

ECONOMICS

Paper 9708/11

Multiple Choice (Core)

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

Key messages

- On average candidates performed equally well on questions involving diagrams and numerical problems but were strongest on verbal questions.

General comments

The number of candidates sitting the exam increased by 9.7% to 2 208 in total. The mean score remained the same at 16.96. Three candidates scored full marks, again the same as in 2011. The percentage of candidates scoring 8 marks or below rose by 1%. The standard deviation widened slightly.

Three items (**Questions 8, 26 and 29**) proved to be particularly 'easy', while two items (**Questions 2 and 23**) were particularly 'difficult'.

Comments on individual questions

It is unusual for production possibility questions to prove difficult for candidates. In **Question 2** fewer candidates opted for the correct response C than for options A and D. D relates to unemployment which is a move to a point within a curve, not an inward shift of the curve. A decrease in innovation (option A) might prevent a curve continuing to move outward, but will not necessarily cause it to move inward.

Although the largest group of candidates (46%) answered **Question 6** correctly by choosing option C, a significant proportion (40%) selected option A. Opting for a reduction in the quantity sold by the same proportion as the price changes suggests a misunderstanding about the nature of unitary elasticity and the

application of the price elasticity formula. It was expected that candidates would use knowledge of the relationship between price and quantity to determine a constant level of revenue to tackle the question.

Most candidates understood that borrowing from abroad is recorded in the financial section of the balance of payments accounts (**Question 22**). However more mistakenly believed that the interest on the loan would be recorded as a transfer (option D) rather than as an income flow (the correct option C).

The majority of candidates opted for D rather than the correct option A in **Question 23**. The likely cause of this was misreading employment for unemployment in option A.

The choice of option D missed the fact that a fall in unemployment does not necessarily equate to the creation of extra jobs. More information would be needed to reach such a conclusion.

The concept of the real value of money continues to be a problem for a significant number of candidates. The selection of B by 38% of candidates with only 34% opting for the correct option D confirms this in **Question 24**. The basis of the answer is that a rise in the price index (inflation) means a fall in the real value of money. The real value only rises when there is deflation shown by a fall in the price index.

ECONOMICS

Paper 9708/12
Multiple Choice (Core)

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

Key messages

- On average candidates performed equally well on questions involving verbal and numerical problems but less well on those based on diagrams.

General comments

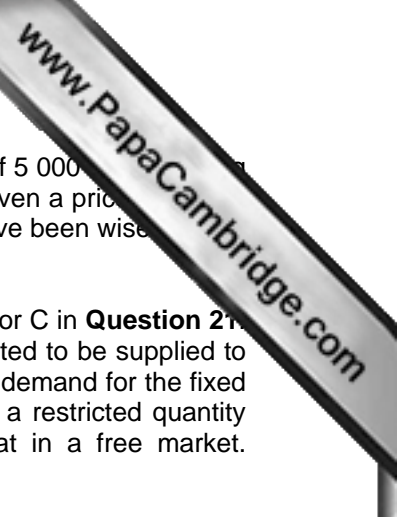
The number of candidates sitting the exam continued to increase by a further 9.7% and rose to 11 370 in total. The mean score fell from 18.91 to 18.44. Only 5 candidates scored full marks (down from 62 in 2011), while the proportion of candidates scoring 8 marks or below fell from 3% to 2%. The standard deviation narrowed significantly.

The surprisingly large number of five items (**Questions 1, 3, 5, 6 and 11**) proved to be rather 'easier' than expected. Two items (**Questions 2 and 21**) proved to be more 'difficult' than the test specification intended.

Comments on individual questions

Production possibility curves usually present candidates with little difficulty. In **Question 2**, however, more candidates opted for option D and option A than selected the correct option C. D relates to unemployment which is a move to a point within a curve, not an inward shift of the curve. This is sometimes a cause of confusion for candidates. A decrease in innovation (option A) might prevent a curve continuing to move outward at the same rate, but will not necessarily cause it to move inward.

More candidates selected option A than the correct option B in **Question 17**. In the initial position incomes were \$10 000. A new equilibrium involving S2 and a new demand that will fix incomes at \$10 000 is needed.



An increase of 1 000 tonnes demand will result in an equilibrium price of \$2 with sales of 5 000 tonnes and an unchanged income of \$10 000. An increase of 500 tonnes (option A) would have given a price below \$2 and a quantity below 2 000 tonnes resulting in a reduced income. Candidates might have been wise to draw alternative demand curves on the diagram and judge their effect on income.

Almost half of the candidates believed that a quota leaves prices unchanged, so opted for C in **Question 21**. Some of the stronger candidates choose this option. A quota is a fixed quantity permitted to be supplied to the market. A reduction in supply as the result of the introduction of a quota or shifts in demand for the fixed quantity can alter the price at which the product is sold. B is correct as the seller of a restricted quantity stands to gain at the expense of the consumer who pays a price higher than that in a free market. Understanding of quotas is less well founded than that of tariffs.

Most candidates understood that borrowing from abroad is recorded in the financial section of the balance of payments accounts (**Question 22**). However more believed that the interest on the loan would feature as a transfer (option D) rather than as an income flow (the correct option C).

ECONOMICS

Paper 9708/13
Multiple Choice (Core)

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

Key messages

- On average candidates performed best on questions involving verbal problems and least well on those based on diagrams.

General comments

The small size of the entry undermines the certainty of making comments that have a wider general application. The number of candidates sitting the exam more than doubled but it is by far the smallest of the three timezone papers. The mean score rose from 20.09 to 20.37 and the standard deviation rose from 3.11 to 4.95. Two candidates gained full marks this year compared with no candidates in 2011, when the highest score was 26. However six candidates scored lower marks than those recorded in the previous year.

Compared to the intended design specification an unusually high number of seven items (**Questions 4, 8, 15, 16, 22, 26, and 29**) proved to be 'easy', while one item (**Question 10**) was 'difficult'. Unlike last year's performances there were no positive distractors recorded that indicate that wrong options were being chosen by the stronger performing candidates.

Comments on individual questions

In **Question 3** more candidates selected option C than the correct option A. These did not include the stronger candidates. It was not expected that saving would be considered the next best alternative to capital investment. Following the reasoning on the nature of a production possibility curve an increase in the production of capital goods would require a reduction in consumer goods.

Only 38% of candidates knew the correct definition of a normal good shown in option B in Q. Almost as many candidates opted for option C. This choice referred to the proportion of income spent on the good, which is not the relevant distinguishing feature of income elasticity.

Question 10 was the least well done on the exam paper. Only 19% gave the correct answer (option D), while 49% went for option B. Candidates might have been more successful had they drawn a new demand curve on the graph with an increase of $Q-Q_1$ over its length. To achieve equilibrium at the target price (option B) it requires an increase of approximately double quantity $Q-Q_1$.

In the employment/unemployment **Question 23** a significant number chose option D. This missed the fact that a fall in unemployment does not necessarily equate to the creation of extra jobs. More information would be needed to reach such a conclusion.

In **Question 28** the usual application of the Marshall-Lerner condition was reversed. The two main groups of candidates split almost equally between options A (correct) and B (incorrect). A fall in the value of a currency will improve the trade account when the combined price elasticities of demand for exports and imports sum to greater than 1. Here a combination resulting in a value less than 1 would result in a worse position. This was only found in option A.

ECONOMICS

Paper 9708/21

Data Response and Essay (Core)

Key messages

In order to improve Centres need to pay attention to the following, many of which have appeared in previous reports.

- Balanced responses – candidates in some Centres give much greater priority to one question, leading to very low marks on the other.
- Depth – most questions require a range of arguments to be clearly explained. Lists and assertions should be avoided.
- ‘Discuss’ – this command implies that more than one side of an argument needs to be explored.
- Key Concepts – questions need to be analysed to identify the economic concepts relevant to the question.
- Coverage – teachers need to teach **all** items on the specification to ensure that their candidates can access all parts of **Question 1** and have a full choice of questions in **Section B**.

General Comments

This paper attracted just over 2 300 entries. The overall standard was disappointing. Only a small number of candidates scored more than 24 out of a possible 40, while there were a lot of candidates who scored less than 10.

There were very few rubric infringements. Most candidates showed a sound grasp of the English language, the spelling was generally good, but the legibility of the handwriting was variable.

The reasons for the mediocre overall performance are highlighted in the Key Messages above. There are some Centres who give a clear priority to answering one of the sections, often the essay questions in **Section B**. Centres need to be aware of the problems this creates. It is impossible to get an ‘A’ grade and very difficult to get a ‘B’ if there has been a weak hurried response to one of the questions. Further, a candidate who misinterprets the essay question has nothing to counter-balance this and will end up with two low marks and struggle to get a pass grade.

Some Centres need to develop their candidates’ skill in extended writing, especially on the essay questions. Key concepts need to be defined and/or explained. Good answers will go on to include a number of points each of which needs to be explained rather than listed or baldly asserted. Teachers need to ensure that topics are taught in sufficient depth to allow candidates to respond in detail in the examination. Similarly, candidates must be fully aware that they are expected to provide detailed answers to essay questions in particular.

‘Discuss’ is the most frequently used command word on the examination paper, yet only a minority of candidates seem to be aware of its implications. A discussion means that more than one point of view needs to be examined. This might take the form of ‘for and against’ arguments or some evaluative comments on the arguments advanced. The nature of economics means that this is a common approach in teaching and in text books and candidates need to reflect this in their answers.

A weakness, particularly in the essay questions, was the common failure to identify the key concepts at the heart of the question. As a result answers often lacked the focus that such identification requires, e.g. comparative advantage in **4(a)**. Question interpretation is an important skill which needs to be practised as part of exam preparation.

