Those who realised that there had to be a comparison between the average revenue and the average cost but chose option **B** chose the average profit.

Question 10

This was answered correctly by 31 per cent of the candidates who chose option **D**. 26 per cent chose option **A**, 25 per cent chose option **B** and 18 per cent chose option **C**. Marginal cost is the gradient of the total cost curve and this is minimised at output OQ_1 (option **D**). Average total cost (option **A**) is minimised at OQ_3 not OQ_2. Average variable cost must be minimised after the point of minimum marginal cost OQ_1 and before the point of minimum average total cost OQ_3 so neither option **B** nor **C** is correct.

Question 14

This was answered correctly by 24 per cent of the candidates who chose option **C**. 23 per cent chose option **A**, 32 per cent chose option **B** and 21 per cent chose option **D**. When there are positive externalities of consumption there will be underconsumption of a beneficial good in a market. The allocative efficiency is not achieved, and extra consumption should be encouraged, and the output increased.

Question 23

This was answered correctly by 38 per cent of the candidates who chose option **A**. 13 per cent chose option **B**, 44 per cent chose option **C** and 5 per cent chose option **D**. Increasing the budget deficit is likely to be the result of increased government spending which would potentially increase the GDP. The central bank buying government bonds would inject more money into the economy and have a potential increase in the GDP. Those who chose option **C** recognised that a reduction in income tax could result in an increase in GDP but maybe did not notice that in this option the central bank was selling bonds rather than buying them.

Question 24

This was answered correctly by 35 per cent of the candidates who chose option **D**. 9 per cent chose option **A**, 15 per cent chose option **B** and 41 per cent chose option **C**. The question asked what describes the multiplier process. The multiplier process describes a situation when a change in investment causes a greater change in National Income (option **D**). The question did not ask whether consumption and investment determine the National Income (option **C**) but what describes the multiplier process.

Question 26

This was answered correctly by 35 per cent of the candidates who chose option **A**. 28 per cent chose option **B**, 18 per cent chose option **C** and 19 per cent chose option **D**. Quantitative Easing is when the central bank purchases from the public to inject more money into the economy. Its aim is a long-term change in interest rates. The bank purchases long-term debt from the public (option **A**).

ECONOMICS

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

General comments

The questions for which most candidates selected the correct answer were **2**, **4**, **11**, **18**, **22**, **29** and **30**. These questions were answered correctly by 75 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 **3** and **21**. These questions were answered correctly by fewer than 45 per cent of the candidates.

Comments on specific questions

Question 3

This was answered correctly by 44 per cent of the candidates who chose option **C**. 12 per cent chose option **A**, 8 per cent chose option **B** and 36 per cent chose option **D**. The question asked about a decision that wanted the highest return of social benefit relative to private cost. The excess of total benefit over private cost for options **B**, **C** and **D** are all the same at $15million. The private cost, however, is the lowest for option **C**, so the greatest benefit relative to private cost is option **C**.

Question 21

This was answered correctly by 11 per cent of the candidates who chose option **B**. 27 per cent chose option **A**, 47 per cent chose option **C** and 15 per cent chose option **D**. Those included in a calculation of unemployed must be able and willing to work. Not everyone who is of working age is able and/or willing to work. They may not be included in the number unemployed because, for example, they may not wish to work, because they are studying, because they are looking after a young family at home.

ECONOMICS

Paper 9708/33
A Level Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **4**, **5**, **7**, **11**, **13**, **15**, **17**, **19**, **25**, **27** and **28**. These questions were answered correctly by 55 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**, **14**, **21** and **26**. These questions were answered correctly by fewer than 20 per cent of the candidates.

Comments on specific questions

Question 10

This was answered correctly by 9 per cent of the candidates who chose option **D**. 36 per cent chose option **A**, 41 per cent chose option **B** and 14 per cent chose option **C**. Marginal cost is the gradient of the total cost curve and this is minimised at output OQ_1 (option **D**). Average total cost (option **A**) is minimised at OQ_3 not OQ_2. Average variable cost must be minimised after the point of minimum marginal cost OQ_1 and before the point of minimum average total cost OQ_3 so neither option **B** nor **C** is correct.

Question 14

This was answered correctly by 18 per cent of the candidates who chose option **C**. 32 per cent chose option **A**, 14 per cent chose option **B** and 36 per cent chose option **D**. When there are positive externalities of consumption there will be underconsumption of a beneficial good in a market. The allocative efficiency is not achieved and extra consumption should be encouraged and the output increased.

