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FOREWORD

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned**.

ECONOMICS

GCE Advanced Level and GCE Advanced Subsidiary Level

Paper 9708/01

Multiple Choice (Core)

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

General comments

Candidates and their Teachers can feel reasonably well satisfied with their overall performance on this paper. The mean percentage score was 59%, compared with only 54% on the corresponding paper in November 2002.

Questions 2, **3**, **4**, and **14** proved to be easier than intended and were each answered correctly by more than 80% of candidates.

Comments on specific questions

Question 29 was the most difficult question on the paper, answered correctly by 26% of candidates, whereas 45% of candidates wrongly chose distractor **D**. While a knowledge of the Marshall-Lerner Condition would have helped candidates to choose the correct answer, it was expected that candidates would be able to use their knowledge and understanding of the 'effects of changing exchange rates' to obtain the key.

In **Question 1**, almost as many candidates opted for **C** as for the correct answer, **A**. Clearly, **C** would have been correct only if there had been no increase in steel production.

48% of the candidates opted for **A** in **Question 13**, compared with only 32% who chose the co Candidates on past papers have usually managed to work out that if a maximum price is set equilibrium price, this will have no effect on price or output. The question in this case refers spec the effect on consumer surplus. Once again, the answer is clear cut: consumer surplus will a unaffected. However, candidates have become quite adept at identifying trapezoid areas of consu surplus, and this might well explain why those who focused on the term 'consumer surplus', and did not take the trouble to read the question carefully, opted for **A**.

Although 60% of the candidates answered **Question 21** correctly, the discrimination score for this question was very low. The most popular distractor was **D**; it is possible that this may have attracted candidates because it was the only option containing the word 'price'.

The statistics suggest that most candidates resorted to guesswork in **Question 24**. It is perhaps significant that the most popular distractor was **B**, which is also the least plausible distractor. One suspects that the main problem here was that most candidates were unclear about the definition of labour productivity.

Paper 9708/02

Data Response and Essay (Core)

General comments

Candidates demonstrated a wide range of achievement. There were some excellent responses which, given the time constraints, would have been difficult to improve. However, some candidates' performance was much better on one section of the paper than the other. Relatively few candidates took the opportunity to illustrate their answers with examples from their own country, which would have been useful in the essays on the terms of trade and division of labour.

This examination highlighted certain weaknesses in technique that either directly lost candidates marks or caused them to use their time ineffectively. Candidates might pay more attention to the following issues:

- emphasis on the economic aspects, which was lost in answers on pollution (**Question 3 (b)**) and advertising (**Question 1 (b)(iii)**);

- accurate knowledge of central concepts: maximum and minimum prices were confused in **Question 1 (b)(iii)**, as were external and social costs in **Question 3 (b)**; demand and supply analysis was not always used successfully in **Question 1**, and the terms of trade were a major problem in **Question 4**;

- answering the exact question set: candidates wrote at length on the imposition (instead of the removal) of a tax in **Question 3 (a)**, and provided material in the wrong essay section (**Questions 2** and **4**), or changed the focus of the question (**Question 4 (b)**);

- precise use of terms and concepts: changes in supply and in quantity supplied were interchanged in **Question 1 (b)**, and 'elasticity' was employed carelessly in **Questions 1 (c)** and **4 (b)**.

Comments on specific questions

Section A

Question 1

The question dealt with the operation of the world coffee market and attempts to intervene in its outcome. Candidates were not expected to have prior knowledge of the schemes suggested, but did need to make clear any assumptions they made about the way they operated.

(a)(i) Most candidates recognised the downward trend in prices. Stronger answers supported this with data or highlighted the exception. Weaker answers were very descriptive, overlong and missed the overall fall in price.

(ii) This was well done. Candidates made the link to demand and supply, and showed their influence on price movements. Marks were lost by those who described the data without mentioning price or who reversed the relationship.

(b)(i) Many candidates scored full marks with an accurate diagram and brief statement. Th misunderstanding of the task, with candidates explaining a price fall or not realising that supply the diagram, not use the ones provided. A surprising number illustrated an in demand.