There was some evidence that some Centres did not teach all areas of the specification thoroughly. There were some obvious gaps in candidates knowledge, such as inflation targeting in **1(d)**. Also candidates in some Centres had very limited understanding of the consumer price index in **1(e)**. Very few candidates opted for **Question 2** where **(b)** was a new area of questioning, but the subject matter has been on the specification for some years

Comments on individual questions

Section A

Question 1: Compulsory Data Response

- (a) (i) and (ii)** Almost all candidates correctly interpreted the data to get full marks on **(i)** and **(ii)**.
- (b)** Only a minority of candidates saw the linkage between depreciation and inflation was through the effect on the prices of imports and exports. Many candidates saw no link at all and wrote vaguely about the currency losing value so people would have to pay more leading to inflation. Such answers scored 0. Others saw the link to the prices of imports and exports but failed to see the impact on inflation; while others dealt with the impact of the higher import price or the lower export price, but not both.
- (c)** Up to 2 marks were available for identifying the differences. No credit was given for two completely separate accounts, as there had to be a clear comparison. Most candidates were able to earn 1 or 2 marks for this. The remainder of the marks were for possible reasons for the differences. Many of the answers were clearly influenced by the text (which was about Turkey) so that depreciation and drought were often given as plausible reasons for Chile's poor performance.
- (d)** Very few candidates were able to demonstrate any knowledge of the direct or indirect impact of targets on the causes of inflation. There was little comment on why a target was set and its effect on consumer and business expectations. However, many were able to pick up 1 or 2 marks by saying that having a target would often cause governments to act to achieve that target and giving an example of a policy and its effects.
- (e)** Some candidates had little precise knowledge of the construction of a consumer price index (CPI). Most candidates were able to pick up some marks with an understanding of what a CPI is and/or its main function, and by explaining at least one problem, often the problem of the composition of the basket of goods. However only a small minority could explain the range of problems inherent with calculating a price index, for example sampling errors, incorrect weights, an unsound base year etc. As this was a 'discuss' question, some marks were reserved for evaluative comments such as the seriousness of the problem or how the various problems could be overcome. However, hardly any candidates attempted evaluation.

Section B

Question 2

This was the least popular question with only around 10% of candidates choosing the question. The most likely explanation is that both parts of the question were unfamiliar to candidates.

- (a)** A challenging question, but there were some relatively easy marks available for definitions of money and the production possibility curve. (PPC) Some failed to offer and definitions, while, for most candidates definitions of money were more accurate than those of the ppc. There were far too many imprecise definitions of the latter e.g. 'it shows how many goods a country can produce'. The desirable definition is that the ppc shows the maximum combinations of two goods that a country can produce in a fully-employed economy with a given level of technology.

The analysis of the impact of the loss of confidence in money was limited though many candidates mentioned the possible reversion to a barter economy and many came to the correct conclusion, i.e. that the ppc would move inward. Too many answers lost focus and digressed into issues such as problems of a barter economy or the causes of inflation which led to the loss of confidence in money.

- (b) Many candidates were familiar with planned and market economies but few had studied the transition from planned to market. Some also ignored the word 'successful' applied to the market economy as they portrayed declining economies beset by problems as a result of the transition.

Most candidates earned marks for simple definitions of the two types of economy and some went on to highlight some of the changes that would take place. But, there were very few convincing answers. Most candidates gave only one or two changes and this illustrates the lack of depth mentioned earlier because there are a large number of changes that need to take place for there to be a successful transition.

Candidates were then expected to go on to discuss the limitations of the transition. Once again, the answers lacked depth and conviction, often being given in the context of 'disadvantages of a market economy'. A number of candidates were able to give one or two difficulties with the provision of public goods, merit/demerit goods and externalities being the most mentioned.

As this was a 'discuss' question, some marks were reserved for appropriate comments e.g. on the relative seriousness of the problem, or how the difficulties might be overcome. Hardly any candidates did this, but some earned a mark for an overall evaluation often along the lines of the desirability of a mixed economy.

Question 3

This was more popular than the previous question, but still attracted less than a proportionate number of responses. The under-performance of most candidates was due to a failure to analyse the question carefully.

- (a) The majority of candidates did not pick up on the fact that the two types of transport are substitutes and that one is a normal good and the other is an inferior good. Accordingly, the two types of elasticity that are relevant are cross and income elasticity. Too many candidates gave often lengthy accounts of price elasticity which is not relevant when there is an inter-relationship of demand.

There were marks available for a relevant understanding of elasticity and recognition of the influences on demand. Most candidates scored some marks but there were hardly any well-structured responses. The remainder of the marks were available for an explanation of the growth of private transport/decline of private transport in terms of cross and income elasticity. Very few candidates did both pieces of analysis and some failed to recognise the relevance of either.

- (b) This, again, illustrates the need for careful question analysis along with a precise understanding of key concepts. The issue of taxing and subsidising goods, especially transport is usually discussed in relation to externalities. Yet only a minority of candidates mentioned this, and very few made this the focus of their answers. References to externalities were often made in passing rather than being at the core of the answer. Half the marks for this section were available for explanations and examples of externalities, and the market outcomes from the existence of externalities i.e. not achieving the social optimum, welfare loss etc. Few candidates went further than examples of externalities and hardly anyone considered the market outcomes. Private and social costs and benefits featured in only a minority of answers.

Candidates did slightly better when examining the effects of taxes and subsidies. Many used diagrams to good effect, though these were usually demand and supply diagrams rather than the more sophisticated private and social cost and benefit diagrams.

There were marks reserved for the discussion element and, while there were no outstanding answers, some candidates earned credit for relevant comments such as the fact that transport taxes are a source of government revenue, and that subsidies are a way of helping the low income commuter.

Question 4

This was by far the most popular question with well over half the candidates choosing this question. It covered a familiar area of questioning. However, weaknesses in exam technique meant there were few excellent answers.

- (a) The words ‘Use economic analysis....’ should convey the idea that candidates are expected to analyse the economic theory relevant to the question. In this case it was the Law of Comparative Advantage. However, many candidates only mentioned it in passing or linked it with absolute advantage or ignored it altogether. There were 4 marks available for this analysis but many candidates scored 0 or 1.

Candidates were then expected to go on to examine the benefits either following the ‘theoretical’ route, by developing and illustrating the benefits of specialisation and/or explaining the more general benefits of trade such as choice, lower prices, improved quality, economies of scale, technology transfer. Most chose the latter option and often got the maximum of 4 marks available for this, but the answers lacked the theoretical under-pinning required for a high mark on this question.

- (b) Many candidates were able to demonstrate good understanding in this area, but were often let down by poor exam technique. Surprisingly, many candidates failed to pick up on the phrase ‘restriction on international trade’, in the question, and so failed to get the marks reserved for an explanation of the effect of restrictions such as tariffs and quotas.

All candidates were able to explain some justifications for the restrictions and the better candidates were able to get the maximum available. Disappointingly, some candidates could only give one or two relevant arguments, illustrating the weakness of a lack of depth. The infant industry and the anti-dumping argument were the most frequently advanced reasons, but some answers were spoiled by an incorrect understanding of ‘dumping’.

Candidates could discuss, as required by the question, by dealing with the limitations to the protectionist argument with points such as reduction of choice, lack of competition, higher prices, retaliation etc. Many of the better candidates were able to do this but some totally failed to consider any limitations. Only a very small number went beyond the basic points to evaluate the arguments, but there were however some outstanding pieces of evaluation.

ECONOMICS

Paper 9708/22
Data Response and Essay (Core)

Key messages

- Once again, it is clear that some key economic concepts are not fully understood by a large number of candidates. In this paper these included the production possibility curve, private goods and public goods and expenditure-reducing policy. Some concepts appeared to have been learned, but not understood. This leads to errors and an inability to apply concepts where required. Answers provided based upon incomplete understanding of key underlying concepts will inevitably score poorly.
- Candidates do not always appreciate the full meaning of the directive words used in questions. For example, the directive word, 'discuss' implies that two sides of an argument need to be presented and considered and a reasoned conclusion reached. Such candidates should be encouraged to practice essay writing under exam conditions.
- Many candidates seemed equipped with the necessary knowledge and understanding of the key concepts, but lost marks because of deficiencies in exam technique, particularly where essays are concerned. Many essays were unbalanced and considered only part of the question requirements. In addition, many candidates started essays well but tended to lose focus as the answer was developed.
- Candidates are advised to be succinct in constructing answers. There is clearly an opportunity cost in writing extensively and providing more than is required, especially on questions with a low mark allocation.
- Candidates find it difficult to analyse data and confine their answers to what is required to answer to the question. Candidates need to develop skills to enable them to manipulate data and use the data effectively to answer the question set.

Comments on specific questions

Section A

Question 1: Compulsory Data Response

- (a) In order to gain both marks available for this question it was necessary to provide a good comparison of the changes in the current account balance of each economy between 2006 and 2010. An essential requirement of an accurate comparison was to recognise that Russia had a current account surplus and that the United States had a current account deficit. This was sufficient for one mark. A common error amongst many candidates was to state that Russia's current account was positive and that the current account of the United States was negative. These terms did not signify economic understanding and failed to score. For the second mark it was necessary to make a comparative comment about the changes over the time period. A simple statement that Russia's surplus had fluctuated over the period while the deficit in the United States had reduced was sufficient for the second mark. Other comparative comments were also acceptable. Less successful were chronological accounts that described the changes on a year by year basis. Similarly, comments such as the account had 'improved' were not always acceptable if presented out of context.

