ECONOMICS

Paper 9708/11
Multiple Choice

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

General comments

Questions 4, **10**, **11**, **14**, **17** and **28** were answered most successfully. These questions covered the full range of skills and syllabus topics, although the majority of these responses related to microeconomic issues. **Questions 7**, **16**, **18**, and **22** were found to be the most difficult.

Comments on specific questions

Questions 4 and 17

Questions 4 and **17** were dealt with the most effectively by candidates. Both questions were based on a frequently tested part of the syllabus and both questions relied primarily upon knowledge recall.

Question 7

Question 7 was answered correctly by 31 per cent of candidates who chose option **C**. This question required candidates to apply an understanding of the relationship between the price elasticity of supply and the shape of the supply curve. A significant number of candidates chose option **D**. Option **D** related to the horizontal line Z which clearly indicated an infinite price elasticity of supply not 0 as stated in option **D**. The correct option **C** was correct because the supply curve intercepted the vertical axis above the origin. This would indicate that the price of elasticity of supply would be greater than 1 to begin with and would then fall as price rose and an upward movement along the supply curve took place.

Question 8

A significant number of candidates chose option **D** (48 per cent) in relation to **Question 8**. this option was incorrect because candidates appeared to confuse producer surplus with producer revenue. Option **D** area represented the producer revenue after the demand increase. Producer surplus is the area covered by the horizontal price line and the producer supply curve, in this case the area = $6 × 120 = $720 therefore option **B** was the correct response.

Question 16

34 per cent of candidates incorrectly chose option **A** for **Question 16**. This was incorrect because it was not possible, from the information provided, to conclude that health care could be described as a public good. However, it was possible to deduce from the diagram that there would be an excess demand for free health care. Therefore, rationing would be required and option **D** would be the correct response.

Question 18

The key to answering **Question 18** related to recognising which statement was **NOT** valid. In this case, it should have been clear that since the tax rate increased from 20 per cent to 50 per cent above $100 000 then the tax rate could not be described as regressive, i.e. taxing the less well-off disproportionately. Hence option **D** was correct. A significant number of candidates failed to recognise this.

Question 22

32 per cent of candidates correctly identified option **C** in response to **Question 22**. 31 per cent of candidates chose option **B**. Once again, it was important to look for a statement which was **NOT** correct. It was possible to deduce from the table, that option **B** was correct. Between years 3 and 4 it was clear from the table that the price level had risen faster than money wages therefore real wages actually fell in this period, therefore option **C** was correct.

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Paper 9708/12
Multiple Choice

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

General comments

Questions 1, **2**, **4**, **7**, **10**, **11**, and **20** were answered most successfully. These questions covered the full range of skills but six out of seven of these responses were based on microeconomic syllabus topics. **Questions 15**, **18**, **19** and **26**, were found to be the most difficult.

Comments on specific questions

Question 15 required candidates to interpret a graph to calculate a marginal tax rate. A significantly high proportion of candidates (52 per cent) incorrectly chose option **A**. The key to a successful response related to an ability to recognise that it was necessary to calculate the **marginal rate of tax** in both instances. It seems that most candidates understood that this would = 0 between $0 – $10 000 but failed to calculate the marginal rate, i.e. the percentage rate of tax taken when income rose from $10 000 to $20 000. In this case the change in tax = $2500 and the change in income was $10 000 therefore the marginal rate = 25 per cent, i.e. option **B**

Question 18 was answered correctly by 23 per cent of the candidates who chose option **D**. 31 per cent incorrectly chose option **A**. Candidates dealt with this question the least effectively on the paper. This question required candidates to demonstrate a clear understanding of the links between the elasticity of demand and elasticity of supply and the cost to a government introduction of a flat rate subsidy. Candidates needed to understand that the total government expenditure accounted for by this subsidy will be determined by the total amount of goods sold after the subsidy has been introduced. Maximum sales will occur after the subsidy reduces price when the demand is price elastic, i.e. greater than 1 and when the supply is also price elastic, i.e. greater than 1. Therefore, option **D** was the correct option. It is not clear why such a significant number of candidates chose option **A**.

Question 19 required candidates to identify the potential impact of a policy of increasing the money supply on an economy in recession. 39 per cent correctly identified option **B**. It was expected that candidates would link an increase in the money supply to low interest rates and in this case option **B** would produce the most favourable circumstances for this policy to work.

Question 20 was answered correctly by 90 per cent of candidates. **Question 20** required basic knowledge recall in relation to a mainstream introductory part of the syllabus.

Question 26 was correctly answered by 37 per cent of candidates. Option **A** was correct because the move from an overvalued fixed exchange rate to a floating exchange rate would lead to a depreciating currency. A depreciating currency would make imports more expensive and also make it more difficult to achieve the aim of low inflation.

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Paper 9708/13
Multiple Choice

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

General comments

Questions 3, **10** and **20** were answered most successfully. Two of these questions covered microeconomic topics. These questions covered knowledge and analysis. **Questions 14**, **24**, **25**, **26**, **28** and **30**, were found to be the most difficult. Each of these six questions was based on the macroeconomic section of this syllabus.

