

# ECONOMICS

**Paper 9708/11**  
**Multiple Choice**

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

## Key message

Candidates must take time and care in reading questions to avoid confusing similar terms. They must be prepared to draw diagrams and do calculations to arrive at answers.

## General comments

The topics with which candidates were most successful were the production possibility curve, the classification of goods, changes in market equilibrium and the budget deficit. Difficulties arose in answering questions concerning price elasticity of demand and supply, world and domestic markets, direct tax rates, real income, floating exchange rates, and anti-deflationary policy. Generally there was an improved performance on items that involved diagrams and on average the scores on micro topics were higher than those on macro topics.

### Comments on specific questions

In **Question 7** as many chose option C (unitary) as the correct key B (perfectly inelastic). Candidates might have checked their answer by drawing a diagram with the nature of elasticity that they had selected.

The error in **Question 9** of the 41 per cent of candidates who selected option D was to apply a price elasticity of demand influence to price elasticity of supply.

Candidates struggled to interpret an unusual presentation of both a supply curve of domestic output and of imports in **Question 11**. The reasoning behind key B is that the change in the supply of imports will make them uncompetitive, so that at a higher domestic market price all demand will be met by fewer domestic supplies with no imports.

In **Question 16** only 32 per cent of candidates selected key B. Candidates who made errors could have calculated their own average and marginal figures for two levels of income above \$10 000, to show an increasing average rate and a constant marginal rate.

It is unclear why, in **Question 25**, as many as 55 per cent of candidates would believe that a country engaging in free trade would always have zero foreign currency reserves (option B). Key D is correct as any country's overall balance of payments position must always balance, so be zero.

In **Question 28** half of the candidates picked option D. This would result in more imports which would reduce aggregate demand via a lower  $(X-M)$  component. Key B is correct as a reduction in a budget surplus would mean a reduced level of withdrawals.

**Question 30** deals with the desire for an expansionary (anti-deflationary) policy. With key A, lower direct taxes raise income after tax, which increases consumption, while devaluation makes exports cheaper so raising their demand. Both raise aggregate demand and expand the economy. Those who preferred option B misinterpreted the effect of revaluation on export spending.

# ECONOMICS

**Paper 9708/12**  
**Multiple Choice**

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

## Key message

Candidates would benefit from working on the less obvious elements of tax and subsidy diagrams.

## General comments

The topics with which candidates were most successful were the production possibility curve, the mixed economy, the supply curve, changes in market equilibrium and trade protection. Particular difficulties arose with consumer and producer surplus, the impact of a subsidy and inflation data. The latter group involved a numerical element or diagrams.

## Comments on specific questions

With **Question 13** there was an even spread of responses which suggests an element of guessing, although the discrimination values suggested that it was understood by the stronger candidates. Candidates might have tackled this by drawing their own diagram of the impact of a tax and identifying the loss of surplus to both groups. More than \$100 million is lost (key D) as there is a deadweight loss. Candidates are not expected to know this term but can identify it by inspecting a diagram.

In **Question 15** more candidates opted for B than the key A. This misses the fact that B reflects the value placed on the extra output as it is shown as part of the demand curve.

The largest group of candidates selected A in **Question 21**. This cannot be deduced as the graph shows rates of change, not price levels. The average price of services rose continuously (positive change throughout) so was correct (key C).

Although 42 per cent of candidates answered **Question 22** correctly (key D), almost as many chose option B. The point is that a balance of payments surplus is also disequilibrium: it does not only occur when there is a deficit.

# ECONOMICS

**Paper 9708/13**  
**Multiple Choice**

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

## **Key message**

Price elasticity of demand items involving a diagram or calculation produced a relatively weak performance.

## **General comments**

There was little difference in the standard of performance on micro and macro topics. The average score on written items was slightly higher than on numerical and diagram questions. However the small entry makes generalisations about performance less than certain.

## **Comments on specific questions**

There was an even spread of responses in **Question 7**. This can sometimes indicate guessing but the discrimination data confirmed that the stronger candidates did get it correct. The point of the question was that the value of price elasticity of demand for a normal demand curve falls as price falls and is elastic on the upper part of the curve and inelastic on the lower part. It was surprising that only 27 per cent knew this (key B) while 29 per cent believed just the opposite (option C).

**Question 30** concerned anti-inflationary policy. Option C was selected by 49 per cent of candidates, including some of the stronger ones. While the reduction of government spending will lower aggregate demand, this will be offset by increasing indirect taxes which will raise the price level. The overall outcome is indeterminate. Key A indicates that although government expenditure is raised it would directly lower the

price level through subsidies and is combined with lower import duties again lowering prices. Both policies work in the same direction.

While the performance on previously used items was usually in line with previous examinations, in the case of **Question 21** (retail price indices) and **Question 24** (the trade weighted exchange rate) the level of understanding was much higher than recorded before.

# ECONOMICS

Paper 9708/21  
Data Response and Essay

## Key messages

Candidates need to focus on the particular ‘command’ or ‘directive’ word that is being used in a question, such as ‘explain’, ‘discuss’, ‘assess’ or ‘consider’.

In the second part of the ‘discuss’ questions in **Section B**, a certain number of marks will be awarded for ‘evaluation’. In **question 2(b)** candidates were to discuss **whether it is better** to introduce an indirect tax **or** to adopt policies to improve consumers’ knowledge and understanding to deal with the problem of demerit goods. In **question 3(b)** candidates were to discuss the factors that determine **how much** an increase in aggregate demand **will affect** prices, employment and the balance of payments of an economy. In **question 4(b)** candidates were to discuss **the probable impact** of this exchange rate rise on the US economy and assess **whether it is likely to** benefit this economy overall.

Candidates need to ensure that diagrams are correctly drawn and clearly labelled. There were, unfortunately, a number of examples of poor labelling and, in some cases, no labelling at all. Diagrams were required in **question 1(c)** in **Section A** and in each of the three **part (a)** questions in **Section B**. It is important that candidates read questions very carefully to avoid making an error in their answer. For example, in **question 1(c)**, some candidates wrote about the imposition of a maximum price rather than a minimum price. In **question 1(d)**, some candidates wrote about different people all over the world who might have benefited from a trade war, rather than focusing on people in the US and in Mexico. In **question 2(a)**, some candidates wrote about producer surplus rather than consumer surplus.

## General comments

A diagram was explicitly required in one of the questions in Section A, **question 1(c)**, and in each of the three **part (a)** questions in **Section B**, but some candidates did not draw 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 ‘explain’, ‘discuss’, ‘assess’ or ‘consider’ something.