Question 21

This was answered correctly by 18 per cent of the candidates who chose option **D**. 32 per cent chose option **A**, 36 per cent chose option **B** and 14 per cent chose option **C**. The first three options are incorrect. Depreciation has not been considered in the calculation of the GDP (option **A**), it is not expected that all firms should earn only normal profits (option **B**) and net property income from abroad is available to citizens.

Question 26

This was answered correctly by 18 per cent of the candidates who chose option **A**. 36 per cent chose option **B**, 27 per cent chose option **C** and 19 per cent chose option **D**. Quantitative easing is when the central bank purchases from the public to inject more money into the economy. Its aim is a long-term change in interest rates. The bank purchases long-term debt from the public (option **A**).

ECONOMICS

General comments

The most popular questions were **2** and **4** for which there were some good responses. For other questions, such as **Questions 3** and **5**, some of the answers were not explicitly directed to the question asked but contained only a general account of the analysis. Most of the diagrams that were presented, particularly for **Question 3**, were clearly drawn. There were still some where it was difficult to determine crucial points on the diagram and some that were not explained at all in the text. When presenting a diagram, it is always advisable to use it to illustrate points in the text and not leave it to the reader try to determine the diagram's significance.

Comments on specific questions

Section A

Question 1

(a) Most candidates were able to nominate two macroeconomic aims and to explain what they meant.

(b) Candidates were able to use the text to give examples of the use of behavioural economics. They quoted the evidence given for encouraging job seekers to attend recruitment fairs, of encouraging people to pay taxes and of persuading people to save. The weakness of many answers was that they did not explicitly describe how these events could help public policy. There could have been a link to show a possible reduction in unemployment, a possible increase in tax revenue that might help reduce budget deficit or finance increased expenditure, and a possible reduction in consumer expenditure that might help curb demand inflation.

(c) Candidates were able to describe different types of efficiency. Many candidates covered productive, allocative, and dynamic efficiency. The weakness of some answers was that they did not then relate this information to the question which asked about inputs and outputs. Better answers suggested that the information about productive efficiency and its concentration on minimum costs could possibly be linked to inputs and outputs, but that allocative efficiency was not directly linked in that way.

(d) It was expected that candidates would discuss different economic indicators. It was hoped that a comment on some of GDP, GDP per capita, GNI, Human Development Index or Measure of Economic Welfare would be provided. There were some very good comments on these indicators from most candidates.

Section B

Question 2

Candidates were able to explain what was meant by a free market economy. They described how there was no government, how private firms provided goods and services and linked this to a comment on the allocation of resources. The weakness of some answers was that they then commented only on one aspect of the question, concentrating on whether the free market was either desirable or possible, but not both aspects of the question. Most concentrated on the desirability. Candidates mentioned some advantages of the free market and then described how there could be market failures. Having said that there was no government intervention in a free market, many answers then stated how government measures could be used to overcome these failures – with the proviso that even government measures could also fail.

Question 3

(a)   This was a popular question and candidates gave explanations of consumer equilibrium using either marginal utility or indifference curves. The weakness of some of the answers was that they did not relate this information to the construction of a demand curve, the presentation ceased at the description of a single point on the demand curve. Some answers confused consumer equilibrium with market equilibrium and described the equilibrium position in a market by explaining the intersection of demand and supply curves.

(b)   Some excellent answers were presented, with clear accurate diagrams, describing normal inferior and Giffen goods. Weaker answers described the income effect for a change in money incomes rather than real incomes caused by a price change and did not relate it to the substitution effect to see the overall price effect. The question did ask about a change in the price of a good, not a change in the consumer's money incomes.

Question 4

(a)   It was hoped that candidates would notice that the question asked about a profit-maximising firm and thus would write about the necessary information required to achieve a profit-maximising output. It was expected that candidates would write about the significance of marginal cost and the importance of considering average total cost in the long run and average variable cost in the short run. Very few answers commented on the significance of average variable cost in the short-run. Some answers gave very general answers about the need to keep a record of the cost of raw materials, cost of electricity and other inputs.

(b)   This question required an explanation of price discrimination and an evaluation of whether it is always possible together with a comment on whether there might be benefits from price discrimination, perhaps if it means the firm can continue operating to avoid shutting down. Good answers gave a full analysis of the different groups of price discrimination. They clearly explained when price discrimination was possible and considered its desirability. Many answers concentrated only on whether price discrimination was desirable and ignored the analysis of when it might be possible.

Question 5

In answering this question, candidates should have considered each part of the statement. The theory of wage determination should have been debated to determine whether it could explain wage differentials. Candidates should then have considered whether any differentials were the result of the power of a firm and lastly an opinion should have been given on whether they were unjust.