Comments on specific questions

Question 14 was dealt with the least effectively across the paper. This question was answered correctly by 39 per cent of candidates, who chose option **B**. Candidates were expected to recognise that the introduction of a minimum price above the market equilibrium price would lead to a surplus because the supply of alcohol would extend and the demand would contract. This contraction of demand would then lead to a fall in the volume of alcoholic drink sales. Hence option **B** was the correct response. 51 per cent of candidates chose option **D** which stated that there would be an increase in tax revenue from the sale of alcoholic drinks. When a sales tax is imposed on a product and the volume of products sold subsequently falls, then it would be incorrect to suggest that there would be an **increase** in tax revenue.

Question 25: 46 per cent of candidates correctly identified option **D** as the correct answer. 26 per cent chose option **B**. The key to gaining the correct answer to this question was recognising the reference in the stem to the **domestic** real value of a currency. This should have enabled candidates to avoid confusing the effects of a depreciation on the value of a currency and the effects of inflation on the domestic value of a currency. The former relates to a fall in the value of a currency **relative** to other foreign currencies, whereas inflation will automatically cause a fall in the real value of the domestic currency.

Question 30 produced a very similar outcome to that outlined in relation to **Question 25**. 45 per cent identified the correct response, i.e. option **A** and 26 per cent of candidates chose an alternative option **B**. All candidates that chose either option **A** or option **B** understood that a fiscal policy which produced lower direct taxes would be effective in reversing a deflation. The main difference related to assessing the impact of alternative types of monetary policy. Candidates who were aware that a devaluation would lower export prices, which would then increase aggregate monetary demand, were then able to correctly identify **A** as the correct option. This would then support the view that a devaluation might help to reverse a deflation. Option **B** referred to a revaluation, which would produce the opposite effects produced by a devaluation, therefore, this was incorrect.

ECONOMICS

Paper 9708/21
Data Response and Essay

Key messages

- Candidates need to ensure they focus on the particular 'command' word that is being used in a question, such as '**describe**', '**explain**', **'analyse'** or '**discuss**'.
- It is important candidates understand that in the second part of the '**discuss**' questions in ***Section B***, a certain number of marks can be awarded for '**evaluation**'. There is often a clue in the question to guide candidates towards this, such as in **Question 2(b)** which required candidates to discuss why in most economies, resources are **mainly** allocated using market forces and the price mechanism or in **Question 3 (b)** which required candidates to discuss which measure (price elasticity of demand or income elasticity of demand) is likely to be **more useful** to a business or in **Question 4 (b)** which required candidates to discuss whether supply-side policies are an **effective way** of correcting a deficit on an economy's current account of the balance of payments.
- It is also important that candidates understand the need to include the use of relevant examples in their answers where these are explicitly asked for in a question, such as in **Question 2(a)**.
- Candidates need to ensure that diagrams are correctly drawn and clearly labelled. There were, unfortunately, a number of examples of poor labelling and, in some cases, no labelling at all. A diagram was required in **Questions 1(c)**, **1(d)(ii)** and **4(a)**, but there were other questions where diagrams could have been used to support an answer.
- It is important that candidates read questions very carefully to avoid making an error in their answer. For example, in **Question 1(d)(i)**, some candidates explained what was meant by a 'deficit on the current account of the balance of payments' rather than a 'budget deficit', while in **Question 3(b)**, some candidates also explained the implications of cross elasticity of demand for business decisions despite the fact that the question did not actually ask for this.

General comments

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

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

It is also important that candidates focus on whether there is any additional guidance provided in a question, such as in **Question 4(b)**, where candidates were required to discuss whether supply-side policies were an effective way of correcting a deficit on an economy's current account of the balance of payments. Unfortunately, some candidates simply wrote about the various supply-side policies that could be used to correct such a deficit without considering whether they were likely to be effective or not.

Comments on specific questions

Section A

Question 1: Compulsory Data Response

(a) Most candidates were able to correctly describe the functions of an entrepreneur in the production process in relation to both organising/combining/coordinating the factors of production and in taking a risk in doing so. However, some candidates wrote at length about the role of an entrepreneur in a very general way without actually focusing on these two important functions.

(b) A number of candidates were able to explain how a customs union differed from a free trade area, stressing that the key difference between them was in relation to a common external tariff. Members of a customs union have a common external tariff with non-member countries whereas members of a free trade area do not and are able to charge whatever tariffs they want against non-member countries. However, a number of candidates seemed unsure of the difference between the two forms of integration and this was clearly an element of the syllabus that many candidates did not seem to understand. Some candidates, unfortunately, focused on currency rather than trade.

(c) Many candidates were able to explain how the exchange rate of the Latvian Lat against the Euro was maintained at a constant rate of 0.7 through the intervention of the government, such as by selling foreign reserves or by the buying or selling of the currency on the foreign exchange market. Changes in the rate of interest were not accepted as a possible answer because of the fact that Fig. 1.1 showed clearly that the exchange rate was kept constantly at this level between 2007 and 2013 without any deviation above or below this rate. Most diagrams were accurately drawn, but they were not always labelled correctly. Some candidates labelled the demand curve and the supply curve the wrong way round or labelled the vertical axis as price rather than exchange rate or Lats per Euro.

(d) (i) Many candidates were able to explain what was meant by such a deficit in relation to expenditure exceeding revenue, but did not always clearly explain that this particular budget deficit was in relation to the details of government expenditure and government revenue included as part of a budget statement. Unfortunately, some candidates referred to a deficit on the current account of the balance of payments rather than a budget deficit.