It is also important that candidates focus on whether there is any additional guidance provided in a question, such as in **question 1(d)**, where candidates were required to consider who, if anybody, in the US and Mexico might benefit from a trade war **despite the advantages of free trade**. Unfortunately, relatively few candidates considered the advantages of free trade, despite the explicit reference to these advantages in the question.

## Comments on specific questions

### **Section A**

#### **Question 1: Data Response**

- (a) (i) Most candidates were able to explain one possible reason for the change in the world sugar price between 2011 and 2013, such as a fall in incomes leading to a decrease in demand or an improvement in technology leading to an increase in supply.
- (ii) The majority of candidates were able to explain one possible reason for the difference in the price of sugar in the US and the world price of sugar shown in Table 1, such as higher costs of production in the US resulting from higher labour costs without a corresponding increase in the

level of productivity of the workers. Some candidates were confused, thinking that the price of sugar in the US was lower, not higher, than the world price.

- (b) (i) Many candidates were able to demonstrate a clear understanding of the meaning of ‘dumping’, stressing that it referred to a situation of selling in a foreign market at a price below the marginal cost of production in the home country. However, a number of candidates simply wrote that it meant a situation where products were being sold at a low price without making any reference to the cost of production. Some candidates seemed to think that it was only concerned with trade in low-quality products.
- (ii) A number of candidates explained that Mexican producers might have chosen to dump their sugar in the US market to undercut rivals in the short-term and then increase prices in the long-term once domestic producers had been forced out of the market and competition had been removed, i.e. the candidates demonstrated an understanding of the idea of predatory dumping.
- (iii) Many candidates indicated what would be required to enable an economist to decide whether the accusation that Mexican producers were dumping sugar in the US was justified. This would involve examining whether the price was below the cost of production in the home country or whether the low price was a reflection of the producer taking advantage of favourable factor endowments.
- (c) The majority of candidates were able to explain the likely impact on the US market for raw sugar if a minimum price higher than US\$0.21 had been imposed in 2013, using a diagram to good effect by showing the minimum price established above the market clearing price, creating a situation of excess supply. Unfortunately, some candidates wrote about the imposition of a maximum, rather than a minimum, price, showing this in the diagram below, rather than above, the market clearing price.
- (d) Many candidates made reasonable attempts to consider who in the US and Mexico might have benefited from a trade war, such as domestic producers, workers and consumers who would have been able to take advantage of protectionism, at least in the short-run. Unfortunately, relatively few candidates made any reference to the potential advantages of free trade, despite an explicit reference to such advantages in the question.

## Section B

### Essays

#### Question 2

- (a) In this part of the question, candidates were required to explain how the introduction of an indirect tax on a good would affect the surplus enjoyed by the consumers of that good. They were required to include a supply and demand diagram, and these were usually drawn correctly, showing a shift of the supply curve to the left and leading to an increase in equilibrium price and a decrease in equilibrium quantity. The diagram was used to good effect by many candidates who were then able to explain how this would lead to a reduction in consumer surplus, although the extent of this would depend on price elasticity of demand. Unfortunately, some candidates made errors and drew the diagram showing the supply curve shifting to the right, rather than to the left. Other candidates drew a diagram that showed a shift of the demand curve rather than the supply curve. Also, some candidates wrote about the effect on the producer surplus rather than the consumer surplus.
- (b) In the second part of the question, candidates were required to discuss whether it is better to introduce an indirect tax or to adopt policies to improve consumers’ knowledge and understanding to deal with the problem of demerit goods. Candidates generally demonstrated quite a reasonable understanding of demerit goods and understood that the introduction of an indirect tax would shift the supply curve to the left whereas the introduction of policies to improve consumers’ knowledge and understanding would shift the demand curve to the left. They pointed out that the success of an indirect tax would depend upon the price elasticity of demand for the product whereas the success of the policies introduced to improve consumers’ knowledge and understanding would depend on how much money was put in to such a campaign. There was also a recognition that it could take quite a long time to make any significant difference. Although many candidates wrote about the relative advantages and disadvantages of the two approaches, they did not always make it explicit which would be better, despite the explicit reference to this in the question.



### Question 3

- (a) In this part of the question, candidates were required to explain what was meant by equilibrium national income and to show how this equilibrium changed when there was an increase in aggregate demand. They needed to include a diagram to support their explanation and the majority of these were drawn very clearly, shifting the aggregate demand curve upwards and resulting in a higher level of national income. Unfortunately, some candidates labelled the curves D and S rather than AD and AS, while in a few cases no diagram was included. It is also important that in an AD/AS diagram, the vertical axis is labelled 'price level' rather than just 'price' and the horizontal axis is labelled 'real GDP' or 'real output' rather than just 'quantity'.
- (b) In the second part of the question, candidates were required to discuss the factors that determined how much an increase in aggregate demand would affect prices, employment and the balance of payments of an economy. A number of candidates pointed out that the impact of an increase in aggregate demand will depend on where the equilibrium occurs, i.e. above or below the full employment level of national income. This will determine whether the increase in national income is an increase in real national income or money national income. Candidates generally recognised that the effect on the balance of payments would depend on a range of factors, such as whether the economy is relatively closed or open. The evaluation offered by the majority of candidates was rather limited, despite the reference to 'how much' in the question.

### Question 4

- (a) In this part of the question, candidates were required to explain how exchange rates were determined in a free market and why an expected rise in interest rates in the US would cause the value of the US dollar to rise. They needed to include a diagram to support their explanation and these were drawn reasonably well by the majority of the candidates, showing an appreciation of the value of the US dollar. The majority of candidates were able to demonstrate an understanding of the fact that a rise in interest rates in the US would be likely to cause an inflow of funds into the US.
- (b) In the second part of the question, candidates were required to discuss the probable impact of the exchange rate rise on the US economy and to assess whether such a rise in the exchange rate would be likely to benefit the US economy overall. Most candidates pointed out that the appreciation would be likely to increase the demand for imports, as these would now be relatively cheaper, and decrease the demand for exports, as these would now be relatively dearer. A number of candidates referred to the importance of the price elasticity of demand in this context, bringing the Marshall-Lerner condition into their answer, and there were also a number of useful references to the J curve effect.

# ECONOMICS

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

Candidates must read each question carefully to make sure that answer the precise question that has been set.

It is essential that candidates are aware of the range of directive words used and how these can provide guidance on what the question requires.

Candidates must provide answers that are of an appropriate length given the mark allocation for each question. Some candidates wrote far too much in answer to questions with a mark allocation of only two marks.

Candidates must ensure that the analysis provided is appropriate for the question set. In some cases for example, micro-analysis was used where macro-analysis was necessary.