Candidates should have considered what is meant by 'differential'. Is it different wages for the same job between people with the same experience or different wages for different jobs, or different levels of experience? They could have commented on the fact that in imperfect competition (monopsony) wage rates may be lower than in perfect competition, but the differential might also be due to differences in supply and in the shape of the marginal revenue productivity curve. Differentials may also be due to differences in experience, in private/public sector pay and possible political issues in fixing wage rates.

Some good answers were presented but there were a considerable number of responses that appeared to present a prepared answer on a different question. The theory was analysed, perfect competition was presented first, then imperfect competition, then the effect of a government fixing a minimum wage, then the influence of a trade union. No comment was made on whether different wage rates were just or unjust.

Question 6

(a)   This was not a popular question but there were some clear answers that distinguished between the national debt and the public sector budget deficit. The national debt is the cumulative amount of debt which consists of the total amount of money borrowed from the private sector and other purchases of government securities since the government began borrowing. Many answers suggested incorrectly that all this money was owed to other countries.

    The answers explained that the public sector budget deficit occurs when a government spends more than its income in a particular period, usually one year. Both national debt and public sector

deficit are important because of their potential effects on the macro economy. Interest has to be paid on the national debt and this has an opportunity cost regarding the use of scarce public sector resources. The budget deficit must be financed and this has important implications for the impact of this on key macroeconomic indicators.

(b) There were some good answers to this question that described how short run policy approaches can be divided into those based on increases in the level of taxation and those related to cuts in public expenditure. They also mentioned how long-term measures might relate to supply side policies used to achieve economic growth.

Question 7

(a) This was not a popular question. There were, though, some good attempts to explain that the quantity theory of money is based on the assumption that there is a direct relationship between a change in the money supply and the rate of inflation. The theory uses the equation $MV = PT$. This assumes that V is constant, and T is constant consistent with the full employment level of transactions. On this basis, any change in M (the money supply) will have a direct effect on P (the price level). There was some critique of these assumptions that pointed out that it is extremely difficult to measure the money supply and difficult to effectively control the money supply.

(b) There were some very good answers to this part of the question. They explained how the monetary transmissions mechanism links changes in the money market to changes in the goods market. Changes in the money supply will change interest rates which will have an impact on the level of investment. Ultimately this will change variables such as output and employment. Candidates were asked to discuss the analysis. An evaluative comment could have referred to the liquidity trap, an inelastic marginal efficiency of capital (MEC) curve, the effect of negative expectations on investment or a possible weak multiplier effect.

ECONOMICS

Paper 9708/42
A Level Data Response and Essays

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 candidates were able to articulate the analytical aspects within the context of the question. Others failed to fully develop the analytical aspects of the question or to 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 of its usual 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 badly drawn, or inaccurately labelled diagrams, or perfectly presented diagrams without any reference to them in the essay 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 standard of response was high.
- A number of 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) Many candidates correctly identified the market structure was an oligopoly from the text and that two companies made up the oligopoly. Some credit was given where candidates incorrectly identified the market structure but correctly extracted the number of firms. Had the candidates who identified the market structure as a monopoly gone on to explain their choice in terms of the institutional definition of having a market share of more than 50 per cent, full marks were available.

(b) Many candidates identified a higher level of competition as the starting point for their explanation. Good answers then developed how the entry of China into the aircraft manufacturing industry might adversely affect the existing firms.

(c) (i) Many candidates gained both marks on this part of the question with a clear definition and the identification of the $26 billion research and development expenditure. Some candidates ignored the questions requirement to use 'an example from the information'.

(ii) The diagrams drawn were generally accurate and clearly labelled with the average fixed costs (AFC) identified. The candidates understood the link between a fixed amount being divided by an increasing volume of output. Together many candidates scored maximum marks.

(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 two firms in oligopoly was required this could either be through price competition, a game theory approach or non-price competition. The better candidates were able to produce some or all of these aspects of competitive behaviour. Those candidates who concentrated on cartels or other forms of co-operative behaviour did not score well.

Question 2

Question 2 was a very popular question.

(a) Most candidates had a strong grip of defining and explaining the term 'efficiency' within the context of resource use and gained access to the highest marks. Diagrams whilst not required added to the clarity of many explanations and also raised the level of analysis.

(b) Candidates who identified, explained and analysed two forms of market failure had established the basis for a strong response. Those who went on to clearly explain and analyse how an appropriate government policy could increase economic efficient achieved the highest marks. Some candidates did not develop the level of explanation or analysis of either market failure or the policy suggested to 'solve' the problem. Only the very best candidates came to a conclusion.