(ii) References to non-compliance and storage problems were common and gained the marks. A unqualified argument that demand would fall was not accepted, as a successful scheme would be expected to raise price and revenue while reducing quantity demanded.

(iii) A wide range of suggestions were offered, of which finding alternative markets or advertising were very common. The best answers retained the focus on reducing the surplus rather than on other variables. Many answers lacked explanation of the operation of the scheme suggested. Those who considered advertising often lost sight of economic analysis. There were a significant number who offered more than one suggestion.

(c) The performance on this question was very disappointing. While a small number of candidates scored well, the majority offered little if any discussion. Misunderstanding of the article was apparent, with some suggestions that Fairtrade allowed a lower price. Most fell back on copying sections from the text and asserting that the scheme was beneficial. A discussion required the strengths and weaknesses of the scheme to be examined. While higher income was made obvious it was also possible to deduce advantages such as lower transaction costs. The data provided hints as to potential problems, such as restricted coverage, the need for inelastic demand and the encouragement of greater output. A far more analytical approach was required with some consideration of potential difficulties.

Section B

Question 2

The question dealt with the effects of changing labour productivity and the use of division of labour.

(a) The strongest answers were able to define labour productivity, show how it was measured and suggest more than one possible effect on the production possibility curve. Productivity was not always known precisely, with confusion between average and total product. Some long responses on marginal productivity theory went beyond the scope of the question. The link between the change in productivity and the change in the curve needed to be made clear for full marks.

(b) High marks were scored on this section. Candidates were particularly knowledgeable on the problems of the system. Full marks required that the national as well as the individual or company perspective be examined. This more than anything prevented top level marks. Some problems were attributed to division of labour which were more the fault of the operation of the market system.

Question 3

The question concerned the link between indirect taxes and the market and the suitability of indirect taxes in preventing negative externalities.

(a) Those who tackled the question directly scored well. There were several weaknesses in approach. Some did not clarify the nature of an indirect tax, some spent most of the answer dealing with the imposition of a tax, and others wrote more widely than the market for the product. A diagram was helpful in showing the candidates thinking and accurate diagrams were common.

(b) Candidates did well in establishing what is meant by a negative externality and how an indirect tax might correct this market failure. There was less evidence of consideration of its effectiveness. Candidates might have considered its revenue-raising, its impact on production levels and its practicality. While some credit was allowed for contrasts with alternative methods, it was not acceptable to write a prepared answer on 'the methods to tackle negative externalities'. Other weaknesses were confusion between external and social cost, unnecessary consideration of positive externalities and much description of pollution.

Question 4

The question concerned the terms of trade and the impact of changes in the terms of trade on the ba[...]
trade. This was the least popular question and had a very variable standard of response.

(a) There were some answers which defined the terms of trade, gave the formula and showed the li[...]
from the exchange rate, inflation and demand and supply changes to the terms of trade. These
were excellent. Unfortunately, far more knew the idea imperfectly or not at all. Some confused the
terms of trade with the balance of payments or one of its components. There seemed to be
carelessness in which candidates recognised the relevance of the price but then wrote as though
they meant the volume or value of exports and imports. It was, on occasions, difficult to establish
the logic of what candidates were writing.

(b) Again, a small number explained the idea of a worsening and analysed its outcome in relation to
the nature of the elasticities of exports and imports. These were thorough answers and gained
high marks. More commonly the misunderstandings in the earlier part were compounded. Indeed,
those who confused the terms of trade and the balance of trade were reduced to repeating parts of
their earlier answer. Others tried to answer in terms of the structure of the balance of payments.
Even some candidates who had shown understanding in part **(a)** were unable to apply it critically
and simply agreed with the statement in the question, ignoring the relevance of elasticity.

The terms of trade are a subject that candidates find difficult, although some of them do not seem
to realise how limited their understanding is. The major problem seems to be in establishing a
comprehension of the basic elements of the concept.