Candidates should always ensure that diagrams are fully and accurately labelled. In demand and supply analysis for example, where shifts in a curve occur, it is essential that the changes in equilibrium price and quantity that result are shown on correctly labelled axes.

When selecting which essay to answer candidates must ensure that they have the necessary knowledge and understanding of the relevant economic theory to enable them to answer both parts of the question. Far too often candidates scored a good mark on **part (a)** of an essay, but appeared ill equipped to answer **part (b)**.

Candidates need to be reminded that this paper will always include questions that require evaluative comment. If this is not provided where appropriate marks will be lost.

## General comments

Many candidates provided very sound answers that displayed excellent knowledge and understanding of the economic concepts tested together with the ability to apply these concepts and develop analysis that provided the foundation for evaluative comment where appropriate.

Unfortunately, a large number of candidates scored fewer marks because they did not use the material at their disposal to maximum effect. Many of the weaknesses have occurred amongst candidates in previous sessions and need to be addressed if standards of performance are to be raised.

## Comments on specific questions

### **Section A**

#### **Question 1: Data Response**

- (a) (i) In order to answer this question it was necessary to perform a simple calculation. This gave the result that there was an increasing deficit in the US balance of trade with India in both 2009 and 2014. Some candidates performed the calculation and provided an answer that simply showed negative figures as the answer, but this was not enough. Since this is an economics exam it is expected that economic terms be used where appropriate. Some candidates also wasted time providing extensive, over-long answers here. Candidates should be guided by the mark allocation when designing their answers to questions. It was sufficient simply to state that the US had a deficit in both years, and that this deficit had grown, to gain the two marks available.

- (ii) Many candidates ignored the India-US relationship requested by the question and instead copied out material from the extract concerning China and Argentina. These responses correctly identified valid factors but did not apply them to the two countries in question. Such responses provide an example of candidates missing out on marks because they did not read the question carefully.
  - (iii) Many candidates identified the balances in services, income flows and in current transfers and gained the marks available. A number of candidates confused the current account with the financial account and so failed to score.
- (b) (i) Some good diagrams were provided that were correctly labelled and which clearly showed the impact of an import duty upon the supply curve and the consequent effect on price. An alternative approach was to use the standard tariff diagram, although some who used this approach labelled the diagram incorrectly and missed out on a mark as a result. Some candidates gave a confused response showing a shift in the demand curve. Also, a disappointing number of candidates provided no response at all to this question, revealing gaps in their knowledge and understanding of this important area of the syllabus.
- (ii) Most candidates recognised that when an import duty is imposed on US cars the extent of the change in sales is determined by the price elasticity of demand for these products. There was considerable variation however in the extent to which analysis of this was developed. Many also provided inaccurate explanations. Some, for example, stated that if demand for US cars in China was price inelastic there would be no change in sales once the import duty was imposed. Others confused the response if demand was price elastic with the response if demand was price inelastic. As a result, many candidates gained only one of the two marks available.
  - (iii) Most candidates gained some credit here. The question had only a small mark allocation and, as a result, it was not necessary to provide a long answer to gain both marks available. Some very good, concise and relevant responses were seen but some answers lacked focus and gave very long and general explanations of the reasons for protection. In addition, some candidates confused export quotas with other methods of protectionism and failed to score as a result.
- (c) Many weak answers were provided. Some answers were unbalanced and explained only the justification for protectionist measures or alternatively reasons why protectionism could not be justified. This lack of balance meant that candidates were unable to provide a convincing conclusion after due consideration of both sides of the discussion. Many answers were also weakened because candidates considered only the examples of protectionism described in the text. What was required for a full answer was a consideration of the justification in more general terms. A further issue was the approach of candidates who provided an unexplained list of the arguments for and against protectionism with no developed explanation. This high mark allocation question resulted in many candidates gaining full marks, but a large number of candidates scored poorly.

## **Section B**

### **Essays**

#### **Question 2**

- (a) Candidates seemed to have a good grasp of what happens in the market for a product when the price of a substitute increases although in some cases there were areas of confusion in the construction of the diagram and the accompanying explanation. In some responses it was difficult to ascertain which diagram referred to which product when two diagrams were used in the explanation. Some candidates also made the error of shifting the supply curve as the demand curve shifted. A rather inaccurate and confused outcome was the result. Most candidates recognised that the relevant measure of the relationship was cross elasticity of demand and generally candidates illustrated their answer with application of the formula. The understanding shown by some candidates was incomplete, however, and application was not always full or accurate.

- (b) Many candidates seemingly did not consider the question requirements sufficiently carefully and often pre-prepared answers on demerit goods and the policies that could be used to reduce their consumption were seen. Another misconception that frequently appeared was that demerit goods are perfectly inelastic. Goods with many substitutes were often left unconsidered in the analysis offered. The main problem, however, was not an inability to explain the likely outcome of a price increase in the case of each good, but in identifying government policies that would benefit from such information. Far too often this aspect of the question was ignored with the consequent effect upon the overall mark. Most of the responses to this question failed to make any meaningful evaluative comment and attempts to provide a conclusion were often undermined by the limited analysis provided.

### Question 3

- (a) Most of those who did attempt this question showed good knowledge of the concept of price inelasticity of supply and the factors that influenced its value. However a reasonably large number of candidates used careless phrases when explaining the meaning of 'price inelastic'. They stated, for example, that if supply is price inelastic a rise in price would result in 'little', or, 'hardly any' change in the quantity supplied. At this level it is expected that candidates understand that price inelastic supply means that the percentage change in supply is less than the percentage change in price. This is a more accurate explanation of the term. A few candidates completely missed the point of the question and discussed price inelastic demand. Careful reading of the question is essential to ensure that mistakes such as this do not occur.
- (b) It was expected that candidates would refer to the factors they had explained in **part (a)** that made supply price inelastic in their answers here. They should then analyse and assess the effectiveness of policies that might be adopted by governments to address these factors and make supply more elastic. For example, a lack of appropriate resources might be addressed through supply-side policies to increase the quantity of factors that could be used in production. This would allow businesses to respond more rapidly to price changes. Other policies were also appropriate such as improving the supply and distribution of products from overseas that could be achieved by removing trade barriers or improving infrastructure. Some candidates missed the point and instead described policies that might result in a one-off shift of the supply curve to the right rather than considering policies that would increase the speed of response by suppliers to price changes. As with the previous question, evaluative comment was limited here.