(ii) Many candidates were able to analyse how fiscal measures to reduce the budget deficit could be used by the Latvian government to lower the relatively high rate of inflation in the country. Answers included an analysis of both a reduction in public expenditure and an increase in taxation. The command word used in this question was **'analyse'** and so candidates were expected to go beyond a mere description of such fiscal measures. Some candidates did not seem clear about the meaning of the term 'fiscal measures' and wrote about monetary measures instead. There were some good examples of AD/AS diagrams, showing the AD curve shifting to the left, although some of them contained incorrect labelling. In an AD/AS diagram, the vertical axis should be labelled 'general price level' rather than 'price' and the horizontal axis should be labelled as 'real output' or 'GDP' rather than 'quantity'.

(e) A number of candidates made quite a good attempt to discuss whether it was better for Latvia to specialise in banking services rather than having a more diversified economy. The advantages of Latvia specialising in banking services were considered, such as in relation to comparative advantage and the existence of a lower opportunity cost ratio and the fact that banking services do not have significant transport costs, especially online banking, and there was then a consideration of the potential advantages of Latvia having a more diversified economy, such as in relation to the avoidance of over-specialisation and the spreading of risk, which would be especially significant if there was a reduction in the demand for financial services. Unfortunately, a number of candidates did not offer a conclusion, even though it was a **'discuss'** question.

Section B

Essays

Question 2

(a) In this part of the question, candidates were required to explain, with the help of examples, how imperfect information among consumers affected their consumption of merit goods and demerit goods. Merit and demerit goods needed to be defined in relation to them both being private goods that were rival and excludable and then merit goods needed to be explained in terms of having intrinsic benefits for individuals, such as education or health care, and demerit goods in terms of being potentially damaging for individuals, such as alcohol or tobacco. The problem of information failure was explained clearly by most candidates who were able to apply the concept to both types of good: consumers would not fully appreciate the value of a merit good and so they would be likely to be under-produced and under-consumed, whereas consumers would not fully understand the potential dangers of a demerit good, with the result that they would be likely to be over-produced and over-consumed. Unfortunately, some candidates did not provide any examples of either type of

good, despite the fact that the question explicitly required them to include examples in their explanations, and some confused merit goods and demerit goods with public goods. Some candidates focused to a very large extent on advertising

(b) In the second part of the question, candidates were required to discuss why in most mixed economies, resources were mainly allocated using market forces and the price mechanism. Most candidates were able to provide quite a reasonable analysis of market forces and the price mechanism, focusing on the way that prices operated as signals to indicate consumer preferences to producers, but unfortunately relatively few candidates considered the role of government intervention in mixed economies, such as in terms of the provision of both merit goods and public goods. There was a very clear 'steer' in the question, which referred to the fact that in most mixed economies, resources were **'mainly'** allocated using market forces and the price mechanism, strongly indicating that there was also another form of resource allocation operating in a mixed economy. Unfortunately, most candidates provided little, if any, evaluation, although some candidates did make a good attempt to exercise some judgement on why in most mixed economies, resources were not exclusively allocated using only market forces and the price mechanism, pointing out that certain goods would have to be provided by a government as these public goods would otherwise not be provided at all.

Question 3

(a) In this part of the question, candidates were required to explain why the cross elasticity of demand figures that were given in the question differed between +1.4 with respect to the price of rice and –0.7 with respect to the price of butter. Most candidates were able to explain what was meant by cross elasticity of demand and were able to provide the correct formula, although not all candidates referred to the fact that it was percentage or proportionate changes that were being compared. The majority of candidates were able to explain that where the figure was positive, as with bread and rice, this indicated that the two goods were substitutes, and where the figure was negative, as with bread and butter, this indicated that the two goods were complements. However, relatively few candidates went on to point out that the two figures also indicated the strength of the relationship, i.e. a figure of +1.4 indicated a relatively strong relationship whereas a figure of –0.7 indicated a relatively weak relationship.

(b) In the second part of the question, candidates were required to explain the implications of price elasticity of demand and income elasticity of demand for business decisions and to discuss which of these two measures was likely to be more useful to a business. Most candidates were able to provide a useful analysis of each elasticity, stressing that price elasticity of demand would be extremely helpful for a business wanting to increase revenue when deciding whether to increase or decrease the price of a product, and that income elasticity of demand would be extremely helpful for a business in relation to changes in the demand for normal or inferior goods in an economy. However, the quality of the evaluation was rather limited, with candidates writing very little on which was more likely to be more useful to a business and why. A number of candidates also brought cross elasticity of demand into their answers, despite the fact that the question did not require them to do so.

Question 4

(a) In this part of the question, candidates were required to explain, with the aid of a diagram, the impact of a subsidy to domestic producers of a product on the export revenue from that product. Most candidates were able to produce an accurately drawn and correctly labelled diagram, showing the supply curve shifting to the right, although a few candidates incorrectly showed the supply curve shifting to the left. The majority of candidates were able to explain the impact of the subsidy in terms of reducing the cost of production and therefore the equilibrium price and then stressing the likely increase in revenue that might be expected. However, relatively few candidates went further to point out that the actual impact of the subsidy on revenue would depend on the price elasticity of demand for, and the price elasticity of supply of, the product.