- (b) This resulted in some good responses although a common error amongst many candidates was a misinterpretation of the question. Many candidates explained that China had a superior performance because it exported more than India. This does not explain China's superior performance of course, but provides evidence of it. Popular explanations provided included suggestions that China may have lower production costs as a result of superior factor endowments that would lead to lower export prices, China's adoption of protectionist policies such as export subsidies or tariffs that would prevent free trade and give China an advantage in world markets and China's overvalued exchange rate that would reduce the price of China's exports and increase the price of China's imports.
- (c) This was not well done by the majority of candidates. Many lost sight of the question and explained the impact of recession on individual economies, rather than the impact upon international trade. A world recession is likely to cause a fall in the volume of international trade as incomes fall and spending decreases leading to a fall in imports and exports. In addition, the impact might vary as the income elasticity of demand for the exports and imports of different economies might vary according to the composition of each economy's trade. This would mean that those economies producing exports with negative income elasticity of demand would be expected to benefit in terms of their trade balance. Those candidates who stated that **all** economies would have a growing deficit failed to score.
- (d) This was generally done well with many candidates showing good knowledge and understanding of the benefits that would follow from a current account surplus. The benefits suggested included the growth in domestic employment, the confidence that a surplus would give to foreign investors and the fact that a surplus would avoid the problems that a current account deficit would bring. There was considerable variation however in the extent to which candidates were able to explain the benefits of the surplus. Poorer scoring candidates tended to make statements without explaining them. The better answers provided brief, but clear explanations of how the benefits identified would arise.
- (e) Responses to this question were very mixed. Some candidates provided excellent answers. They showed a firm understanding of the meaning of 'expenditure-reducing policies' and went on to consider the way in which such policies worked to decrease a current account deficit and providing a balanced discussion of the advantages and disadvantages of such an approach. A large number scored poorly because they seemed unaware of the aims of such a policy approach. Many gave a correct definition of expenditure-reducing policy and then went on to describe the advantages and disadvantages of expenditure-switching policies and wrote at great length for example on tariffs and quotas. Inevitably they scored poorly.

Section B - Essays

Question 2

- (a) This was a popular question. Most candidates showed knowledge and understanding of the functions of money, but this was insufficient to gain a good mark here. Some candidates did identify the features of different types of economic systems, but very few then went on to answer the question directly. Only a small number of candidates attempted to show the benefits of the existence and use of money in different types of economic system, although many provided long, descriptive accounts of the disadvantages of barter. This was usually awarded some credit especially where candidates made the point that this was an advantage of money that was common to all types of economic system. Usually however, candidates lost focus here and did not link such benefits to the type of economic system under consideration.
- (b) There were similar weaknesses in candidate responses to this part of the question. Good answers provided succinct, clear and accurate descriptions of the production possibility curve and gained the marks available. Less successful answers provided very weak explanations of the production possibility curve many of which were inaccurate and showed a lack of understanding. Others produced all they knew about the production possibility curve and as a result wasted precious time which could have been used to better effect on other elements of the question. Candidates should be reminded again of the opportunity cost of writing at length on aspects of the question that can be answered with a much briefer approach.

There was evidence of a sound grasp of the causes of outward and inward shifts amongst many candidates, although a large number incorrectly stated that the curve shifted inwards if unemployment occurred. This was stated by many candidates who had spent time explaining that the existence of unemployment signified a point within the curve. This suggests a tendency to reproduce concepts that have been learned and where incomplete understanding leads to a failure to apply the concepts as required by the question.

Few candidates addressed the aspect of the question concerning the relative likelihood of an outward or an inward shift being most likely. Marks were available for evaluative comment here and candidates are advised that if a question clearly requires a conclusion it is essential that an attempt is made to make an evaluative comment to ensure a high mark.

Question 3

- (a) This was a popular question that revealed good levels of understanding of the concept of price elasticity of demand amongst most candidates. There was some variation however in the ability of candidates to apply the concept to answer the question set and not all candidates gained maximum credit for this aspect of the question. In addition it was clear that some candidates express their grasp of elasticity in imprecise terms and lose marks as a result. For example many candidates state that if the demand for a good is price inelastic, it means that when there is a rise in price, the demand will not fall by much. It would be much more accurate and precise to state that if demand is price inelastic a rise in price would lead to a smaller percentage fall in demand. Not only would this be more accurate it would also aid understanding of the concept and enable more accurate application.
- (b) This part of the question was more testing and there was considerable variation in the quality of the answers. In order to score well it was essential that candidates showed a good knowledge and understanding of the meaning of private goods and the reasons for government provision of such goods. In order to fulfil the 'discuss' requirements of the question it was essential that some evaluative comment was included, for example why private sector provision remains despite strong reasons for government provision. Weaker responses failed to explain the meaning of private goods in terms of excludability and non-rivalry in consumption. Many confused private goods, merit goods and public goods and confusingly categorised train travel as a public rather than a private good. Many candidates for example, stated that it was not possible to exclude consumers from train travel. This indicated that the characteristics of different types of good had been learned rather than understood. Such approaches inevitably scored poorly.

Question 4

- (a) This was the least popular of the essays on this paper, but it elicited some of the highest scoring answers. There was good knowledge and understanding of the way in which the demand and supply of a currency determines its exchange rate. In addition, many candidates understood the mechanism of government intervention in the foreign exchange market. Some candidates lost marks as a result of careless diagrams which were unlabelled or had demand and supply curves shown sloping in the incorrect direction, but on the whole this part of the question was generally well answered and some high marks awarded.
- (b) This part of the question was also generally well answered. Most candidates recognised the meaning of an unstable exchange rate and an unstable inflation rate and were able to analyse the problems associated with each. The main reason for disappointing scores here was a tendency to produce rather unbalanced answers that provided great detail on either an unstable exchange rate or an unstable domestic price level. This meant that it was not possible to make a balanced evaluative comment to answer the question. As a result the mark was lower than would have resulted if both types of instability had been considered.

ECONOMICS

Paper 9708/23

Data Response and Essay (Core)

Key messages

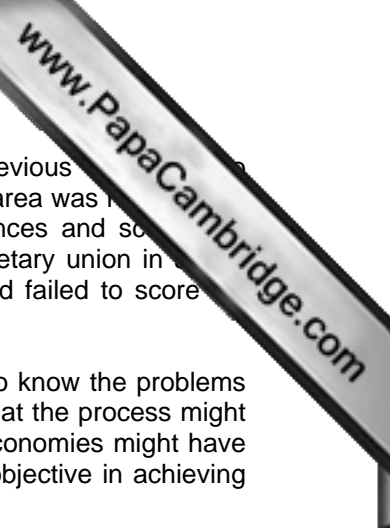
- Some concepts appeared to have been learned, but not understood. This is evidenced for example in incorrectly drawn diagrams or inaccurate formulae. This leads to errors and an inability to apply concepts where required. Answers provided based upon incomplete understanding of key underlying concepts will inevitably score poorly.
- Many candidates seemed equipped with the necessary knowledge and understanding of the key concepts, but lost marks because of deficiencies in exam technique, particularly where essays are concerned. On all three essays on this paper a large number of candidates gave unbalanced answers that considered only part of the question requirements. Inevitably this resulted in lost marks.
- A further message concerning exam technique is that if a direct question is asked it should always contain a direct answer, most appropriately this would be provided in a conclusion. Many candidates, for example when asked whether a period of inflation or a period of deflation is more economically desirable explained the effects of each, but failed to provide a direct answer to the question.
- Data response questions are presented based upon real world data. Many candidates provide answers that are very note bound and are often devoid of context. Some candidates need to practise answering data response type questions more frequently to ensure that they are able to place economic concepts in a real world context with more confidence.

Comments on specific questions

Section A

Question 1: Compulsory Data Response

- (a) (i) This question was well answered with most candidates scoring both marks available. Most were able to make valid and accurate comment on the export performance of the three trade groups shown in the data.
- (ii) This question was also done well by most candidates. There was considerable variation however in the extent to which candidates were able to develop their explanations of the differences in export performance they had identified in Table 1. Some for example suggested that the differences could be due to the relative economic strength of each group and then went on to explain the potential source of such differences. Many explained that this might be due to different factor endowments that gave different trade groups lower opportunity costs in production. Others based their explanation upon the composition of the imports and exports of each group and whether these might be of low or high value. Such developed explanations usually scored well. Those awarded a poor mark here usually made a superficial suggestion to explain the differences with insufficient development to score well.



- (b)(i) The directive word in this question is 'state', so in contrast to the previous development of the differences between an economic union and a free trade area was not. A large number of candidates found little difficulty in identifying three differences and so scored two marks. Others identified the main differences such as the absence of monetary union in a free trade area, but were unable to state the required number of differences and failed to score two marks as a result.
- (ii) This question was done less well on the whole. Few candidates appeared to know the problems involved in achieving economic integration apart from a general awareness that the process might prove difficult. The most common difficulty identified was the fact that the economies might have different economic interests that would prevent the emergence of a shared objective in achieving integration.
- (c) This question was answered successfully by most candidates providing evidence that levels of comprehension on this aspect of the question were very sound and supported by good data handling skills. The majority of candidates scored both marks available here.
- (d) Most candidates found this question difficult and responses were generally disappointing. The formation of a new trading group such as JACIK might bring considerable benefits to the rest of the world. These might arise through more efficient resource allocation within JACIK which would lead to lower costs and lower prices of goods and services which if exported would benefit consumers around the world. In addition, a further benefit might be that producers would gain from lower component costs exported from JACIK and the prices of goods and services produced in the rest of the world would fall. On the other hand, the falling prices of goods and services produced in JACIK would represent increased competition for firms in the rest of the world which would lead to falling profits and possible job losses. There might be considerable restructuring in some economies as firms adapted to these changes. In order to score well it was essential that candidates recognised both the possible benefits and threats arising from JACIK's formation. Disappointingly, there were few balanced answers. Some candidates did show some knowledge and understanding of the implications of the formation of a new trading group, but answers were generally superficial and application within the context of the case study was limited.