### Question 4

- (a) Relatively few candidates scored well. Many described, often in considerable detail, the functions of money and the problems associated with the barter system of trade. This was not required for the question set. Candidates needed to identify 'what is used as money in a modern economy'. In a modern economy, money is made up of cash and bank deposits. These are generally accepted in payment of debt. Many candidates repeated a widely held misconception that cheques are a type of money. Cheques and electronic methods of payment are simply modern methods of transferring bank deposits. The second part of this question asked how an increase in the quantity of money can cause prices to rise and this was done much better by most candidates. Many answers, however, still had weaknesses. One was a tendency to provide the formula for the quantity theory, but the link between increases in the money supply and the consequent rise in prices was often asserted rather than explained.
- (b) Candidates produced a number of very good, thoughtful answers to this question, containing well-explained and appropriate analysis together with thoughtful evaluation. However, a large number of candidates scored low marks because their answers were poorly directed at the question set. Many provided over-long introductions focusing upon the causes, types and consequences of inflation and these were often accompanied with only a brief explanation of policies. The result was that answers were often unbalanced with only superficial analysis of possible policy options. This undermined attempts to evaluate the effectiveness of the policies and marks were not scored as a result.

# ECONOMICS

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

Candidates must ensure that they read the question carefully and provide an answer to the precise question that has been set.

It is essential that candidates are aware of the range of directive words used and how these can provide guidance on what each question requires.

Candidates must write answers of an appropriate length given the mark allocation for each question. Some candidates wrote far too much in answer to questions with a mark allocation of only two marks.

When selecting which essay to answer candidates must ensure that they have the necessary knowledge and understanding of the relevant economic theory to enable them to answer both parts of the essay. Far too often candidates score a good mark on **part (a)** of an essay, but appeared ill-equipped to answer **part (b)**.

Candidates need to be reminded that this paper will always include questions that require evaluative comment. If this is not provided where appropriate, the relevant marks will not be earned.

## General comments

Most candidates showed good knowledge and understanding of the concepts tested, but there was clear evidence of poor exam technique amongst a number of candidates. This limited the marks of many candidates. In addition, many failed to demonstrate the full range of skills required to do well. A large number of marks were also not gained by candidates because of apparent carelessness in reading and assessing the requirements of each question.

## Comments on specific question

### *Section A*

#### **Question 1: Data Response**

- (a) (i) The majority of candidates were able to apply the formula for price elasticity of demand and calculate the correct figure. Some applied the formula incorrectly, however, and did not score the marks. Some candidates, for example, inverted the formula and arrived at an incorrect figure. Others applied the formula correctly, but failed to multiply the resulting figure by 100.
- (ii) Most candidates were able to use the data to calculate that the price elasticity of demand for meat was elastic and the price elasticity of demand for flour was inelastic, gaining the marks available. Some, however, went on to explain why this was the case. This was not asked for in the question and candidates wasted valuable time as a result.

- (iii) The factor that was most commonly cited to explain the different elasticities of demand for meat and flour was the extent to which these products were necessities. Those who adopted this approach provided good explanations and scored well. Few discussed other factors, such as the availability of substitutes, or the proportion of income typically spent on each good. Weaker responses were confused and referred to normal and inferior goods. The distinction between these goods relies upon income elasticity of demand, rather than price elasticity of demand. Candidates who referred to normal and inferior goods scored poorly. Other less successful approaches identified a relevant factor but then failed to explain how this would result in different elasticities for the two products.
- (b) This question proved difficult for many candidates and the marks awarded were generally low. Many drew a diagram of the foreign exchange market showing a shift in the supply of roubles to the left. This would certainly increase the value of the rouble but this change was not indicated in the text. The actions of the Russian central bank as stated in the data involved selling foreign exchange reserves to protect the value of the rouble. This would mean that the demand for the rouble would increase. In diagrammatic terms this would be represented by a shift in the demand curve for the rouble to the right. The quantity of the rouble bought and sold would increase as a result of this. If the supply of the rouble had shifted to the left, as suggested by many candidates, the quantity of roubles bought and sold would have gone down. This is incorrect. Many candidates failed to demonstrate the required comprehension and application to score well here.
- (c) The answers here showed better comprehension on the whole, but they were generally superficial and also often too narrow. Many recognised the impact of the fall in remittances on aggregate demand. However, a common weakness was that the full impact of this change upon economic indicators such as the rate of unemployment, prices and the external account was not developed. Some better answers were provided that gave comprehensive analysis displaying good application of economic concepts – and they scored well – but this was a high mark allocation question and a large number of candidates did not give sufficient attention to its requirements for a good answer.
- (d) This question also had a high mark allocation but many candidates did not appear to grasp fully the requirements of the question. It was expected that candidates would consider the advantages and disadvantages of resisting free market forces in the market for a currency. Preventing a fall in the value of a currency will prevent the harm that results from imported cost-push inflation. It also gives encouragement to international investors who are unlikely to move funds into a currency that is losing value. The disadvantage is that there is no automatic mechanism to adjust the supply and demand for the currency and to adjust the external balance. Few discussed these issues in sufficient depth. This undermined the ability of candidates to provide effective evaluative comment and many gained a relatively low mark for this question as a result.

## **Section B**

### **Essays**

#### **Question 2**

- (a) Most candidates explained that market equilibrium occurs where demand equals supply and that disequilibrium occurs where there is excess supply or excess demand in the market. Candidates gained credit for distinguishing between equilibrium and disequilibrium in this way, but it was disappointing that only a few candidates were able to explain the meanings in more general terms. Equilibrium means there is no tendency to change. In the context of the market, this is where there is no tendency for price or quantity to change. The second part of this question was done well. Many candidates were able to explain with clarity how market forces operate to re-establish equilibrium when excess demand or excess supply is present.
- (b) The analysis provided by many candidates here was good. It was evident, however, that most candidates had a firmer grasp of how subsidies operate to increase consumption of merit goods, than of the idea of improved information. Few candidates illustrated the impact of improved information through a shift in the demand curve to the right as this took effect. Evaluation often focused on relative costs of each method rather than their likely effectiveness in reducing the under-consumption of merit goods. Some good answers did consider the price elasticity of demand for merit goods and how this would influence their consumption as subsidies took effect. Others made the valid point that each approach would differ in the time it would take before it became



effective. Many reached the conclusion that effectiveness was most likely to be assured if both approaches were adopted.