(b) In the second part of the question, candidates were required to discuss whether supply-side policies were an effective way of correcting a deficit on an economy's current account of the balance of payments. Most candidates were able to analyse the potential advantages of supply-side policies to achieve such an objective, such as in relation to increasing incentives to work, increasing expenditure on education and training, reducing the power of trade unions, encouraging the privatisation of firms, encouraging deregulation and providing more information about job

vacancies, but relatively few candidates then went on to consider the potential disadvantages and limitations of such policies, such as the fact that the impact on education and training would take a relatively long time to take effect or that the privatisation of firms would not necessarily lead to an increase in their efficiency. Only a minority of candidates offered a sound evaluation in terms of exercising some judgement on whether supply-side policies were likely to be an effective way of correcting such a deficit. Some candidates decided to write very little on supply-side policies and wrote instead on fiscal and monetary policies as a more effective way of correcting such a deficit, but such an approach was not really focusing on the actual question being asked and gained few marks.

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Paper 9708/22
Data Response and Essay

Key messages

- A number of questions on this paper are compulsory and it is essential that all elements of the syllabus are understood.
- The data and the text in the case study must be considered carefully to ensure that the issues are fully comprehended.
- The directive words in questions must be considered carefully and responded to appropriately.
- Analysis provided must be developed to ensure that the question is answered sufficiently thoroughly. Assertions without explanation will not provide the analysis required for a good mark.
- Candidates must recognise where evaluative comment is required and respond appropriately.

General comments

The majority of candidates showed good knowledge and understanding of the economic concepts tested. Some candidates gained low marks however because there were clear gaps in their grasp of the key concepts. Most candidates were able to apply these concepts as appropriate and some good answers were provided. A number of candidates however had a grasp of economic theory but failed to use this to answer the question set. In addition, although many developed their analysis to good effect, others made brief assertions that lacked full explanation. In addition, there was considerable variation in the ability of candidates to make evaluative comment and many failed to score marks for this.

Comments on specific questions

Section A

Question 1

(a) (i) Fig. 1.1 showed quite clearly that the price of natural vanilla had fallen from 2004 to 2009. Candidates were required to use the evidence in the extract to explain why this had occurred using supply and demand diagrams. The extract explained that for many years ice cream producers had been replacing natural vanilla with vanillin because it is made from more reliable sources of plentiful raw materials and that it had been falling in price. This resulted in a decrease in the demand for natural vanilla and the consequent fall in price of natural vanilla. Many candidates gained full marks here. They provided accurate supply and demand diagrams showing the decrease in demand for natural vanilla and explaining that this had occurred as a result of the fall in the price of vanillin. Those who did less well often failed to respond to the question requirements. They provided diagrams that showed an increase in the supply of natural vanilla. This would certainly reduce the price of this product, but there was no reference to this in the extract, so this approach was not allowed. Disappointingly, a number of candidates were unable to use supply and demand curves correctly. Many showed the change in price without a shift in the demand curve and others confused the demand and supply curves showing the demand curve rising from left to right.

(ii) Two explanations of the rise in the price of natural vanilla from 2015 to 2018 were acceptable. Some candidates suggested that there would be an increase in the demand for natural vanilla because of the potential health risks of using vanillin. This would lead to an increase in demand and a rise in the price of natural vanilla. Others suggested that the cyclone that hit Madagascar in March 2017 would decrease supply and result in the observed rise in price. Either approach

accompanied by accurate diagrams was acceptable and many gained full marks. The weaknesses observed in 1**(a)(i)** often appeared in candidate responses to this question and resulted in a loss of marks.

(b) (i) Many candidates gained the mark available here for stating that cross elasticity of demand was the concept that economists would use to measure the responsiveness of the demand for natural vanilla to a change in the price of vanillin. A disappointing number of candidates failed to read the question sufficiently carefully and stated that price elasticity of demand was the relevant concept. They failed to score.

(ii) Those candidates who correctly identified cross elasticity of demand as the relevant concept often showed a good understanding of why the fact that natural vanilla and vanillin were substitutes would lead to a positive value for the cross elasticity of demand. Few candidates however gained the mark for explaining that the size of the coefficient was determined by the extent of their substitutability with stronger substitutes having a higher positive value.

(c) There was good knowledge and understanding of the concept of price elasticity of supply displayed by many candidates who went on to explain why the price elasticity of supply of vanillin was likely to be higher than that of natural vanilla. Many made good use of the information in the extract to come to this conclusion. Some good marks were scored here.

(d) The rise in the price of natural vanilla had potential positive and negative effects upon Madagascar's economy. A range of economic indicators were considered by candidates in terms of the impact of the rise in price. These included the impact on the current account of the balance of payments, the level of employment, the rate of economic growth and the incomes of vanilla farmers. Many candidates provided satisfactory analysis but failed to make evaluative comment suggesting for example that the impact depended upon the price elasticity of demand for natural vanilla exports or that it depended upon whether the rise in price was caused by the decrease in supply as a result of the cyclone or the increase in demand as a result of the health risks associated with vanillin. A number of candidates gave only brief answers here despite the high mark allocation. Candidates need to consider the mark allocation of each question to judge the development required for a good mark.

Essays

Question 2

(a) This was a popular question and most candidates were able to show how a subsidy would cause a shift to the right of the supply curve of vaccinations and the reduction in price that would result. Many were able to use the diagram to show the change in consumer surplus that would result and gained the marks available. It was surprising however that a considerable number of candidates were able to illustrate the impact of the subsidy on the consumer surplus but did not explain what was meant by the concept of consumer surplus. Marks were lost as a result. In addition, few went on to suggest that the change in the consumer surplus would be affected by the price elasticities of demand and supply of vaccinations.