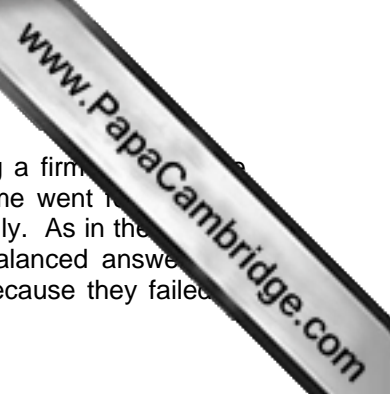
Section B - Essays

Question 2

- (a) Although most candidates gained credit for displaying knowledge and understanding of the factors of production and their role in the production process, fewer were able to answer all parts of this question fully. There was recognition amongst many of the differing importance of the various factors as the production process became more complex, but few went beyond this. In particular and, rather surprisingly, there was little said about the role of the entrepreneur in different types of economy.
- (b) Answers to this part of the question were generally more successful. There was clear understanding of the key differences between the different types of economy and most candidates were able to go on to look at the disadvantages and advantages of each type of economy. Those candidates who did less well gave less balanced answers, which often assumed that a free market economy was superior with no attempt to consider any advantages that might arise from a planned economy. A large number also lost marks because they did not reach a conclusion which was clearly required, given the wording of the question.

Question 3

- (a) This was a popular question that was answered well by most candidates. The majority showed good knowledge and understanding of the two types of elasticity and were able to apply them in order to answer the question set. A number of candidates lost marks as a result of incomplete understanding suggesting that candidates had tried to learn, rather than understand the concepts. Some produced formulae incorrectly, for example, or inaccurate statements were made concerning elastic or inelastic outcomes, but generally this part of the question was well answered.



- (b) This part of the question was also done well with most candidates showing a firm understanding of the operation of price controls and the outcomes that might be expected. Some went further than others in judging 'effectiveness' and developed their answers more successfully. As in the previous essay question some lost marks because they gave an unbalanced answer. Some considered only one type of price control and others failed to gain credit because they failed to provide an evaluative summary.

Question 4

- (a) This was the least popular of the essay questions, but many who attempted this question were rewarded with high marks. Most were able to use aggregate demand and supply curves to explain the existence of inflation but some failed to demonstrate knowledge and understanding of the composition of the curves before they used them. They lost marks as a result. Others lost marks because of carelessness in producing diagrams with some left unlabelled and others labelled incorrectly.
- (b) Most candidates who attempted this question were able to analyse the effects of inflation, but most considerations of the effects of deflation were more limited. Again the failure to produce a balanced answer cost some candidates marks here. In addition few made any evaluative comment such as the fact that the impact of inflation and deflation and their relative desirability depended upon a number of factors such as the rate of inflation or deflation. Candidates should be encouraged to think carefully about the precise wording of questions and recognise that a full consideration requires good application and analysis since reproducing notes, in this case for example, on the effects of inflation is unlikely to gain the highest marks.

ECONOMICS

Paper 9708/31
Multiple Choice (Supplement)

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

Key messages

- Candidates' performance on past papers suggests that many have difficulty in distinguishing between monetarist and Keynesian Schools of thought.

General comments

The average score achieved by candidates on this paper was 52.7% compared with 50.1% on the corresponding paper in 2011. All but one of the thirty questions had facility and discrimination scores which were within the test design limits. The one exception, **Question 16**, had a facility score of 0.24, and was also a poor discriminator. There were a further three questions, **Questions 20, 22 and 24**, which were answered correctly by fewer than one third of the candidates.

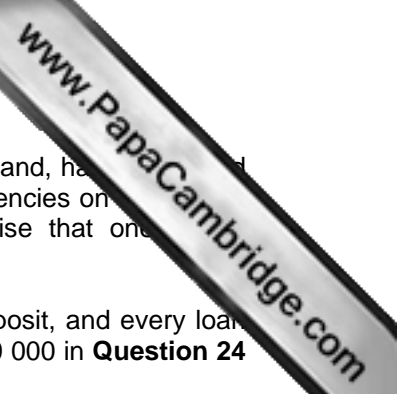
Comments on individual questions

The statistics suggest that most candidates resorted to guesswork in **Question 16**. In the absence of externalities, allocative efficiency requires that price is equated with marginal cost. In the diagram in **Question 16**, this requirement is satisfied at output OZ. However, where the LRAC curve is downward sloping, as is the case here, marginal cost pricing will result in the firm being loss-making. Arguably, this could complicate matters, but it is highly unlikely that this explains why candidates ran into problems with this question.

In **Question 20**, most candidates failed to identify the short-run effects of an unanticipated increase in the money supply.

The central banks of a number of countries, notably China, and more recently, Switzerland, have intervened in foreign exchange markets to hold down the foreign exchange value of their currencies by purchasing foreign currencies on the foreign exchange markets. The majority of candidates in **Question 22** failed to recognise that one of the consequences of this kind of intervention is an increase in the domestic money supply.

The key to answering **Question 24** is to recognise that every bank loan creates a deposit, and every loan repayment destroys a deposit. The *immediate* impact of the net cash withdrawal of \$20 000 in **Question 24** would be a \$20 000 reduction in the volume of bank deposits. To restore the commercial banks' 10% cash ratio, deposits will need to be reduced by a further \$180 000. This in turn requires a net reduction of \$180 000 in bank loans.



ECONOMICS

Paper 9708/32
Multiple Choice (Supplement)

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

Key messages

- See below for some specific topic areas that could be taught in greater detail.

General comments

The overall performance of candidates on this paper was highly commendable. The mean percentage score of 58.78 was well within the target range. Four of the questions, **Questions 2, 7, 6 and 8** turned out to be rather easy. However, all 30 questions recorded facility scores which were within the test design limits. There were two **Questions, 13 and 29**, which had discrimination scores below the test design limit.

Comments on individual questions

Two of the questions where candidates were required to interpret diagrams, **Questions 13 and 22**, gave rise to problems. In **Question 13**, candidates were presented with a total cost diagram and were asked what was maximised at a specified level of output. Although 37% of the candidates managed to obtain the right answer, the very low discrimination score suggests that even some of the better candidates overall were unsure about how MC, AVC and ATC can be derived from a total cost curve.

In **Question 22**, 42% answered correctly, but once again the question was a rather poor discriminator, and a good many of the better candidates on the paper overall were among those who incorrectly opted for A. One possible explanation is that teachers now concentrate on AD-AS analysis and pay less attention to 'Samuelson-type' diagrams showing how various components of aggregate expenditure vary as national income changes.

Candidates seem to have resorted largely to guesswork in **Question 23**. One might have expected candidates to recognise that an increase in government spending financed by borrowing from the central bank will increase the money supply. In the event, only 29% chose the key, while 31%, including the better candidates, incorrectly opted for D. One possibility is that the candidates are nowadays unfamiliar with the concept of Quantitative Easing as opposed to 'Open Market Operations'.

Question 28 was quite a difficult question. Although 33% managed to obtain the correct answer, the discrimination score (0.26) was on the low side, and 38% of the candidates incorrectly opted for A. An increase in the age at which state pensions are payable is likely to increase the size of the labour force and cause an increase in both the number employed and those unemployed. What is not so clear cut is the likely impact on the unemployment *rate*. This is something teachers might like to explore in classroom discussion.

ECONOMICS

Paper 9708/33
Multiple Choice (Supplement)

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

Key messages

- See below for some specific topic areas that could be taught in greater detail.

General comments

As this paper was taken by only a few candidates, a statistical analysis of candidates' performance, particularly in relation to specific questions, would not be very meaningful. However, for the record, the overall mean percentage score was 66%, and there were six questions where over 80% of the candidates chose the correct response.

There were just three **Questions, 6, 12 and 28**, which seem to have posed problems for the majority of candidates.

Comments on individual questions

In **Question 2** discussion of the income and substitution effects of a price change is usually conducted in relation to a change in the price of a *good*. The fact that more candidates opted for B rather than the correct response, A, in this question suggests that candidates were having some difficulty in applying these concepts to a change in the price of labour.

It was thought that **Question 12** would prove to be fairly straightforward. The only complication was that the firm's profit in this case would be the same whether it produced 4 or 5 items. However, this would not explain why nearly one half of the candidates incorrectly opted for A.

Most candidates will know that changes in interest rates are one of the main determinants of exchange rate movements. This might explain why many more candidates chose A rather than the correct response, D, in

Question 28. What they failed to recognise was that a reduction in interest rates was depreciation, not an appreciation in the exchange rate.



ECONOMICS

Paper 9708/41

Data Response and Essays (Supplement)

Key messages

- Candidates need to use and build upon their knowledge and application to enable a more analytical/evaluative approach. It is precisely this ability which allows candidates to progress to the higher level marks associated with grades A/B. In this respect there is still much scope for improvement.
- The last two examiner reports attempted to highlight the continuing inability of candidates to provide clear, accurately labelled, supporting diagrams. This is surprising given the frequent use of diagrams to aid economic analysis and their importance in relation to examination success. Candidates should be encouraged to use diagrams and ensure that they are accurate and correctly labelled. This would also mean that candidates can continue to maintain the opportunity to build upon knowledge and application with a more analytical approach embodied in diagrammatic form. Particular examples relating to diagrams will be referred to within specific question comments set out below.