### Question 3

- (a) Most candidates showed the necessary knowledge and understanding of a production possibility curve and most diagrams were appropriately labelled. Most candidates had some idea of why these curves are usually drawn with increasing opportunity costs although there was considerable variation in the quality of the explanation provided. The second part of the question was less well done. It was expected that candidates would illustrate scarcity with reference to the fact that the economic problem is that we have unlimited wants and scarce resources in relation to these wants. This means that the production possibility curve is effectively a production frontier and scarcity means that points outside the curve are unattainable. In addition since resources are scarce as there is a movement along the curve more output of one good means that there is less output of another. There is an opportunity cost in terms of the alternative foregone. The answers provided sometimes suggested that candidates had learned a diagram that they did not fully understand. Although some excellent answers were provided, marks were on the whole fairly low for this aspect of the question.
- (b) Most candidates showed a good understanding of the economic problem and gained the credit available for this. Some candidates, however, did not seem to understand fully the requirements of the question and failed to go far beyond this. They often provided a rather vague and descriptive response that was lacking in relevant economic analysis. Evaluative comment was generally present, but the weakness of the underlying analysis meant that discussion was superficial. Some candidates did however develop a thoughtful discussion and scored a high mark.

### Question 4

- (a) Candidates produced some good answers. A number of candidates, however, attempted to explain the types of inflation from a micro-economic rather than a macro-economic perspective, resulting in the conceptual framework within which the answer was written being inappropriate for the question set. Nevertheless, this was quite well answered by most candidates who attempted the question, and some high marks were awarded.
- (b) This question was also quite well done. However a number of candidates chose to write seemingly everything they knew about the causes and consequences of inflation and anti-inflation policies. A more selective approach that directly answered the question set would have resulted in a higher mark. In addition, evaluation was often absent in many answers. A large number of candidates failed to provide a balanced consideration of the alternatives to reach a measured conclusion. Marks for evaluation were not earned as a result.

# ECONOMICS

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<p><b>Paper 9708/31</b> <b>Multiple Choice</b></p>
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>A</b>	16	<b>C</b>
2	<b>A</b>	17	<b>D</b>
3	<b>D</b>	18	<b>A</b>
4	<b>D</b>	19	<b>B</b>
5	<b>B</b>	20	<b>A</b>
6	<b>D</b>	21	<b>A</b>
7	<b>C</b>	22	<b>D</b>
8	<b>A</b>	23	<b>A</b>
9	<b>C</b>	24	<b>B</b>
10	<b>A</b>	25	<b>D</b>
11	<b>B</b>	26	<b>B</b>
12	<b>D</b>	27	<b>D</b>
13	<b>C</b>	28	<b>C</b>
14	<b>A</b>	29	<b>A</b>
15	<b>D</b>	30	<b>B</b>

## General comments

The questions for which most candidates selected the correct answer were **Questions 1, 2, 12, 17** and **20**. These questions were answered correctly by 60 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 **Questions 3, 6,** and **29**. These questions were answered correctly by 30 per cent or fewer candidates. The rest of the questions gave results which were well within the levels expected.



**Comments on specific questions**

**Question 3** was answered correctly by 26 per cent of the candidates who chose key D. 26 per cent chose option A, 32 per cent chose option B and 17 per cent chose option C. The candidates who chose option B were probably thinking of allocative inefficiency but the question asked about productive inefficiency. Imports might be raw material imports and not necessarily be a cause of productive inefficiency.

**Question 6** was answered correctly by 28 per cent of the candidates who chose key D. 19 per cent chose option A, 46 per cent chose option B and 7 per cent chose option C. Options B and C, which the majority of candidates chose, were about the shares. If the firm has shareholders they are not necessarily the managers. A payment of a high dividend to them would not necessarily be in the interests of the managers.

**Question 29** was answered correctly by 28 per cent of the candidates who chose key A. 30 per cent chose option B, 31 per cent chose option C and 12 per cent chose option D. The question asked about a situation where there was said to be 'overheating in the economy'. Overheating in an economy is a situation where the aggregate demand is increasing so fast that it cannot be met by the economy's productive capacity. This would occur if there were supply bottlenecks (key A).

# ECONOMICS

Paper 9708/32  
Multiple Choice

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

## General comments

The questions for which most candidates selected the correct answer were **Questions 1, 3, 11, 21, and 22**. These questions were answered correctly by 60 per cent or more of the candidates. They covered a range of topics from different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **Questions 6, 9, 13, 14, and 27**. These questions were answered correctly by 35 per cent or fewer candidates. The rest of the questions gave results which were well within the levels expected.

### Comments on specific questions

**Question 6** was answered correctly by 33 per cent of the candidates who chose key B. 18 per cent chose option A, 22 per cent chose option C and 27 per cent chose option D. If the firm has integrated either towards the supply of raw material inputs or towards the customer then it is more in control of its entire production process and it need not negotiate contracts with other firms (key B). The motive for integration is not necessarily that the firm wishes to concentrate on activities in which the firm has a comparative advantage, not that it will increase its market share.

**Question 9** was answered correctly by 33 per cent of the candidates who chose key D. 23 per cent chose option A, 18 per cent chose option B and 25 per cent chose option C. The incremental increase (measured by the slope of the curve) is lowest (or is flatter than elsewhere) at the point on the curve at output OQ2. Any deduction about average variable cost (options B and C) would have to be from a line drawn from the intersection of the TC curve and the vertical axis to the TC curve – to eliminate fixed cost – not from the origin. Average total cost is minimised at output OQ3 (option A).

**Question 13** was answered correctly by 25 per cent of the candidates who chose key A. 46 per cent chose option B, 8 per cent chose option C and 21 per cent chose option D. Those who chose option B may have been confusing monopoly and monopolistic competition. In monopolistic competition in the long run normal profits are earned. The demand curve for the firm in perfect competition is horizontal, but for monopolistic competition it is downward sloping so it is not more price-elastic (option D).

**Question 14** was answered correctly by 32 per cent of the candidates who chose key B. 7 per cent chose option A, 18 per cent chose option C and 43 per cent chose option D. Incomes depend on a variety of factors including productivity, skills, supply of labour, and demand for labour. All are within the scope of the market. The market does not work properly if there is imperfect information or if it can be distorted by monopoly influences. It does not work at all where there is non-excludability.

**Question 27** was answered correctly by 28 per cent of the candidates who chose key D. 11 per cent chose option A, 26 per cent chose option B and 35 per cent chose option C. The question asks about a time lag that might occur after it is recognised that there is a need for government economic advisers. Option C comes before that stage. The order would then be, select a policy (option D), introduce the policy to the situation (option A), monitor its effectiveness (option B).

# ECONOMICS

**Paper 9708/33**  
**Multiple Choice**

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

## General comments

The questions for which most candidates selected the correct answer were **Questions 1, 2, 5, 8, 12, 13, 20, 21, 23, 28, 29** and **30**. They covered a range of topics from different parts of the syllabus and were set to test different skills.

The questions that candidates found most challenging were **Questions 6, 14, 17** and **27**. The rest of the questions gave results which were well within the levels expected.