(b) Many candidates lost marks here because they did not answer the question set. Many provided detail about the difference between direct and indirect taxes but did not consider which type of tax should be used to raise the revenue to fund the vaccination programme. The better answers discussed the advantages and disadvantages of each type of tax and went on to evaluate which on balance might be most suitable.

Question 3

(a) Although many candidates who answered this question were aware of the role of enterprise in the production process in terms of risk bearing and the management of the other factors few explained how enterprise contributes to aggregate supply. Most however stated correctly that the reward to enterprise was profit and compared this to the rewards to the other factors of production.

(b) To score well here candidates needed to have a good understanding of the impact of an increase in the money supply on the components of aggregate demand. For example, some candidates explained how an increase in the money supply would lead to an increase in consumption expenditure as households increased borrowing from the banks. This would increase aggregate

demand. Similarly, there would be an increase in aggregate demand as businesses borrowed to finance their investment expenditure. Explanations of the impact of the increase in the money supply upon net exports were also provided by some candidates. After explaining the impact upon aggregate demand candidates needed to go on to consider whether the rise in aggregate demand would generate more employment or a rise in the general price level. Through effective use of aggregate demand and aggregate supply analysis many candidates explained that the economic indicator affected was dependent upon the availability of spare capacity in the economy. Those who scored less well often made assertions that the increase in the money supply would increase aggregate demand without providing an explanation of why this was the case. Their analysis was insufficiently developed for a good mark.

Question 4

(a) Most candidates understood that the terms of trade measures the relationship between export prices and import prices, but many provided an inaccurate formula to show changes in the terms of trade are measured. In addition, a disappointing number continue to confuse the terms of trade with the balance of trade and provided a completely confused answer. They failed to score. When considering the possible causes of the fall in China's terms of trade many were able to identify factors such as a fall in China's currency or a reduction in costs of production in China's export industries. These responses gained due credit, but many failed to go on to provide a full explanation. For example, in addition to stating that a fall in the exchange rate might be a possible reason for the fall in the terms of trade it was necessary to explain what might have caused the fall in the exchange rate for example a fall in interest rates in China. The directive word 'explain' required more development than a simple statement of a possible cause.

(b) This question invited candidates to consider the relative benefits of a rise in the terms of trade and a fall in the terms of trade. Those candidates who had a good grasp of the central concept had considerable scope to consider a wide range of issues associated with changes in the terms of trade. Most looked at the impact of each change upon indicators such as the unemployment rate, economic growth and the current account of the balance of payments. The better answers considered the impact of the price elasticities of demand for a country's exports and imports when providing evaluative comment and arriving at a conclusion. The weaker answers often considered a very narrow range of economic indicators and often ignored the importance of price elasticities when arriving at a conclusion.

ECONOMICS

Paper 9708/23
Data Response and Essay

Key messages

- It was clear that some elements of the syllabus were not thoroughly understood by a number of candidates. It is essential that all aspects of a question can be answered fully to gain a good mark.
- Some candidates interpreted the numerical data incorrectly. Candidates must practice data interpretation to ensure that they fully understand what the figures show.
- Analysis provided must be developed to ensure that the question is answered sufficiently thoroughly. Assertions without explanation will not provide the analysis required for a good mark.
- The directive words in questions must be considered carefully and responded to appropriately.

General comments

The majority of candidates showed the required knowledge and understanding of the economic concepts examined, but it was clear that a number of candidates were unsure of some aspects of the syllabus. Although some well-developed analysis was evident in the higher scoring scripts a number of candidates failed to consider the mark allocation when answering the question and left their responses undeveloped. This undermined the ability of candidates to provide evaluative comment where appropriate and marks were lost as a result.

Comments on specific questions

Section A: Data Response

Question 1

(a) Two marks were available here. For the first mark, candidates needed to examine Fig 1.2 and then state that the Malaysian ringgit had depreciated. They then needed to justify their answer by providing evidence that this was the case. Some candidates gained the mark for example by simply stating that Fig 1.2 showed that the ringgit was worth less dollars in July 2017 compared to July 2013. This showed sufficient understanding of the data in Fig 1.2 to be awarded the second mark. A disappointing number of candidates failed to interpret the data sufficiently carefully and concluded that the ringgit had appreciated.

(b) (i) Here it was important that candidates recognised that the question concerned a 'change' in the exchange rate when considering the expected impact upon the balance of trade. As a result, descriptions of the impact of both a rise and a fall in the exchange rate where relevant in answering the question. The usual response from candidates was that a rise in the exchange rate would cause a rise in a deficit in the balance of trade if one existed or a fall in a surplus. A fall in the exchange rate would be expected to lead to a fall in a deficit or a rise in a surplus. Most candidates were aware of the expected response and gained the marks available. This depends upon the price elasticities of demand for exports and imports so an alternative approach that suggested that the opposite impact might occur was accepted. For example, it is possible that a fall in the exchange rate might be expected to lead to a rise in the deficit and so on. This was acceptable if the candidate provided some accompanying explanation such as the J-curve effect. In such a case the fall in the exchange rate would result in a higher deficit in the short run which might be removed in the long run as importers and exporters responded to the change in prices. Reference to the J-curve was not necessary to gain full marks, but a number of candidates made good reference to this concept.