General Comments

Although differences between Centres remained they were not as pronounced as in previous sessions and the overall standard of performance was better than the November 2011 session. This was pleasing given the fact that the structure of the paper and the associated degree of difficulty remained the same as that of previous years. Many candidates managed to gain a pass level and a significant proportion of these were able to build upon knowledge of basic economic principles and extend and deepen the breadth of their responses to convert to a higher level grade. However, as in the past, there were still many instances of a failure to progress beyond the provision of basic knowledge and understanding.

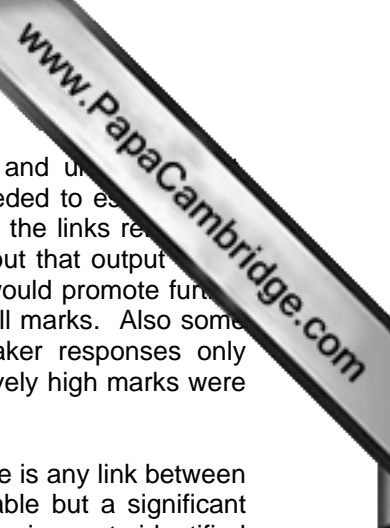
The data response questions in **section A** were based upon the very relevant macroeconomic issues surrounding government policy and the performance of five European countries. This question relating current macroeconomic issues, was generally well received by candidates and questions were generally answered more effectively than their counterparts in **Section B** and quite impressive given the lack of choice in **Section A** compared to **Section B**. Also, as stated above, **Section B** provided the opportunity to demonstrate higher order skills and, unfortunately this opportunity was often not taken up. The candidate's choice of questions appeared to be evenly balanced between microeconomic and macroeconomic elements.

There were few instances of rubric infringement and candidates on the whole, allocated their time quite well. The standard of written expression did not vary significantly compared to past papers and reflects continuing improvement.

Comments on individual questions

Question 1

- (a) This question was answered well. Candidates had to provide a conclusion to gain all three marks and the overwhelming majority were able to do so. The use of GDP to measure changes in living standards and associated problems is a frequently examined topic and candidates are usually well prepared to answer a question of this nature. This was demonstrated by the large number of responses which gained full marks. Most common responses pointed out the need to show per capita GDP and real GDP to allow for any meaningful comparison but credit was also given to answers which referred to any relevant weakness associated with attempts to use GDP to compare living standards between countries



- (b)(i) Candidates were required to examine the links between negative growth and unemployment. Good answers explained what is meant by negative growth and then proceeded to establish the key links between this and unemployment. It was the clarity and strength of the links revealed which determined the overall mark. For example, candidates who pointed out that output falls, incomes would fall, monetary demand would subsequently fall and this would promote further falls in output, eventually leading to a fall in demand for labour would gain full marks. Also some referred to negative multiplier effects and gained additional marks. Weaker responses only managed to partially establish a link between the two concepts. Again, relatively high marks were attained for this part.
- (ii) Candidates were required use the information provided to decide whether there is any link between economic growth rates and unemployment. There were three marks available but a significant number failed to gain full marks because they failed to completely fulfil the requirements identified on the mark scheme. Good answers identified evidence for and evidence against and correctly concluded that we cannot use this information to provide a definitive conclusion. It is very important when answering questions of this nature to reflect carefully upon the wording within the question before proceeding to interpret charts. Weaker answers simply described from the charts what had taken place but failed to use this information to address the specific question.
- (c) There was a fairly wide of responses to this part of the question and as such it proved to be a good discriminator. Whilst it was expected that candidates would focus upon Greece's national debt problem, it was also expected that Greece's comparative performance as reflected by its level of unemployment and growth rates would also be recognised as positive. Therefore it would be unwise to conclude that one should be overly concerned about the weakness of the economic situation in Greece compared to other European countries. Less impressive responses simply focused upon Greece's national debt and concluded that the data could therefore be used to support the concern.
- (d) This question was set out in a very straightforward manner. The policies suggested by the Spanish government were very clearly set out in the data and this provided a clear signpost for learner discussion. There were four policies and it was possible to gain full marks by choosing any three and discussing their effects on growth and unemployment. A surprisingly large number of candidates failed to gain maximum marks for this question. Many attempted to examine the impact of raising the retirement age but did not provide any convincing argument to link this policy to growth and unemployment. A significant number failed to recognise that in certain circumstances this policy might actually raise the level of unemployment rather than reduce it. Alternative policy options were dealt with effectively and better responses not only identified the potentially negative effects on growth of raising the level of taxation but proceeded to argue that this might be offset by subsequent government decisions to use this tax to increase spending. Policies relating to reducing public spending and increasing measures to stop tax evasion were usually explained and discussed quite well.

Question 2

- (a) There were two separate parts to this question. Firstly, candidates were required to use a budget diagram to demonstrate knowledge and understanding of the substitution effect of a price change on both a normal good and an inferior good. This part was often misunderstood, particularly in relation to an inferior good. Diagrams explaining the substitution effect were, mainly, acceptable and marks were gained. The income effect of a price change was less well understood. Many diagrams showed a movement of the whole budget line they confused the income effect of a price change with the effect of a change in income and this led to often misleading conclusions. Although it is recognised that this was a demanding question in that, there was quite a lot to think about and cover for what was a total of 12 marks.

- (b) Candidates managed to compensate to some extent for weak responses to part (a) with better more well informed answers to part (b). This type of question is frequently asked to this part of the syllabus. Marks were gained for showing some understanding of the concepts of marginal utility, marginal utility and total utility and better candidates were able to draw appropriate diagrams to link these concepts. The key to success lay primarily in the ability to explain the concept of diminishing marginal utility and, and more importantly, link this to price and ultimately to the determination of a downward sloping demand curve. The discriminating factor related to the candidates understanding of how we might construct a market demand curve by summation of individual demand curves. Unfortunately, this ability was not frequently demonstrated. Therefore, whilst many candidates were able to gain level three marks for this question, few were able to develop the discussion sufficiently to answer the question in its entirety his question proved to be a very good discriminator based upon the wide range of quality of responses. There were some excellent responses which provided clear definitions of different types of efficiency and which were sufficiently developed to demonstrate an in-depth knowledge of market failure relating to public goods, positive/negative externalities and monopoly markets. These responses also made some attempt to examine the extent to which government intervention could help to solve these problems. Less effective responses only provided relatively superficial explanations of inefficiencies and/or only a very limited discussion relating to perhaps a single cause of market failure, with no attempt to provide a valid conclusion. References to the role of governments were in little evidence.

Question 3

- (a) The subject matter in this question is generally accepted to be a mainstream part of economics and as such, one would expect that candidates would be well prepared to answer a question of this nature. However, responses varied considerably. Many gained marks for demonstrating familiarity with the key characteristics associated with each type of market structure. This was particularly in evidence with respect to perfectly competitive markets and usually supported with some accurate, clear diagrams. This did not apply with respect to monopolistic competition. Diagrams in many cases were very poorly drawn and it was common to see total profits wrongly identified. To a more worrying extent, a large number of responses confused monopolistic competition with monopoly. This led to a significant loss of marks. This type of confusion seems to have persisted over a long time period, to great cost to the learner, so it would seem that it is one part of the syllabus that teachers should give some detailed attention.
- (b) Answers to this part of the question demonstrated a wide ability range. The distinguishing feature related to the extent to which candidates were able to progress beyond simply describing the main characteristics of an oligopolistic market and establish some clear links between this type of market and its operation in a mixed economy. This was a slightly different approach to test understanding of oligopolistic markets and for those who were unable to discuss in the light of its operation in a mixed economy, a Level 2 grade proved to be the maximum mark attainable. The extent to which each characteristic was developed and used to address whether this would make it the most realistic market in this type of economic system did eventually determine the final mark awarded. Some very good answers provided clearly labelled diagrams illustrating interdependence and the kinked demand curve and used this to show why prices might be fairly rigid and the extent to which this might fit in a mixed economy. Less detailed responses tended to list characteristics but failed to use these to compare with alternative market structures and hence address the specific question

Question 4

- (a) It was important from the outset that candidate should recognise from the stem statement that the question was referring to a large multinational organisation. This then, it was assumed, would produce informed responses which related potential outcomes to a particular type of organisation thereby avoiding a discussion bases on takeovers in generally.

Some candidates recognised this and produced more focused responses which referred to the potential impact on both fixed and variable costs and used the theory of economies of scale to demonstrate this. The possible impact on the firm's workers was often entirely neglected and as a result marks were lost. Good answers focused on both elements of the question, used economic theory to underpin their discussion and attempted to provide a conclusion based on the main body of the essay. Less effective responses went into great detail listing and describing the benefits of economies of scale and the negative impact of possible diseconomies but generally failed to analyse the specific question

- (b) This part was answered slightly better than part (a) but many of the weaknesses identified in part (a) were also in evidence. In particular, the failure to answer the specific question was noticeable. The question was directing candidates to a discussion around the macroeconomic outcomes of a takeover of the domestic economy of a firm by a foreign firm. It was expected that candidates would attempt to structure their response around the impact on withdrawals and injections. Perhaps explaining how £10 billion might have been spent and its impact on employment and balance of payments and output. There were examples of some well thought out responses which did attempt to link this change to key macro goals and underpin their argument with appropriate economic theory. Others seemed to be satisfied with the provision of vague, often unsubstantiated comment with little suggestion that economic theory might have anything to add to the debate. The quality of responses covered a wide range and this indicated that the question was a good discriminator

Question 5

Questions relating to the labour market are a frequently tested part of the syllabus and on this basis it was clear that many candidates had been well prepared to answer a question of this nature, in the sense of being familiar with much of the relevant theory. Sometimes however this detailed knowledge can be counter-productive because candidates seem tempted to write everything that they know about the labour market. This invariably means that many answers lack focus on the specific question and marks are then lost accordingly.