## Comments on specific questions

**Question 6** was answered correctly by 36 per cent of the candidates who chose key A. 9 per cent chose option B, 47 per cent chose option C and 8 per cent chose option D. There could still be integration (option C) of small firms. Integration does not necessarily mean that very large firms are created.

**Question 14** was answered correctly by 28 per cent of the candidates who chose key C. 24 per cent chose option A, 5 per cent chose option B and 44 per cent chose option D. Monopoly, pollution and public goods prevent the market system working properly (options A, B, D). The market can work but it may create poverty depending on the demand and supply of products and hence the demand and supply of labour and thus the level of incomes. This poverty may justify state intervention on equity or compassionate grounds but not because the market is not working.

**Question 17** was answered correctly by 34 per cent of the candidates who chose key A. 11 per cent chose option B, 52 per cent chose option C and 2 per cent chose option D. The number of workers is fixed by the point where MFC is equal to MRP but the wage is given by the AFC at that level of employment. The original market wage would be  $W_1$ . Fixing a level of wages between  $W_1$  and  $W_2$  would create a horizontal supply MFC/AFC line and employment would increase up to the point where that line crosses the MRP. Fixing the wage above  $W_2$  (option B) would create a similar horizontal line but that line would cross MRP at a lower employment level than the original. Option B would result in a decrease in employment not an increase.

**Question 27** was answered correctly by 38 per cent of the candidates who chose key A. 21 per cent chose option B, 30 per cent chose option C and 11 per cent chose option D. A surplus on the balance of payments (option A) would cause money to flow into the country. The other options would not increase the money supply.

# ECONOMICS

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<p><b>Paper 9708/41</b> <b>Data Response and Essays</b></p>
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## **Key messages**

Diagrams should be labelled clearly and explained in the accompanying written answer – not squashed into a corner of the page.

In questions where there are multiple elements to be addressed, candidates need to ensure that they fully answer the whole question.

## **General comments**

As last year there were some good answers to this paper and those candidates are to be congratulated on the use of their studies to achieve such marks. They presented well-balanced and clearly structured answers, accurately directed to the question and enhanced by relevant examples and applications where appropriate. There was an improved response to questions that required a conclusion as candidates summarised their answer and did not leave the Examiner to deduce a conclusion.

## **Comments on specific questions**

### **Section A**

#### **Question 1**

- (a) Where candidates knew the difference between monetary and fiscal policy they had no difficulty in identifying an example of each from the text. A minority of candidates confused the two terms and gave named fiscal examples as monetary policy and vice versa.
- (b) Candidates were able to comment on the cause of unemployment being technological change or new methods of production which required different skills that may not easily be achieved by the groups mentioned in the question.
- (c) The question referred to the idea that there might be a short run equilibrium which may not coincide with the sustainable full-employment level of real output causing aggregate demand to be insufficient. This proved difficult to represent on a diagram for the majority of candidates.
- (d) The policies that could have been mentioned included raising the minimum wage, increasing unemployment benefits, increasing money supply and increasing public sector jobs. One opinion thought that the new jobs would not be able to be taken by the unemployed because of lack of skills. Another opinion was that the creation of new jobs was a good policy and resulted in a long term increase in employment. This opinion also supported government investment, particularly as investment could be financed by relatively cheap borrowing. The evidence that was given in the article was largely about long-term job creation.

### **Section B**

#### **Question 2**

This question required an evaluation and discussion of an argument. Candidates should have considered the initial proposition in the question and commented on its validity. They should then have identified and described the necessary conditions for efficient resource allocation and considered whether they could be

achieved by the 'invisible hand' of the market. If they could not be achieved by the market, candidates needed to comment on whether this was because of the complexities of a modern economy.

Most candidates presented the case for the allocation of resources by the market system. That explanation did not always include a sufficiently rigorous analysis of economic efficiency. Most candidates also attempted to present a discussion of market failures and dealt with merit goods, externalities, public goods, lack of information and monopolies. The marks awarded depended on the precision of the explanation of efficiency, the range of market failures explained and the logical presentation of the information in relation to the question asked. There needed to be a conclusion as the candidates were asked whether they agreed with the argument.

### Question 3

- (a) This question required candidates to give an explanation of the construction of an indifference curve and the determination of consumer equilibrium with given income and given prices using budget lines. The ideas of indifference curves and the equilibrium were presented with varying degrees of clarity. What was not presented by most of the candidates was any attempt to link that equilibrium position to a point on a demand curve where quantity demanded is shown against the price of that same good.
- (b) This question proved a challenge to many candidates. They understood that a price fall can be reflected in a change in the budget line as a pivot from a point on the axis of the good with no price change. They also understood that this would cause a subsequent change in the consumer's equilibrium. What was not clearly presented was the idea that the equilibrium change involved a substitution and an income effect. The substitution effect would be in the opposite direction to the price change. The income effect represented by a parallel shift of the budget line would be in the same direction as the substitution effect for the normal good but in the opposite direction, and greater than, the substitution effect for the Giffen good.

### Question 4

This was another question that presented an assertion. Candidates needed to discuss whether the theory does explain differentials in wage rates, and comment on the conclusion presented. The examples given could have been used to illustrate the answer, reference could have been made to the private/public sector examples and possible political issues in fixing wage rates. While a good number of candidates presented clear analytical answers there were a considerable number of answers that gave generalities about the difficulties of the two jobs mentioned and the number of people available to do them.

As has been mentioned before in these reports, questions on the theory of labour and the fixing of wage rates expect the use of marginal revenue productivity theory where appropriate, rather than the more simple demand and supply diagrams.

### Question 5

- (a) For this question candidates needed to comment on the link between the firm and industry, the importance of marginal cost and marginal revenue, the possibility of abnormal profit in the short run and the changes in demand or supply resulting in normal profit in the long run. Candidates were able to demonstrate a knowledge of the maximum profit position of a firm in perfect competition. The link to the industry was omitted by some candidates and the consequent difference in profit levels in the short and long run was not covered. There were common sources of errors. The first was in the representation of the maximum profit output. It was often shown as being the point where the marginal cost cut the average cost curve – although the marginal revenue was not at that point. A second error was to show the output correctly but then to confuse the relevance of the average cost curve and show the level of abnormal profit incorrectly.
- (b) This question required an analysis of price discrimination with a discussion of the conditions of separate markets, different elasticities and possible benefits for the firm – and maybe consumer – if price discrimination allowed costs to be covered which otherwise would not be. There were many answers that covered the first, second and third degree levels of price discrimination and overall the candidates gave good answers to this question.