(ii) Candidates were expected to examine the evidence in Fig. 1.1 and Fig. 1.2 and consider whether this confirmed the relationship they had identified in **Question 1(b)(i)**. In general terms the evidence does not confirm an indirect relationship between the exchange rate and the balance of trade in goods and services of Malaysia over the period. The conclusion reached however was less important than how the candidates used the information. Some for example gained full marks for stating that the relationship was not confirmed by the data over the entire period, but that during an identified period the relationship was shown. Successful manipulation of the data to justify a conclusion about the relationship was sufficient for both marks.

(c) This question tested candidates' knowledge and understanding of the components of the current account. The difference in the balance of trade and the current account balance resulted from the absence of the Primary and Secondary income balances from the data. Candidates gained a mark for identifying these missing balances and a further mark for explaining that since the current account balance was less than the balance of trade the sum of the Primary and Secondary income balances must be negative.

(d) This question had a high mark allocation so it was disappointing that so many candidates were unable to identify two possible reasons for Malaysia's increasing balance of trade from July 2016 to July 2017. It was clear that many understood the impact of exchange rate changes, but this was not an acceptable factor given the question requirements. Although some good, full answers were provided many candidates failed to develop the reasons that they had identified. The marks were generally disappointing for this question.

(e) In response to this question candidates needed to assess whether the Malaysian government should be concerned by persistent surpluses in the balance of trade in goods and services. To score well candidates needed to consider the advantages and disadvantages of a surplus and make a judgement after an assessment of the risks of persistent surpluses compared to the advantages that a surplus might bring. Persistent surpluses would increase aggregate demand in Malaysia and this could lead to a rise in real GDP and high employment, but it could also lead to demand-pull inflation if the economy is operating at full capacity. Although many candidates explained this many failed to consider other disadvantages of persistent surpluses. So many answers provided only superficial analysis and lost marks as a result.

Section B: Essays

Question 2

(a) It was disappointing that although most candidates were able to illustrate equilibrium in a market many did not explain the meaning of the term. Equilibrium price and quantity occurs when there is no tendency for price or quantity to change in a market. Most candidates were aware that a shift in the demand curve or a shift in the supply curve would lead to disequilibrium in a market and some good diagrams were provided to illustrate this with appropriate causes of a shift identified and explained. Some adopted an alternative approach choosing to explain how maximum or minimum price controls could also cause disequilibrium. This approach was acceptable and some good marks were scored for answers to the first part of the question. Attempts to explain how market forces would lead to market equilibrium being restored were on the whole less successful Many candidates identified an excess demand or an excess supply that would exist in disequilibrium, but failed to consider the process through which market forces would remove these to restore equilibrium.

(b) It was clear from a number of responses that the concept of the incidence of taxation was not well understood by many candidates. Incidence refers to the relative impact of an indirect tax on consumers and producers. This depends upon the price elasticity of demand and price elasticity of supply of the product. It was expected that candidates would explain this and then make evaluative comment on different types of product, suggesting for example that products that are habit forming will have a price inelastic demand and hence this will affect consumers more than producers in terms of the tax incidence. Good evaluation would then go on to contrast this with products that are price elastic where the incidence of an indirect tax would fall more heavily on producers. Unfortunately, few candidates scored well for evaluation with some ignoring this aspect of the question.

Question 3

(a) Most candidates showed good knowledge and understanding of the concept of income elasticity of demand and were able to apply this to determine whether a good was normal or inferior using valid and appropriate examples. Some good marks were awarded here.

(b) Although many candidates could explain the usefulness of price elasticity of demand to a car manufacturer in terms of the decision to increase or decrease price they were less successful when considering the usefulness of the price elasticity of supply. Many failed to provide valid suggestions and scored few marks as a result. This undermined the ability of candidates to compare the usefulness of the two concepts and score marks for evaluative comment. Candidates were often unable to reach a reasoned conclusion and the marks awarded were often disappointing here.

Question 4

(a) Candidates often showed good knowledge and understanding of aggregate demand and supply analysis here and were able to apply this to answer the question set. Most showed the shift to the right of the aggregate demand curve and the impact of this upon the level of output in an economy before going on to explain that the spending on infrastructure would raise labour productivity and shift the aggregate supply curve to the right. Diagrams were usually appropriate and accurately drawn although a small number of candidates continue to confuse demand and supply for a product with aggregate demand and aggregate supply and lose marks as a result.

(b) Most candidates were able to use an appropriate aggregate demand and aggregate supply framework to consider the effects of the supply side policy described on the rate of inflation in the economy. Some however did not explain that although the supply side policies would be likely to offset any inflationary pressures in an economy, the impact on the price level depended upon the increase in aggregate demand that would result from the increased government spending and whether spare resources were sufficient to cause real rather than money incomes to rise. This meant that effective evaluation of the ultimate effect on the rate of inflation could not be effectively assessed so evaluative judgement was weakened.

ECONOMICS

Paper 9708/31
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2**, **4**, **5**, **6**, **7**, **9**, **11**, **12**, **13**, **15**, **20**, **21** and **25**. These questions were answered correctly by 60 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **3**, **8**, **24** and **28**. These questions were answered correctly by 30 per cent or fewer of the candidates. The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 3 was answered correctly by 23 per cent of the candidates who chose option **A**. 27 per cent chose option **B**, 28 per cent chose option **C** and 12 per cent chose option **D**. Monopolistic competition does not achieve allocative efficiency where price equals marginal cost, so the choice is then between options **A** and **B**. In monopolistic competition, there are no supernormal profits in the long run so the key is **A**.