Those who did choose to answer this question produced a range of responses from competent to reasonably good. It was relatively easy to gain Level 2 marks for this question by providing a correct but undeveloped theoretical analysis of the workings of the labour market and by ensuring that the analysis went beyond supply of and demand for labour but actually used the marginal productivity approach to establishing the demand for labour and wage determination.

Far too many responses lacked focus on the role of the trade unions and very few extended the discussion to include the role of governments and any other institutional factors. Higher marks were gained for answers which recognised the important potential role of governments and the trade unions, as well as the key contribution of the demand for labour. Good supporting diagrams were essential to show the necessary depth of understanding and, unfortunately, these were not always forthcoming and when they were they were not always sufficiently closely linked to the specific question. It is extremely important when attempting questions like this to ensure that some reflection and thought is given to the specific question before attempting to respond. Also it is vitally important, regarding the frequency of questions on the labour market, that candidates incorporate marginal productivity analysis as well as basic supply and demand analysis into their responses. Please note that these comments have been made recently but candidates still appear to be making similar errors.

Question 6

- (a) Candidates were allowed a significant amount of scope within this question to demonstrate knowledge and understanding and gain high marks in the process. A large number of candidates were successful in this respect because they were able to identify many key characteristics which are commonly associated with developing countries. Therefore, many responses gained at least a level three grade with a significant proportion providing sufficiently detailed responses to ensure a level four grade. Candidates were well prepared for a question from this part of the syllabus and this was borne out by the high success rate. Many responses referred to low GDP per capita, health and education problems, low living standards, high infant mortality rate, focus on primary production and age structure of the population which led to a high dependency ratio.
- (b) This part of the question was dealt with less effectively. In contrast to part (a) this question required a higher order discursive approach and these sometimes caused problems. Some reasoned argument was expected from candidates about what they consider to be the most important or main, aim a government should follow. Answers varied widely, some focused upon a discussion around the control of the population whilst others made only brief reference to issues relating to population growth but discussed alternative approaches in great depth. There were some answers however which made a commendable attempt to link and discuss both the aim of population control and alternative aims and whether there might be more suitable alternatives.

Question 7

This question required careful thought and careful management. Candidates needed to carefully explain different concepts of efficiency. It was pleasing to note the large number of candidates who were thoroughly familiar with both concepts of productive and allocative efficiency and could also provide detailed, accurately labelled diagrams to support their explanations. Although there were instances of confusion regarding diagrammatic explanations of allocative efficiency, candidates sometimes identifying break-even levels of output or productively efficient levels rather than that level where price equals MC

Perhaps the weakest part of most responses related to the omission of any extended discussion around the causes of market failure. This was considered to be an important element of the answer and superficial responses to this section resulted in lost marks. Answers that did score highly referred to externalities, public and merit goods and monopoly market failure, again these were supported by clear diagrams.

The role of the government was discussed but not in depth. Government regulation and the use of taxes and subsidies were the most commonly referred to types of intervention but they were often only dealt with in a cursory manner. Although a reasoned conclusion was expected, many answers simply ended abruptly or produced very limited statements which bore little relation to the preceding discussion.

ECONOMICS

Paper 9708/42

Data Response and Essays (Supplement)

Key messages

- The importance of accuracy and quality of diagrams.
- The importance of time management.

General comments

It would probably surprise the majority of teachers how many candidates do not heed their instructions concerning the allocation of time to each question. It is a pity that this happens for it is apparent that the reason for quite short answers to questions from **section B** is not a lack of knowledge or understanding but a lack of time. Many candidates wrote extensively on the sections to **Question 1**, even though only a few marks were allocated. Sometimes the answer extended to nearly two sides when only three marks were available. As will be appreciated, it is part of the skill of the examination to be able to manage the time allowed. Candidates also sometimes do not follow the advice they are given to make diagrams clear and accurate with correct labels. Often the diagram is squashed into a corner of the page, the lines on it are imprecise and some of the labels are missing. This does not enhance the answer but distracts from it.

Comments on individual questions

Question 1

- (a) (i) In finding evidence that supports the opinion that Malaysia is a market-orientated economy, candidates could have used the statements that prices are competitive, and that there are large number of small and medium sized enterprises.
- (ii) Evidence that opposes that opinion is that there is government intervention in the economy, that a large % of the output in manufacturing and agriculture is controlled by large industries which are likely to control prices, and thus may be thought not to be in a free perfectly competitive market. In answering part (ii) of this question candidates often referred to the existence of a government but did not say why this opposed the idea of a market economy. Simply stating that there was government intervention was insufficient particularly as those same candidates also referred to the government when suggesting evidence in favour of the market economy in part (i).
- (b) Candidates were asked to state two indicators. That was all that was required. The indicators include profit levels, productivity, employment, research activity, output, market size, turnover, sales. Many candidates wasted time by giving an extended answer to this question. Candidates are strongly advised to read the initial 'command' words carefully and to note the number of marks for each question. The word 'identify' or 'state' does not require an extended answer. Two indicators were asked for and only two marks were allowed for this question.
- (c) The government policies mentioned in the article are loans, advice, information, research into consumer tastes, freer trade and less protection of industry. Candidates could have chosen any two and suggested how they might influence production and the performance of the industries. Those who did choose policies from the article were usually able to comment on those policies and made clear and valid points. Many candidates, however, did not choose any policy from the article but wrote in general terms about macroeconomic policies. The question did refer candidates to the policies mentioned in the article. It is important in the data response question that candidates use the information provided if they are asked to do so.

- (d) Two interpretations of this question were allowed. Candidates could either have discussed the importance of SMEs for the economy, or discussed whether they thought the government should have SMEs priority.

Better candidates saw the contrast between the number of enterprises and the value of their production. While it is true that those SMEs are large in number and employ over half the country's workforce, they account for only 19% of the value of exports. The output SMEs produce is only 43.5% of the total output; and in manufacturing, which is the sector that has the biggest value of output; their share is only 34.9%. By contrast, the larger enterprises account for only 10.7% of the number of enterprises in manufacturing but produce, disproportionately, 65.1% of the manufacturing output.

The largest % of SMEs by sector is in agriculture but agriculture accounts for only a small percentage of the output of the economy.

In services, SMEs account for 96.7% of the total number of enterprises but the remaining 3.3% of larger enterprises produce 43.4% of the output. (SMEs produce 56.6%).

The value of the output and exports puts a different perspective on the importance of SMEs compared with the number of enterprises existing. Nevertheless they are a significant feature of the economy by number and number employed. After presenting their argument, candidates should have stated what their conclusion was.

Question 2

- (a) This question required candidates to demonstrate an understanding of both total and marginal utility and to establish the link between these, price and the demand curve. Few candidates chose to answer this question but those that did addressed these elements quite well. Many provided clear definitions of the key terms and supported this with relevant, accurately labelled diagrams.

Good responses explained the equi-marginal principle and used this to show how price changes might affect demand. Their answer illustrated diagrammatically the link between the diminishing marginal utility, the price and a downward sloping demand curve. Less effective answers simply described the concept of diminishing marginal utility and then suggested that this would cause a downward sloping demand curve with no clear explanation of the link. Weaker responses frequently provided a peripheral comment, for example, the diamond/water paradox.

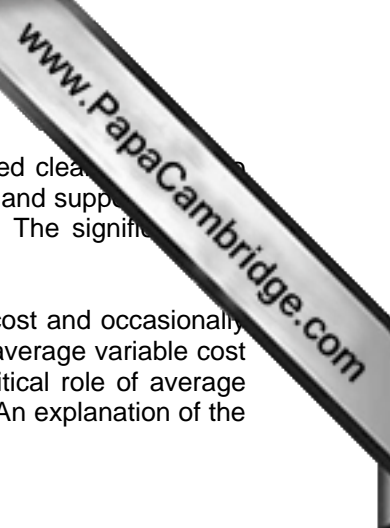
- (b) This section of the question was often not understood. It was expected that candidates would show an understanding of the theoretical underpinning of rational consumer choice. Very few related their response to consumer surplus and very few were able to discuss both kinds of product in the context of the accepted theory.

Good responses understood the necessity to show how a rational choice might be made, based on the desire to maximise consumer satisfaction and then analyse whether this rational behaviour would change when the nature of the product changed and, if not, why not. High marks were gained for a clear enunciation of what constitutes a rational choice and for applying this in a balanced way to allow some kind of conclusion with respect to both products.

Question 3

- (a) A wide range of responses were received in relation to this question. Both types of market structure in the question represent a mainstream part of the syllabus and both elements are frequently tested. It was to be expected, therefore, that candidates were well prepared to answer this question, particularly when they referred to explanations of perfect competition. However, it was surprising to note the significant number of inaccurate diagrams which were drawn. This was especially noticeable in relation to the monopoly market. Although many candidates were able to correctly identify the profit maximisation price and output, a large number wrongly identified total profits.

Good answers distinguished between short run and long run positions for both types of market. They explained why they would be different and provided clear, accurate supporting diagrams.



- (b) Responses to this question varied significantly. Some excellent answers used clear diagrams to show the key differences between short run and long run shut down positions and supported these with a careful explanation of the important role of average variable costs. The significant link between average variable cost in relation to profits was correctly established.

Less effective answers provided some basic definitions of different types of cost and occasionally provided supporting diagrams showing the links between average total cost, average variable cost and average fixed costs. However, candidates were unable to show the critical role of average variable costs when deciding whether to continue producing in the short run. An explanation of the link between costs and profits gained only a moderate mark.