### Question 6

- (a) Candidates successfully explained three government macroeconomic policy aims. They were also able to discuss how the achievement of one might conflict with the achievement of another. Illustrative examples among those that were presented included the fact that higher growth might stimulate demand which could cause higher prices; that higher employment might also cause higher demand through increased incomes and that this demand might be for imported products causing problems for the balance of payments.
- (b) Those who chose this question gave a good account of how approval for major projects that may be classified as microeconomic projects could affect wider macroeconomic issues. As examples, candidates commented on the effect of micro projects on issues such as employment, incomes, demand, revenues, compensation, resource use, trade balances, investment decisions, economic growth and the standard of living.

### Question 7

- (a) The answers to this question gave good descriptions of the nature of a developing economy in terms of its GDP, GDP per capita, productive capacity, standard of living, health, education, sanitation, occupational structure of the population, age structure of the population. The question did require candidates not just to present a range of categories but comment on which of those presented they thought was most in need of development.
- (b) As with **Section A**, candidates who chose this question gave good answers. For this section they wrote about the use of GDP, GDP per capita, HDI and the Measurement of Economic Welfare. Better candidates commented on the reason why one indicator might be considered to be better than another and how effective it was to make comparisons.



# ECONOMICS

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<p><b>Paper 9708/42</b> <b>Data Response and Essays</b></p>
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## Key messages

Candidates generally demonstrated that they understood the relevant theory but often did not fully develop the analytical aspects of the question or to apply it to the context of the question. The best responses articulated the analytical aspects within the context of the question.

Many questions contained the command word 'discuss' or 'consider'. Both these terms require 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 their own conclusions.

Candidates are reminded that a thorough reading of the question is necessary to appreciate the full breadth of the question. This is especially true of the questions without sub-divisions.

## General comments

Many answers were again of a high standard in response to the questions. Shortcomings included the use of badly drawn or inaccurately labelled diagrams, or even well-presented diagrams without any reference to them in the essay, as well as the use of rehearsed answers that do not match the question which has been set.

A number of candidates wrote at great length. In many cases these responses were poorly directed towards the question set. Answers should be relevant throughout.

## Comments on specific questions

### *Section A*

#### **Question 1: Data Response**

- (a) Many candidates were able to define and identify two examples of monetary policy from the article, even in cases the definition was missing.
- (b) The better responses defined the meaning of an 'economy' in terms of Gross Domestic Product (GDP), then explained the meaning of growth and considered the rate of growth. They went on to explain the links via, for example, globalisation, of growth in one country contributing to growth in other countries. Weaker answers had difficulty explaining the meaning of faster growth or how it might be achieved.
- (c) Many candidates correctly defined the balance of payments and identified problems with a current account deficit, but failed to develop a coherent consideration for how this together with the failure to reform their economies led to pressure on the currencies.
- (d) The best answers identified the reduction in quantitative easing (QE) as a reduction in the rate of growth of the money supply which could lead to an increase in the rate of interest. They then considered the economic implications of this restrictive monetary policy through a reduction in investment, aggregate demand, employment and national income.

## Section B

### Essays

#### Question 2

Candidates were able to write fluently and at length on the definitions of efficiency and often correctly linked the definitions to the degrees of market competition and the concept of market failure. Explanations of further forms of market failure, such as externalities, public goods, imperfect knowledge, were forthcoming. On occasion public goods were confused with merit goods. However candidates often failed to link the failures directly to the determination of welfare. It was the ability to do so which distinguished the very best responses from the good responses.

#### Question 3

- (a) Candidates divided between those who approached the question from the utility perspective or the indifference curve approach. The former were able to distinguish between total and marginal utility and to explain the equi-marginal equilibrium. However, many of these candidates failed to consider a change in the price of one of the products and how this would impact on the level of demand for that product. Those who chose the indifference curve approach were also able to reach the point of equilibrium between an indifference curve and the budget line. However, only a minority progressed to explaining the effect of a change in price on the budget line and the effect this would have on the point of tangency. There needed to be an explanation either of the effect of the changing ratio of marginal utility to price, or of the changing slope of the budget line in indifference curve analysis with changes in price, to show the effect of price changes on the demand for a good. Even those whose analysis went this far usually did not consider the market demand aspect of the question.
- (b) The better answers identified both the rightwards movement of the demand curve and the change in price elasticity of the good or service. They also identified that advertising is able change a consumer's marginal utility in line with the theory of diminishing utility. Very few discussed whether the theory continued to be valid. Weaker answers identified only the increase in demand for the product and some wrote unnecessarily of the problems of advertising.

#### Question 4

Responses generally demonstrated a good understanding of the point of equilibrium in both perfect competition and monopoly. However, they often did not consider the role of profit maximisation and the rule that marginal revenue = marginal cost in determining how or why the point of equilibrium was reached. When considering perfect competition, most were able to consider the role of abnormal profits or losses on the firm but usually did not identify that in both these cases short-term equilibrium existed and how the market moved to long-term equilibrium. Many thought that as the monopolist had continuing abnormal profits they were not in equilibrium.

#### Question 5

- (a) The best answers explained a range of causes of unemployment and introduced some degree of analysis in terms of lack of aggregate demand or real wage unemployment. Some thoughtful observations were made on the principal cause of unemployment in the candidate's country. Many answers did not have any degree of analysis, however, and were only descriptive, which limited the marks awarded.
- (b) Three combinations of aims were possible from the alternatives given. Good responses analysed how conflict may or may not occur using aggregate demand and supply, the Phillips curve or the production possibility curve. These accessed the full range of marks. Many did not explore the full range of aims and often did not employ an analytical approach.

### Question 6

- (a) A strong response required the combination of a number of aspects. A discussion of the role of the marginal revenue product (MRP) in determining demand, the factors which affect the supply of labour and the elasticities of the demand and supply of labour were all required to produce a well explained response. Some comment on whether this fully explains the differences in pay was also required. Many did not consider the relevance of MRP at all and thus could only access the lower bands of marks available.
- (b) Candidates could consider the impact of a range of alternative forms of intervention both by a trades union and a government, and the effect that may have on wage rates. Trades unions influence the wage rate directly and the supply of labour is reflected through the MRP which many candidates did not comment upon. The role of a trades union when faced by a single buyer of labour or monopsonist was often analysed and explained well, which helped to boost marks.

### Question 7

- (a) The limitations of comparing national income per head between different countries, even those of high income countries, were discussed. The main differences between answers were in the range and depth of the responses. It should be remembered that a range of measures are used that attempt to overcome the limitations of conventional measures, and reference to these are also relevant to answers.
- (b) Typically, good responses identified how the developed and developing economies differ. The better ones were able to form links between, for example, health, education and productivity – with increases in productivity leading to higher levels of saving and investment, which leads to economic growth and development. Some responses struggled to distinguish between a high birth rate/population growth and a high population.