Paper 9708/03

Multiple Choice (Extension)

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

General comments

All but one of the thirty questions on this paper had facility scores within the test design limits. Nevertheless,
there were a number of questions that candidates found more challenging than had been anticipated, and
the overall mean score was just 46%, compared with 54% on the corresponding paper in November 2002.

Comments on specific questions

Although 44% of candidates answered **Question 3** correctly, the discrimination score was very low. seven alternative combinations of changes that could cause the budget line in the diagram in **Quest** shift from JK to GH, and identifying these could prove to be an interesting classroom exercise. The common feature of all these changes is an increase in Py relative to Px.

Candidates may not have been familiar with the three-dimensional diagram in **Question 8**, but what is depicted in the diagram was fully spelt out in the stem. One must conclude, therefore, from the low facility and discrimination scores on this question that most candidates had not previously come across the concept of a production function.

The economic cost of the labour supplied by an entrepreneur is the wage s/he could have earned elsewhere. In **Question 9** this is less than the accounting cost (the salary s/he pays her/himself). This is the opposite of the situation depicted in most textbook examples, which possibly explains the low facility and discrimination scores on this item.

Although **Question 20** was answered correctly by 33% of the candidates, more than half thought that, according to monetarist theory, an increase in the money supply leads to a reduction in unemployment in the long run.

The effect on the money supply of different methods of financing a government deficit has become a fairly standard topic on multiple choice papers. It was, therefore, a bit surprising that only 22% of candidates answered **Question 24** correctly, making it the hardest question on the paper, and that 40% opted for **A**.

Question 27, on the other hand, related to a new topic area. The statistics indicate that most candidates resorted to guesswork in answering this question. What is surprising is that **A** and **D** proved so attractive, as one would have expected candidates to realise that both **A** and **D** would help to keep the level of inflation down. 26% of candidates gave the correct answer, **B**.

Guesswork was also evident in **Question 30**. In this case, the most popular distractor turned out to be **C**, which, once again, one would hardly have predicted.

Paper 9708/04

Data Response and Essay (Extension)

General comments

The overall performance of the candidates was generally good and the standard compared favourably with previous years. The majority of the candidates allocated their time effectively and there were very few cases of rubric error. It was very encouraging to find examples of excellent answers to a number of the questions from a wide variety of Centres and it was clear that candidates had, on the whole, prepared thoroughly for the examination.

However, there are still three areas of concern. First, candidates should be encouraged to include diagrams, wherever possible, to help support their explanations. This was explicitly asked for in **Question 1 (a)**, but diagrams would also have been very useful in **Questions 3 (b)**, **4 (b)** and **6 (b)**. They must, of course, be drawn clearly and accurately, and discussion of them should be included in the answer; a few candidates drew the appropriate diagram but then made no reference to it in their answer.

Secondly, candidates need to demonstrate the ability to think about the particular question being asked and then to apply their knowledge and understanding to the question set rather than offer a rehearsed and carefully prepared 'model answer'. This is especially the case in the second part of the two part questions; **Questions 3 (b)**, **4 (b)** and **6 (b)** explicitly required candidates to discuss, while **Question 5 (b)** asked candidates whether they agreed with the assertion in the question. The same point applies in questions which are not divided into two parts; **Question 2** required candidates to comment on the UK government's actions in a particular area of policy, while **Question 7** asked candidates to consider how reliable were national income statistics as a means of comparing living standards between countries.

Thirdly, candidates need to try and bring their answers to a conclusion. This is especially the case where they are invited to discuss something, as in **Questions 2** and **7** and the second part of **Questions 3**, **4**, **5** and **6**.

Comments on specific questions

Question 1

(a) The majority of candidates were able to illustrate, using a demand and supply diagram, what happened in the market for labour in Singapore in 2001. The entry of new graduates into the job market indicated an increase in supply, and so the supply curve shifted to the right. The economic downturn or recession indicated a decrease in demand and so the demand curve shifted to the left.

(b) Most candidates correctly identified and explained what was said to be the cause of Singapore's recession, namely the fall in external demand and not an erosion of Singapore's cost competitiveness.