Question 4

This was one of the most popular questions. Sadly, as with some of the answers to other questions, many answers read as if the candidate was expecting a question on wage differentials but did not apply the material to the question. Application to the context in the stem was frequently incidental and any consideration of the fairness was hasty or superficial.

Despite the perennial nature of this kind of question and the repeated references in these reports to the need to use marginal revenue productivity theory in order to obtain the higher grades, many candidates still do not use the theory.

Others did refer to marginal revenue productivity theory but the reference was brief and relied mainly on explaining how MRP was calculated. There was little development or use of the analysis related to the question. However, there was a significant group that not only referred to the theory but also questioned the realism of the analysis, usually in terms on the non-existence of perfect competition or because it ignored the supply side of the labour market. This group also constructed a well-developed answer with an analysis of bilateral monopoly or monopsony and bargaining theory.

Those candidates who used the demand and supply approach often produced good clear diagrams, with appropriate shifts in the curves, which, when combined with the relevant elasticities were used to explain differentials. However, the consideration of 'fairness' was minimal. A significant number of candidates presented an explanation using economic rent and transfer earnings. Unfortunately their answers really explained the nature of earnings rather than differences in wage rates.

Question 5

- (a) The best answers provided a good account of three or more determinants of the level of investment. (These determinants included the rate of interest, the cost and efficiency of capital equipment, the changes in consumer demand and business expectations). The answers then provided a rigorous analytical explanation of the multiplier process and its impact on the GDP. The weakness of other responses was the inability to show how the various determinants were linked together to provide a theory of investment. Some answers omitted to mention the multiplier process and the effect of investment on GDP. They were, therefore, limited in the range of marks possible.

- (b) The better answers dealt with the purpose of the question which was to consider the difficulties of using GDP as an economic indicator. They mentioned problems of data collection, data analysis, price differences, population differences, and the valuation of factors such as the number of doctors, education levels, water supply and the exploitation of resources. Better answers also suggested alternative measures that might be used. Weaker answers gave only a very broad limited account of the limitations of GDP.

Question 6

- (a) The purpose of the first part of the question was to ask candidates to explain why developing countries often aimed to increase economic growth. There were a number of very good answers with candidates demonstrating a sound knowledge and understanding of the meaning of economic growth. There were useful explanations of the possible benefits of economic growth, such as its relation to increase incomes and to achieve improvements in standards of living. Some candidates, unfortunately, did not focus sufficiently on the question asked. Either they presented a prepared answer on the potential benefits of economic growth, without concentrating on why this might be an aim of developing countries in particular. Or they presented a general answer describing the characteristics of developing countries, without an emphasis on why an aim would be to increase the rate of economic growth.
- (b) The purpose of the second part of the question was to ask candidates to offer an assessment of the likely effectiveness of the types of policy that the government of a developing country might use if it wished to increase the rate of economic growth. There were many good answers on a range of policies. Most candidates provided an assessment of fiscal policy and monetary policy. Others went further and included exchange rate policies and/or supply side policies in their assessment. Some candidates, unfortunately, did not focus on the 'likely effectiveness' of the policies and offered instead a simple description of the different types of policies. It is essential that candidates do read carefully the question and adapt their preparation to that question.

Question 7

The purpose of this question was to ask candidates to consider the three distinct elements within it. Firstly, candidates needed to explain the meaning of the term 'economic efficiency'. Many demonstrated a sound knowledge and understanding of the term in relation to both productive efficiency and allocative efficiency. Secondly, candidates needed to consider the possible link between economic efficiency and the size of the private sector. Although some benefits might occur from an increase in the size of the private sector, it was apt to state that this might not always lead to an increase in economic efficiency. A lack of efficiency might occur, for example, if the private firm was a monopoly. Thirdly, candidates needed to consider the arguments for minimising the extent of government intervention in an economy. Although some candidates argued strongly in favour of this, many pointed out the need for the continued existence of some degree of government intervention, especially in overcoming problems associated with market failure, such as the underproduction of merit goods and the overproduction of demerit goods. Given that candidates were asked to consider the extent to which they supported the argument in the question, their answer should have contained a conclusion. Many candidates, unfortunately, omitted this.

ECONOMICS

Paper 9708/43

Data Response and Essays (Supplement)

Key messages

- Candidates need to use and build upon their knowledge and application to enable a more analytical/evaluative approach. It is precisely this ability which allows candidates to progress to the higher level marks associated with grades A/B. In this respect there is still much scope for improvement.
- The last two examiner reports attempted to highlight the continuing inability of candidates to provide clear, accurately labelled, supporting diagrams. This is surprising given the frequent use of diagrams to aid economic analysis and their importance in relation to examination success. Candidates should be encouraged to use diagrams and ensure that they are accurate and correctly labelled. This would also mean that candidates can continue to maintain the opportunity to build upon knowledge and application with a more analytical approach embodied in diagrammatic form. Particular examples relating to diagrams will be referred to within specific question comments set out below.

General Comments

Although differences between Centres remained they were not as pronounced as in previous sessions and the overall standard of performance was better than the November 2011 session. This was pleasing given the fact that the structure of the paper and the associated degree of difficulty remained the same as that of previous years. Many candidates managed to gain a pass level and a significant proportion of these were able to build upon knowledge of basic economic principles and extend and deepen the breadth of their responses to convert to a higher level grade. However, as in the past, there were still many instances of a failure to progress beyond the provision of basic knowledge and understanding.

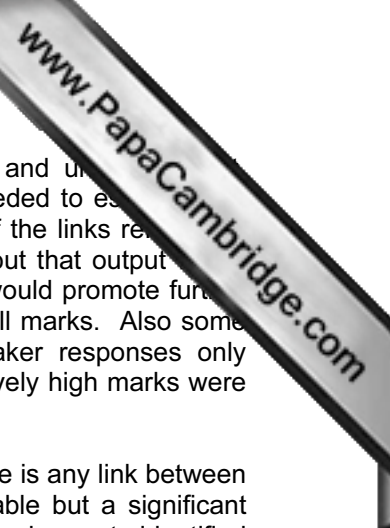
The data response questions in **section A** were based upon the very relevant macroeconomic issues surrounding government policy and the performance of five European countries. This question relating current macroeconomic issues, was generally well received by candidates and questions were generally answered more effectively than their counterparts in **Section B** and quite impressive given the lack of choice in **Section A** compared to **Section B**. Also, as stated above, **Section B** provided the opportunity to demonstrate higher order skills and, unfortunately this opportunity was often not taken up. The candidate's choice of questions appeared to be evenly balanced between microeconomic and macroeconomic elements.

There were few instances of rubric infringement and candidates on the whole, allocated their time quite well. The standard of written expression did not vary significantly compared to past papers and reflects continuing improvement.

Comments on individual questions

Question 1

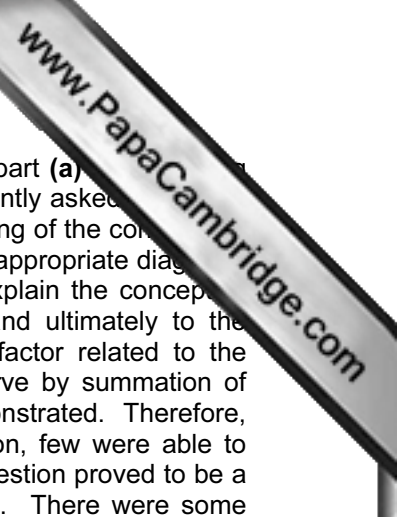
- (a) This question was answered well. Candidates had to provide a conclusion to gain all three marks and the overwhelming majority were able to do so. The use of GDP to measure changes in living standards and associated problems is a frequently examined topic and candidates are usually well prepared to answer a question of this nature. This was demonstrated by the large number of responses which gained full marks. Most common responses pointed out the need to show per capita GDP and real GDP to allow for any meaningful comparison but credit was also given to answers which referred to any relevant weakness associated with attempts to use GDP to compare living standards between countries



- (b) (i) Candidates were required to examine the links between negative growth and unemployment. Good answers explained what is meant by negative growth and then proceeded to establish the key links between this and unemployment. It was the clarity and strength of the links revealed which determined the overall mark. For example, candidates who pointed out that output falls, incomes would fall, monetary demand would subsequently fall and this would promote further falls in output, eventually leading to a fall in demand for labour would gain full marks. Also some referred to negative multiplier effects and gained additional marks. Weaker responses only managed to partially establish a link between the two concepts. Again, relatively high marks were attained for this part.
- (ii) Candidates were required use the information provided to decide whether there is any link between economic growth rates and unemployment. There were three marks available but a significant number failed to gain full marks because they failed to completely fulfil the requirements identified on the mark scheme. Good answers identified evidence for and evidence against and correctly concluded that we cannot use this information to provide a definitive conclusion. It is very important when answering questions of this nature to reflect carefully upon the wording within the question before proceeding to interpret charts. Weaker answers simply described from the charts what had taken place but failed to use this information to address the specific question.
- (c) There was a fairly wide of responses to this part of the question and as such it proved to be a good discriminator. Whilst it was expected that candidates would focus upon Greece's national debt problem, it was also expected that Greece's comparative performance as reflected by its level of unemployment and growth rates would also be recognised as positive. Therefore it would be unwise to conclude that one should be overly concerned about the weakness of the economic situation in Greece compared to other European countries. Less impressive responses simply focused upon Greece's national debt and concluded that the data could therefore be used to support the concern.
- (d) This question was set out in a very straightforward manner. The policies suggested by the Spanish government were very clearly set out in the data and this provided a clear signpost for learner discussion. There were four policies and it was possible to gain full marks by choosing any three and discussing their effects on growth and unemployment. A surprisingly large number of candidates failed to gain maximum marks for this question. Many attempted to examine the impact of raising the retirement age but did not provide any convincing argument to link this policy to growth and unemployment. A significant number failed to recognise that in certain circumstances this policy might actually raise the level of unemployment rather than reduce it. Alternative policy options were dealt with effectively and better responses not only identified the potentially negative effects on growth of raising the level of taxation but proceeded to argue that this might be offset by subsequent government decisions to use this tax to increase spending. Policies relating to reducing public spending and increasing measures to stop tax evasion were usually explained and discussed quite well.