Question 3

(a) This question required the candidate to demonstrate and understanding of the concept of indifference curves and the budget line to produce an individual's demand curve. A further requirement was that this had to be applied to an inferior good and so further analysis based upon the substitution effect and the income effect was necessary. The best candidates were able to combine these complex elements to produce a sound analysis. Candidates who omitted elements of this analysis or merely described those elements scored less well.

(b) Most candidates produced a clear definition of marginal cost, but many were less certain of the meaning of average variable costs. Those candidates who could use marginal cost to analyse the profit maximizing level of output and average variable cost to determine the short run closedown output point gained high marks.

Question 4

The question required candidates to direct their answers to examining the relationship between economic theory and real-world examples of wages differences. There were many examples where the candidates were able to apply their knowledge of wage theory to realistic contexts. The better responses provided a reasoned answer to both cases. Other candidates carried out good analysis of the case but responses to the second case were weaker. This question had relatively few pre-prepared answers.

Question 5

Good responses showed a wide range of knowledge of HDI, MEW and GNI and this was used to evaluate the relative value of the measures in providing an estimate of living standards. All candidates had a good understanding of GNI and compared it to HDI and/or MEW. Some, however, failed to make explicit links between the measures and the standard of living. In other cases, the knowledge base for HDI and MEW was limited thus making a complete analysis and evaluation difficult. Candidates should be made aware that detailed resources are available which allow an in-depth analysis to be made. As with other questions, those candidates who performed less well did so because of only partial analysis of the four elements of the question.

Question 6

Question 6 was a popular question.

(a) The best responses provided a reasoned explanation of at least three different causes of unemployment and were able to offer a considered explanation of which one was most likely to apply to a developing country. As countries develop in different ways it was the quality of the argument that was rewarded. Poorer answers either had fewer examples of causes of unemployment or the causes were defined rather than explained.

(b) Those candidates who read the question closely and recognised that a discussion was needed that compared unemployment as a policy objective to other possible policy objectives. Those who made such comparisons were fully rewarded. However, many candidates only suggested reasons for considering unemployment as an objective.

Question 7

(a) Candidates who provided an explanation of QE and its economic consequences together with a consideration of its effectiveness as policy in reducing the impact of recession were highly rewarded. Some responses were restricted to either defining or explaining what QE is and did not apply it to the context of a recession. Many did not appreciate the need for an evaluation of QE effectiveness.

(b) Those candidates who considered the impact of fiscal policy, monetary policy or supply-side policies on economic growth and the net effects of these policies on the government's budget were well rewarded. However, many candidates only considered the first part of the statement 'Policies to achieve economic growth…' and the range of marks available for such an answer was restricted.

ECONOMICS

Paper 9708/43
A Level Data Response and Essays

General comments

The most popular questions were **2** and **4** for which there were some good responses. For other questions, such as **Questions 3** and **5**, some of the answers were not explicitly directed to the question asked but contained only a general account of the analysis. Most of the diagrams that were presented, particularly for **Question 3**, were clearly drawn. There were still some where it was difficult to determine crucial points on the diagram and some that were not explained at all in the text. When presenting a diagram, it is always advisable to use it to illustrate points in the text and not leave it to the reader try to determine the diagram's significance.

Comments on specific questions

Section A

Question 1

(a)   Most candidates were able to nominate two macroeconomic aims and to explain what they meant.

(b)   Candidates were able to use the text to give examples of the use of behavioural economics. They quoted the evidence given for encouraging job seekers to attend recruitment fairs, of encouraging people to pay taxes and of persuading people to save. The weakness of many answers was that they did not explicitly describe how these events could help public policy. There could have been a link to show a possible reduction in unemployment, a possible increase in tax revenue that might help reduce budget deficit or finance increased expenditure, and a possible reduction in consumer expenditure that might help curb demand inflation.

(c)   Candidates were able to describe different types of efficiency. Many candidates covered productive, allocative, and dynamic efficiency. The weakness of some answers was that they did not then relate this information to the question which asked about inputs and outputs. Better answers suggested that the information about productive efficiency and its concentration on minimum costs could possibly be linked to inputs and outputs, but that allocative efficiency was not directly linked in that way.

(d)   It was expected that candidates would discuss different economic indicators. It was hoped that a comment on some of GDP, GDP per capita, GNI, Human Development Index or Measure of Economic Welfare would be provided. There were some very good comments on these indicators from most candidates.