Question 8 was answered correctly by 28 per cent of the candidates who chose option **C**, 25 per cent chose option **A**, 44 per cent chose option **B** and 3 per cent chose option **D**. With a price shown the firm is not selling below cost (option **A**), maximising sales without making a loss (option **B**) would be the output where the average cost and average revenue are equal. This is not the output shown. The output shown is where there is maximum total revenue (option **C**). This is obtained where marginal revenue is zero.

Question 24 was answered correctly by 26 per cent of the candidates who chose option **D**, 29 per cent chose option **A**, 21 per cent chose option **B** and 24 per cent chose option **C**. These figures could well indicate that candidates were guessing, particularly as this question is towards the end of the paper. The accelerator shows how an increase in national income can cause a proportionately larger rise in capital investment. So, first there has to be a rise in national income. This limits the choice to option **D**. The answer is confirmed by the statement that the rise in national income is smaller than in the previous year.

Question 28 was answered correctly by 24 per cent who chose option **B**. 49 per cent chose option **A**, 16 per cent chose option **C** and 11 per cent chose option **D**. The statement about crowding out in option **A** is a criticism of Keynesian approach rather than an assumption of the Keynesian approach.

ECONOMICS

Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2**, **3**, **7**, **9**, **11**, **12**, **13**, **14**, **18**, **20**, **21** and **30**. These questions were answered correctly by 60 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **23**, **26**, and **29**. These questions were answered correctly by 40 per cent or fewer of the candidates. The rest of the questions gave results which were well within the levels expected.

Comments on specific questions

Question 23 was answered correctly by 20 per cent of the candidates who chose option **A**. 35 per cent chose option **B**, 29 per cent chose option **C** and 16 per cent chose option **D**. Apart from option **D** it is probable that the distribution of choices for the other three options is evidence of guessing, maybe because time was short as the question is towards the end of the paper.

Question 26 was answered correctly by 36 per cent of the candidates who chose option **B**. 18 per cent chose option **A**, 16 per cent chose option **C** and 30 per cent chose option **D**. The spending multiplier is the ratio of the change in income to the change in autonomous expenditure. Income will rise by a multiple amount of the initial change in expenditure.

Question 29 was answered correctly by 37 per cent of the candidates who chose option **C**. 8 per cent chose option **A**, 15 per cent chose option **B** and 40 per cent chose option **D**. The price elasticity of demand for imports and exports is less than one. The majority of the candidates recognised that imports will become dearer but as demand for imports is inelastic there will be an increased effect on costs and on inflation. So, the choice is between options **C** and **D**. Exports will become cheaper but as the demand is again inelastic it will not change by a greater percentage than the price change and there will be decreased pressure on inflation.

ECONOMICS

Paper 9708/33
Multiple Choice

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

General comments

Most of the questions were answered correctly by more than 70 per cent of the candidates. Five questions were answered correctly by between 51 per cent and 70 per cent of the candidates. The three most challenging questions on the paper were **21**, **26**, and **29**.

Comments on specific questions

Question 21 was answered correctly by 58 per cent of the candidates, who chose option **C**. 2 per cent chose option **A**, 5 per cent chose option **B**, and 35 per cent chose option **D**. The question asked about the effect on aggregate demand and aggregate supply of changes that were given. The first would increase the productivity which would move the aggregate supply to the right. This limits the choice to either **C** or **D**. The second change could result in a movement of the aggregate demand to the right (option **D**) but in the home country from which the FDI came, not in the host country.

Question 26 was answered correctly by 24 per cent of the candidates, who chose option **B**. 46 per cent chose option **A**, 12 per cent chose option **C,** and 18 per cent chose option **D**. The question did ask what could be deduced *directly* from the calculation. The production method of calculation would give you the pattern of production; any information about the balance of payments would not be as directly available as the X-M does not relate to all the accounts on the balance of payments.

Question 29 was answered correctly by 43 per cent of the candidates, who chose option **D**. 1 per cent chose option **A**, 4 per cent chose option **B**, and 52 per cent chose option **C**. A depreciation of the currency would cause imports to become more expensive. The choice then would be between option **C** and option **D**. The question also says that the economy imports most of the factors of production used in the manufacture of its exported goods. In this particular case, if the costs of imports rise and they are used in the production of exports, then the costs of the exports would also rise (option **D**).

ECONOMICS

Paper 9708/41
Data Response and Essays

General comments

There were some good answers to this paper and those presented well-balanced and clearly structured answers, accurately related to the question and enhanced by relevant examples and applications where appropriate. The weakness in some of the other answers was that the candidate did not direct their response precisely to the question asked. For example in **Question 2**, the first part of **Question 3** and the first part of **Question 7**.

Diagrams were usually presented in an accurate manner. There were notable exceptions to this, mainly with **Question 3(b)**. Indifference curve diagrams are not easy to draw but it is not helped if candidates present small diagrams where the distinction between income and substitution effects cannot be seen clearly or is obliterated by annotations on the diagram.

Comments on specific questions

Section A

Question 1

(a) Although there were many good answers to this question a significant proportion of the candidates omitted to mention a time period in their definition of productivity. Illustrations from the table were well presented with many noticing that Singapore and Belgium could be regarded as exceptions in comparing productivity and competitiveness.