(c) Answers to this part of the question varied widely. Most candidates had a general idea that an increase in government spending on public projects would be likely to help an economic recovery, such as through expenditure on infrastructure projects leading to increased employment and incomes, but they did not really develop the analysis to explain how this would work. Some candidates, however, recognised that this would involve the operation of the multiplier process and they were able to offer much more detailed answers, demonstrating a sound knowledge and understanding of the multiplier process.

(d) This proved to be quite a difficult question for many candidates who assumed that the evidence in Table 1 and its footnotes completely supported the statement that there was a recession in the Singapore economy. Some of the evidence did seem to support the statement, such as the fall in receipts from indirect tax on goods and services, but some of it seemed to indicate that the economy was not doing that badly, such as the increase in receipts from income tax and in the total receipts from all taxes and duties. However, the better answers went on to point out that although these latter figures showed an increase, the rate of increase was significantly lower than in the previous years. The overall conclusion, therefore, was that the evidence was somewhat contradictory and thus did not completely support the statement.

(e) The final part of the question explicitly required candidates to discuss the usefulness of the measures proposed by the government as a remedy for the economic recession. There were some good answers which examined the significance of the reduction in the costs of companies and the boosting of the job prospects of the workers, especially the older and less educated ones, who would be allowed to keep their jobs or be retrained to find new jobs. However, candidates also looked critically at these proposed measures, such as the problems of retraining older workers. There were also some useful comments on the proportion of the country's GDP being allocated to the proposed package of measures and on the fact that it did not appear to do very much to boost the job prospects of the new graduates coming onto the job market. There was also some very good evaluation by some candidates who argued that these proposed supply-side measures would be inappropriate as a remedy for the economic recession which was the result of a fall in external demand.

Question 2

The aim of the question was to invite candidates to discuss the role of a government in the allocation of resources in an economy and the possible reasons for government intervention. There was a clear contrast between the government policy towards agriculture and the approach taken in relation to tourism, despite the fact that it was stated that both sectors of the economy had been badly affected by the disease among cattle. Candidates needed to comment on this contradictory approach by the government and discuss it in terms of allocative efficiency and equity. Some candidates failed to understand what was wanted and so there were some rather poor answers to the question. Other candidates, however, appreciated what was required and offered a very good analysis of how government support might help an industry, such as through the effect of a subsidy on cost, output and price. This was then contrasted with the lack of such support in the tourism industry and the implications of this for employment and incomes in that industry. This analysis was placed within the context of the concepts of equity and the efficient allocation of resources, such as in terms of Pareto optimality.

Question 3

(a) The purpose of the first part of the question was to get candidates to explain the different unemployment and then to suggest which type would apply to the example given. There some very good answers and most candidates demonstrated a clear knowledge and understand of the different types, including cyclical or demand-deficient, structural, regional, frictional, seasonal, technological and residual. The example given could be seen as the result of temporary factors, indicating that it would be cyclical unemployment, or as the result of more long-term factors, suggesting that it would be structural unemployment. It might also be seen within the context of seasonal unemployment.

(b) The second part of the question required candidates to discuss how far economic analysis would be of use in explaining the change in wage rates mentioned, i.e. a situation of wage reductions. Most answers were of a good standard, although some candidates failed to apply their analysis to the tourist-related industries, despite being asked to do so. Many candidates showed a good knowledge and understanding of supply and demand in the labour market, although some failed to make any reference to marginal revenue product, which is a key concept in explaining the demand for labour. It was pleasing to see that a significant number of candidates used diagrams to good effect in assisting their explanations.

Question 4

(a) In the first part of the question, candidates needed to explain why a company might wish to produce a diverse range of products rather than specialise, such as in the case of Sony which had diversified beyond computers, electronics and computer games to become involved in insurance and on-line banking. There were some very good answers and candidates were confident in discussing the importance of brand image, the reduction of risk, the increase in market share and the consequent effect on profits.