# ECONOMICS

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**Paper 9708/43**  
**Data Response and Essays**

## **Key messages**

Diagrams should be labelled clearly and explained in the accompanying written answer – not squashed into a corner of the page.

In questions where there are multiple elements to be addressed, candidates need to ensure that they fully answer the whole question.

## **General comments**

As last year there were some good answers to this paper and those candidates are to be congratulated on the use of their studies to achieve such marks. They presented well-balanced and clearly structured answers, accurately directed to the question and enhanced by relevant examples and applications where appropriate. There was an improved response to questions that required a conclusion as candidates summarised their answer and did not leave the marker to deduce a conclusion.

## **Comments on specific questions**

### **Section A**

#### **Question 1**

- (a) Nearly every candidate was able to give an explanation of value of currency in terms of other currencies. If the interest rate rises it should cause an increase in demand for currency which increases its value. It was hoped that the currency would appreciate and 'strengthen' the country's currency.
- (b) This question did not cause any difficulties and candidates were able to explain the distinction and give two examples of fiscal policy. A very small minority confused fiscal and monetary policies.
- (c) Candidates were expected to explain that increasing interest rates makes borrowing more expensive, so there will be less demand, less pressure on prices and a possible reduction in the rate of inflation. The article mentions the attempts by the Turkish and South African central banks to slow down the rate of inflation. Candidates could then have commented on the rates of inflation given in the table in these countries compared with other countries. However, the table only shows information for one month in May 2014.
- (d) There is only one year mentioned in the table so it is not possible to know how the figure compares to previous years and to compare changes between countries. However, the high rates in Brazil, Argentina, Turkey are linked with inflation higher than other countries. Low rates in UK, Germany are linked with lower inflation than other countries.

But there are no consistent conclusions about link between interest rate and growth – for example, there is a high rate in Argentina, but low growth. There is a high rate in Turkey, but higher growth than other countries.

## Section B

### Question 2

This question required an evaluation and discussion of an argument. Candidates should have considered the initial proposition in the question and commented on its validity. They should then have identified and described the necessary conditions for efficient resource allocation and considered whether they could be achieved by a reliance on the price mechanism. Most candidates presented the case for the allocation of resources by the market system and price mechanism. For most, that explanation did include a sufficiently rigorous analysis of economic efficiency – a few confused the diagrams or did not give a thorough explanation. Most candidates also attempted to present a discussion of market failures and dealt with merit goods, externalities, public goods, lack of information and monopolies. The marks awarded depended on the precision of the explanation of efficiency, the range of market failures explained and the logical presentation of the information in relation to the question asked. There needed to be a conclusion as the candidates were asked whether they agreed with the argument.

### Question 3

This question required candidates to give an explanation of the construction of an indifference curve and the determination of consumer equilibrium. It was expected that candidates would consider the initial proposition – there is a premise that the curves do show the relation between goods. Although levels of income and prices are not shown on the diagrams the analysis rests on the assumption of a given income and given prices. This premise was considered with varying degrees of clarity. The better candidates then explained how price changes and income changes could be linked to indifference curves by using budget lines. They discussed how the equilibrium could change, and most attempted to distinguish between income and substitution effects. What was not presented by most of the candidates was any attempt to link that equilibrium position to a point on a demand curve where quantity demanded is shown against the price of that same good.

### Question 4

- (a) This part required an assessment of the characteristics of both market structures in terms of price determination, profit levels, branding, size, barriers to entry. The weakness of the answers to this question was often that candidates did not elaborate on the long term equilibrium position in monopolistic competition drawing the comparison with perfect competition of normal profits. A significant minority of candidates wrote about monopoly rather than monopolistic competition.
- (b) This part required a discussion of the two types of market structure. Long run profit will be normal in perfect competition but not necessarily so in monopoly where it is often said that higher prices are charged. Output is also likely to be lower in monopoly. However, economies of scale in monopoly may lead to lower prices, and monopoly may be able to engage in research and development. The candidates who considered monopoly in part (a) repeated all of their analysis in this section. Where appropriate, credit was given in this part for what had been written in part (a) but candidates need to ensure that they answer the specific question set.

### Question 5

- (a) Explanation of economic rent and transfer earnings was a requirement in this question. However, a significant minority did not recognise that the level of transfer earnings and economic rent when a minimum wage was applied would depend on whether that wage is fixed above or below the original equilibrium. If it is fixed below the original equilibrium the minimum wage has no effect. If it is fixed above the equilibrium then the supply curve becomes horizontal until the minimum wage line reaches the original supply curve. If the supply is horizontal and the equilibrium quantity employed is shown on the horizontal part of the supply curve then the economic rent disappears. Very few candidates understood this.
- (b) This section was answered more convincingly than section (a). Candidates explained that the analysis of wage theory would give different wage rates depending on the market forces of supply and demand for labour but in imperfect competition institutional factors – unions and government – need to be included. Whether market forces or institutions are more significant will vary between industries. As has been mentioned before in these reports, higher marks are awarded for responses which make use of marginal revenue productivity analysis rather than the more simple demand and supply analysis.

### Question 6

- (a) This question, which involved an explanation of the transactions, precautionary and speculative demand for money and their link to income, was answered well by the candidates who chose it.
- (b) Candidates were able to link government policies to the demand for money. Governments can either use fiscal or monetary policy, which will influence the demand for money. An expansionary fiscal policy might include lowering taxes and/or increasing government expenditure. Both might increase the level of national income and the transactions and precautionary demand for money. Similarly, an increase in the money supply/decrease in interest rates would increase income and the transactions/precautionary demand for money. Monetary policy that directly affects interest rates might have an effect on the speculative demand for money.

### Question 7

- (a) This question did not present difficulties for the candidates. They were able to give a description of the nature of a developing economy in terms of its GDP, GDP per capita, productive capacity, standard of living, health, education, sanitation, occupational structure of the population and age structure of the population. It was expected that candidates would comment on whether the low level of income is the main distinguishing feature or not. Most did do this, but a minority omitted that essential part of the answer.
- (b) Candidates who answered this question was able to discuss the problems of comparing national income over time between countries; for example, price changes, population changes, quality of goods, externalities, income distribution, subsistence farming/home production, climate, cultural issues and consumption patterns. It was expected that candidates would give an opinion as to whether these problems were significantly different between developing and developed countries. As with **Section A**, some omitted this essential link to the precise question asked and left their answer as a general statement about problems of comparison.