Section B

Question 2

Candidates were able to explain what was meant by a free market economy. They described how there was no government, how private firms provided goods and services and linked this to a comment on the allocation of resources. The weakness of some answers was that they then commented only on one aspect of the question, concentrating on whether the free market was either desirable or possible, but not both aspects of the question. Most concentrated on the desirability. Candidates mentioned some advantages of the free market and then described how there could be market failures. Having said that there was no government intervention in a free market, many answers then stated how government measures could be used to overcome these failures – with the proviso that even government measures could also fail.

Question 3

(a) This was a popular question and candidates gave explanations of consumer equilibrium using either marginal utility or indifference curves. The weakness of some of the answers was that they did not relate this information to the construction of a demand curve, the presentation ceased at the description of a single point on the demand curve. Some answers confused consumer equilibrium with market equilibrium and described the equilibrium position in a market by explaining the intersection of demand and supply curves.

(b) Some excellent answers were presented, with clear accurate diagrams, describing normal inferior and Giffen goods. Weaker answers described the income effect for a change in money incomes rather than real incomes caused by a price change and did not relate it to the substitution effect to see the overall price effect. The question did ask about a change in the price of a good, not a change in the consumer's money incomes.

Question 4

(a) It was hoped that candidates would notice that the question asked about a profit-maximising firm and thus would write about the necessary information required to achieve a profit-maximising output. It was expected that candidates would write about the significance of marginal cost and the importance of considering average total cost in the long run and average variable cost in the short run. Very few answers commented on the significance of average variable cost in the short-run. Some answers gave very general answers about the need to keep a record of the cost of raw materials, cost of electricity and other inputs.

(b) This question required an explanation of price discrimination and an evaluation of whether it is always possible together with a comment on whether there might be benefits from price discrimination, perhaps if it means the firm can continue operating to avoid shutting down. Good answers gave a full analysis of the different groups of price discrimination. They clearly explained when price discrimination was possible and considered its desirability. Many answers concentrated only on whether price discrimination was desirable and ignored the analysis of when it might be possible.

Question 5

In answering this question, candidates should have considered each part of the statement. The theory of wage determination should have been debated to determine whether it could explain wage differentials. Candidates should then have considered whether any differentials were the result of the power of a firm and lastly an opinion should have been given on whether they were unjust.

Candidates should have considered what is meant by 'differential'. Is it different wages for the same job between people with the same experience or different wages for different jobs, or different levels of experience? They could have commented on the fact that in imperfect competition (monopsony) wage rates may be lower than in perfect competition, but the differential might also be due to differences in supply and in the shape of the marginal revenue productivity curve. Differentials may also be due to differences in experience, in private/public sector pay and possible political issues in fixing wage rates.

Some good answers were presented but there were a considerable number of responses that appeared to present a prepared answer on a different question. The theory was analysed, perfect competition was presented first, then imperfect competition, then the effect of a government fixing a minimum wage, then the influence of a trade union. No comment was made on whether different wage rates were just or unjust.

Question 6

(a) This was not a popular question but there were some clear answers that distinguished between the national debt and the public sector budget deficit. The national debt is the cumulative amount of debt which consists of the total amount of money borrowed from the private sector and other purchases of government securities since the government began borrowing. Many answers suggested incorrectly that all this money was owed to other countries.

The answers explained that the public sector budget deficit occurs when a government spends more than its income in a particular period, usually one year. Both national debt and public sector

deficit are important because of their potential effects on the macro economy. Interest has to be paid on the national debt and this has an opportunity cost regarding the use of scarce public sector resources. The budget deficit must be financed and this has important implications for the impact of this on key macroeconomic indicators.

(b) There were some good answers to this question that described how short run policy approaches can be divided into those based on increases in the level of taxation and those related to cuts in public expenditure. They also mentioned how long-term measures might relate to supply side policies used to achieve economic growth.

Question 7

(a) This was not a popular question. There were, though, some good attempts to explain that the quantity theory of money is based on the assumption that there is a direct relationship between a change in the money supply and the rate of inflation. The theory uses the equation $MV = PT$. This assumes that V is constant, and T is constant consistent with the full employment level of transactions. On this basis, any change in M (the money supply) will have a direct effect on P (the price level). There was some critique of these assumptions that pointed out that it is extremely difficult to measure the money supply and difficult to effectively control the money supply.

(b) There were some very good answers to this part of the question. They explained how the monetary transmissions mechanism links changes in the money market to changes in the goods market. Changes in the money supply will change interest rates which will have an impact on the level of investment. Ultimately this will change variables such as output and employment. Candidates were asked to discuss the analysis. An evaluative comment could have referred to the liquidity trap, an inelastic marginal efficiency of capital (MEC) curve, the effect of negative expectations on investment or a possible weak multiplier effect.