(b) In the second part of the question, candidates were required to discuss whether imperfect market structures, which allowed large companies, such as Sony, to influence the price of its products, are beneficial. There were some good answers to this question, with many candidates recognising that the key question was 'beneficial to whom?' It was necessary to contrast the impact of imperfect market structures on the firms and on the consumers and it was possible to consider different examples of such markets, although most candidates chose either oligopoly or monopolistic competition. Many candidates used diagrams to good effect to help explain the key characteristics of an imperfect market structure. The majority of candidates discussed the negative effects on the consumers, such as productive and allocative inefficiency, leading to reduced output at higher prices, although it was pointed out by many candidates that if this led to abnormal or supernormal profits, this could be seen as beneficial to the firms. Fewer candidates, however, recognised that there were potential gains for the consumers, such as those from expenditure on research and development.

Question 5

(a) In the first part of the question, candidates were expected to give a sound explanation of the indicators of development, together with good illustrations and a reasoned attempt to draw a clear distinction between developed and developing countries. Such indicators included the size of GDP per capita, the proportion of employment in the primary, secondary and tertiary sectors, population structures, the distribution of income, the trading position and the provision of infrastructure, including health, education and housing. Most candidates were able to discuss and explain several of the possible indicators in some detail but some tended to ignore the words 'what distinguishes' and consequently produced answers that were one-sided and lacking in depth. A number of candidates did not make the comparison between developed and developing countries clear enough.

(b) In the second part of the question, candidates needed to discuss whether problem health, education, employment, production choices and resource allocation would be development and whether there were other economic problems associated with being a de country, such as dealing with scarcity, inflation, unemployment, the balance of payments, eco growth, depletion of resources and externalities, such as the effects of pollution. In many ca answers to this second part of the question were not as good as those to the first part and candidates were content to assume that developed countries were free of problems. They simply extended what they had said in part **(a)** without mentioning any problems that a developed country would still face. There were too many sweeping assertions that seemed to imply that developed countries would experience more crime, more externalities, greater inequality of incomes and an improved balance of payments position. When answering a question such as this, candidates need to remember the basic economic problem and be aware that all countries face the problem of scarcity, together with the problems of what to produce, how to produce and for whom to produce.

Question 6

(a) In the first part of the question, candidates were required to distinguish between monetary policy and fiscal policy. There were some good answers in this section, and most candidates demonstrated a sound knowledge and understanding of the two approaches, discussing the various tools which could be employed, such as changes in the rate of interest or the money supply (in the case of monetary policy) and changes in taxation and government spending (in the case of fiscal policy). The main weakness was that a number of candidates simply wrote as much as they could about the two policies without actually attempting to distinguish clearly between them.

(b) In the second part of the question, candidates needed to focus on monetary policy and discuss how it might be used by a government in a time of inflation. As in the first part of the question, candidates generally displayed a good level of knowledge and understanding, and were able to discuss how contractionary measures could be employed to try and control or reduce the rate of inflation, such as through an increase in interest rates and a reduction of the powers of the commercial banks to create credit. Many candidates used appropriate diagrams to show how such policies could be used to bring down the rate of inflation, such as through reducing the size of the inflationary gap. The better answers attempted to conclude with an evaluation, discussing the various factors that might affect the chances of success of the various monetary policy measures employed.

Question 7

The purpose of the question was to invite candidates to consider how useful were the national income statistics as a means of comparing living standards between countries. There were some very good answers and many candidates offered a thorough explanation of the difficulties of comparison because of different cultures, climate, needs, exchange rates, inflation, population change, distribution of income, extent of informal economy and other various social factors. It is pleasing to note that an increasing proportion of candidates are being more precise in their use of terms such as real GDP per capita and purchasing power parity. However, some of the answers did not really focus on the 'how reliable' aspect and a number of candidates spent far too much time in explaining how national income could be calculated through the different income, output and expenditure methods. Most candidates did make some attempt to try and reach a conclusion, and it was pleasing to see many discuss various alternative approaches, such as the Human Development Index (HDI) or the Measure of Economic Welfare (MEW).