Question 2

- (a) There were two separate parts to this question. Firstly, candidates were required to use a budget diagram to demonstrate knowledge and understanding of the substitution effect of a price change on both a normal good and an inferior good. This part was often misunderstood, particularly in relation to an inferior good. Diagrams explaining the substitution effect were, mainly, acceptable and marks were gained. The income effect of a price change was less well understood. Many diagrams showed a movement of the whole budget line they confused the income effect of a price change with the effect of a change in income and this led to often misleading conclusions. Although it is recognised that this was a demanding question in that, there was quite a lot to think about and cover for what was a total of 12 marks.



- (b) Candidates managed to compensate to some extent for weak responses to part (a) with better more well informed answers to part (b). This type of question is frequently asked to this part of the syllabus. Marks were gained for showing some understanding of the concepts of marginal utility, marginal utility and total utility and better candidates were able to draw appropriate diagrams to link these concepts. The key to success lay primarily in the ability to explain the concept of diminishing marginal utility and, and more importantly, link this to price and ultimately to the determination of a downward sloping demand curve. The discriminating factor related to the candidates understanding of how we might construct a market demand curve by summation of individual demand curves. Unfortunately, this ability was not frequently demonstrated. Therefore, whilst many candidates were able to gain level three marks for this question, few were able to develop the discussion sufficiently to answer the question in its entirety his question proved to be a very good discriminator based upon the wide range of quality of responses. There were some excellent responses which provided clear definitions of different types of efficiency and which were sufficiently developed to demonstrate an in-depth knowledge of market failure relating to public goods, positive/negative externalities and monopoly markets. These responses also made some attempt to examine the extent to which government intervention could help to solve these problems. Less effective responses only provided relatively superficial explanations of inefficiencies and/or only a very limited discussion relating to perhaps a single cause of market failure, with no attempt to provide a valid conclusion. References to the role of governments were in little evidence.

Question 3

- (a) The subject matter in this question is generally accepted to be a mainstream part of economics and as such, one would expect that candidates would be well prepared to answer a question of this nature. However, responses varied considerably. Many gained marks for demonstrating familiarity with the key characteristics associated with each type of market structure. This was particularly in evidence with respect to perfectly competitive markets and usually supported with some accurate, clear diagrams. This did not apply with respect to monopolistic competition. Diagrams in many cases were very poorly drawn and it was common to see total profits wrongly identified. To a more worrying extent, a large number of responses confused monopolistic competition with monopoly. This led to a significant loss of marks. This type of confusion seems to have persisted over a long time period, to great cost to the learner, so it would seem that it is one part of the syllabus that teachers should give some detailed attention.
- (b) Answers to this part of the question demonstrated a wide ability range. The distinguishing feature related to the extent to which candidates were able to progress beyond simply describing the main characteristics of an oligopolistic market and establish some clear links between this type of market and its operation in a mixed economy. This was a slightly different approach to test understanding of oligopolistic markets and for those who were unable to discuss in the light of its operation in a mixed economy, a Level 2 grade proved to be the maximum mark attainable. The extent to which each characteristic was developed and used to address whether this would make it the most realistic market in this type of economic system did eventually determine the final mark awarded. Some very good answers provided clearly labelled diagrams illustrating interdependence and the kinked demand curve and used this to show why prices might be fairly rigid and the extent to which this might fit in a mixed economy. Less detailed responses tended to list characteristics but failed to use these to compare with alternative market structures and hence address the specific question

Question 4

- (a) It was important from the outset that candidate should recognise from the stem statement that the question was referring to a large multinational organisation. This then, it was assumed, would produce informed responses which related potential outcomes to a particular type of organisation thereby avoiding a discussion bases on takeovers in generally.

Some candidates recognised this and produced more focused responses which referred to the potential impact on both fixed and variable costs and used the theory of economies of scale to demonstrate this. The possible impact on the firm's workers was often entirely neglected and as a result marks were lost. Good answers focused on both elements of the question, used economic theory to underpin their discussion and attempted to provide a conclusion based on the main body of the essay. Less effective responses went into great detail listing and describing the benefits of economies of scale and the negative impact of possible diseconomies but generally failed to analyse the specific question

- (b) This part was answered slightly better than part (a) but many of the weaknesses identified in part (a) were also in evidence. In particular, the failure to answer the specific question was noticeable. The question was directing candidates to a discussion around the macroeconomic outcomes of a takeover of the domestic economy of a takeover by a foreign firm. It was expected that candidates would attempt to structure their response around the impact on withdrawals and injections. Perhaps explaining how £10 billion might have been spent and its impact on employment and balance of payments and output. There were examples of some well thought out responses which did attempt to link this change to key macro goals and underpin their argument with appropriate economic theory. Others seemed to be satisfied with the provision of vague, often unsubstantiated comment with little suggestion that economic theory might have anything to add to the debate. The quality of responses covered a wide range and this indicated that the question was a good discriminator

Question 5

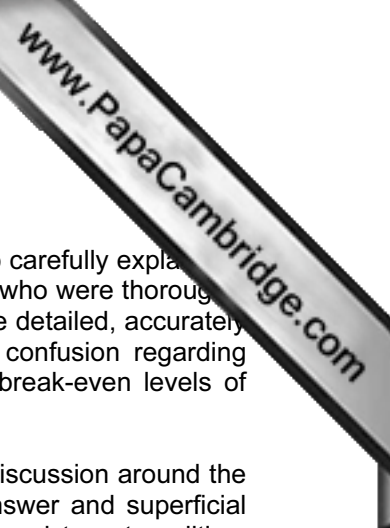
Questions relating to the labour market are a frequently tested part of the syllabus and on this basis it was clear that many candidates had been well prepared to answer a question of this nature, in the sense of being familiar with much of the relevant theory. Sometimes however this detailed knowledge can be counter-productive because candidates seem tempted to write everything that they know about the labour market. This invariably means that many answers lack focus on the specific question and marks are then lost accordingly.

Those who did choose to answer this question produced a range of responses from competent to reasonably good. It was relatively easy to gain Level 2 marks for this question by providing a correct but undeveloped theoretical analysis of the workings of the labour market and by ensuring that the analysis went beyond supply of and demand for labour but actually used the marginal productivity approach to establishing the demand for labour and wage determination.

Far too many responses lacked focus on the role of the trade unions and very few extended the discussion to include the role of governments and any other institutional factors. Higher marks were gained for answers which recognised the important potential role of governments and the trade unions, as well as the key contribution of the demand for labour. Good supporting diagrams were essential to show the necessary depth of understanding and, unfortunately, these were not always forthcoming and when they were they were not always sufficiently closely linked to the specific question. It is extremely important when attempting questions like this to ensure that some reflection and thought is given to the specific question before attempting to respond. Also it is vitally important, regarding the frequency of questions on the labour market, that candidates incorporate marginal productivity analysis as well as basic supply and demand analysis into their responses. Please note that these comments have been made recently but candidates still appear to be making similar errors.

Question 6

- (a) Candidates were allowed a significant amount of scope within this question to demonstrate knowledge and understanding and gain high marks in the process. A large number of candidates were successful in this respect because they were able to identify many key characteristics which are commonly associated with developing countries. Therefore, many responses gained at least a level three grade with a significant proportion providing sufficiently detailed responses to ensure a level four grade. Candidates were well prepared for a question from this part of the syllabus and this was borne out by the high success rate. Many responses referred to low GDP per capita, health and education problems, low living standards, high infant mortality rate, focus on primary production and age structure of the population which led to a high dependency ratio.
- (b) This part of the question was dealt with less effectively. In contrast to part (a) this question required a higher order discursive approach and these sometimes caused problems. Some reasoned argument was expected from candidates about what they consider to be the most important or main, aim a government should follow. Answers varied widely, some focused upon a discussion around the control of the population whilst others made only brief reference to issues relating to population growth but discussed alternative approaches in great depth. There were some answers however which made a commendable attempt to link and discuss both the aim of population control and alternative aims and whether there might be more suitable alternatives.



Question 7

This question required careful thought and careful management. Candidates needed to carefully explain different concepts of efficiency. It was pleasing to note the large number of candidates who were thoroughly familiar with both concepts of productive and allocative efficiency and could also provide detailed, accurately labelled diagrams to support their explanations. Although there were instances of confusion regarding diagrammatic explanations of allocative efficiency, candidates sometimes identifying break-even levels of output or productively efficient levels rather than that level where price equals MC

Perhaps the weakest part of most responses related to the omission of any extended discussion around the causes of market failure. This was considered to be an important element of the answer and superficial responses to this section resulted in lost marks. Answers that did score highly referred to externalities, public and merit goods and monopoly market failure, again these were supported by clear diagrams.

The role of the government was discussed but not in depth. Government regulation and the use of taxes and subsidies were the most commonly referred to types of intervention but they were often only dealt with in a cursory manner. Although a reasoned conclusion was expected, many answers simply ended abruptly or produced very limited statements which bore little relation to the preceding discussion.