(b) (i) Many candidates were able to answer this question correctly. The weakness with some was that the answer just stated, for example, 'inflation' or 'balance of payments' without saying what the aim of the government might be regarding these indicators.

(ii) Candidates were expected to consider whether Germany was achieving any of the macro-economic aims. The information shows:

- for growth, it was and had a high ranking (5th out of 138 countries) on the global competitiveness index
- for balance of payments there was a massive current account surplus (+296 billion dollars)
- for unemployment, the country had achieved a low unemployment rate (3.9 per cent) with fairly high productivity ($65.5)
- for inflation, the result was not as good: prices generally were rising
- for income distribution there was no evidence.

(c) Answers to this question varied considerably. Well-structured answers usually began by identifying the two policies of decreasing wages and increasing government spending and then developed the answer with an explanation of the possible effects on an economy when a government adopts such policies. Weaker answers concentrated on the meaning of a single currency.

Section B

Question 2

This question required initially an explanation of the meaning of externalities and of efficiency. There were some excellent answers to this question. Those that were less convincing usually concentrated on externalities and did not deal with the aspect of efficiency. The second part of the question was also challenging for some candidates. Government intervention does not necessarily require there to be externalities; neither does such intervention always result in efficiency so it is not a sufficient condition to ensure efficiency.

Question 3

(a) This question required that candidates explain the derivation of a demand curve both with the use of marginal utility and with indifference curves – marginal rate of substitution equal to the price ratio. Any lack of clarity was usually because candidates concentrated on the equilibrium position for a given indifference curve and a given budget line. They did not clearly explain how a complete demand curve, rather than a single point on the demand curve, could be constructed as a result, for example, of a change in the budget line.

(b) This question required a further development of indifference curve analysis with an understanding of the meaning of income and substitution effects. There were some excellent answers to this question but others confused a pivot of the budget line caused by a tax rise with a complete shift of the budget line. Indifference curve diagrams are not easy to draw but it is important when trying to explain the distinction between different types of good using income and substitution effects that the diagram is clear. Small diagrams, often difficult to read because the annotation obscures intersection points, did not aid the clarity of an answer.

Question 4

(a) It was expected that candidates would explain the theory of oligopoly. Uncertainty arises because of lack of knowledge of future behaviour of rivals, unclear knowledge about the demand curve, the existence of non-price competition and the conflict over whether to co-operate with rivals or compete. All of this causes price rigidity. The theory concentrates on the idea of a fixed, or more rigid, price but this does not really explain how the price is fixed in the first place. Those candidates that attempted this question were usually able to present a clear explanation with accurate diagrams.

(b) The expectation was that candidates would consider whether mergers of firms were or were not in the public interest. Candidates usually began by indicating that there may be reasons why they were not in the public interest, citing possible rises in prices, output changes, reduction in competition, possible price discrimination and excess profits. Stronger answers then considered alternative outcomes, for example that prices may be reduced as production costs fall because of economies of scale. The weakness of some answers was that they concentrated too much on the types of economies of scale, did not explore the public interest aspect or did not pass an opinion on whether their comments would lead them to the conclusion that firms should remain small.

Question 5

(a) This question required an explanation of wage rates in a perfectly competitive industry linking the firm and the industry and relating the marginal revenue product to the supply/cost of labour. It was hoped that candidates would explain that firms in perfectly competitive labour markets have to accept the wage rate determined by the industry. The absence of a wage rate in the advert implies that it can be negotiated and this would mean the industry is likely to be imperfectly competitive. The link between the industry and the firm in perfectly competitive labour markets was not always precisely explained.

(b) The existence of a trades union implies an imperfect market. Candidates were expected to explain the analysis of an imperfect labour market, with a marginal revenue productivity diagram and the imposition of a wage level agreed with a TU. Many candidates used the monopsony diagram accurately. The effect on employment would depend on where the wage rate was fixed. It is presumed that the wage rate would be higher than that obtained in the market. It could result in a

reduction in employment or a constant employment with a higher wage, or both an increase in employment and wage.

Question 6

This was the least popular question on the paper. It required an explanation of quantitative easing and its potential effects on interest rates, the money supply and exchange rates and how these changes might affect employment and inflation. It also asked for a comparison between that explanation and what would occur with Keynesian demand management policies of government expenditure and/or budget deficits with its impact on inflation and employment.

Question 7

(a) The question required an explanation of the main costs of unemployment. This could refer to the waste of scarce resources, the loss of tax revenue, the cost of the increase in government expenditure on welfare payments or any relevant social and economic costs. Candidates were able to give comprehensive comments on the costs of unemployment. Any weakness in the answers occurred because candidates did not then consider which of their stated costs they considered to be most important.

(b) Answers to this part of the question were not as strong as for ***section (a)***. It was expected that candidates would give a clear distinction between and evaluative comment on interventionist supply side policies and market-based supply side policies. It was hoped that supporting examples would be provided in each case. For example, interventionist policies could be government spending on training, education, infrastructure, housing, health. Market-based policies could, for example, be an increase in competitiveness, de-regulation, privatisation.

ECONOMICS

Paper 9708/42
Data Response and Essays

Key messages

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

General comments

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

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

The use of badly drawn, or inaccurately labelled diagrams, or even perfectly presented diagram without any reference to them in the essay re-occurred as did the use of pre-learned answers that did not match the question which had been set. These comments, however, should not detract from the impression that the standard of response was high.

A number of candidates wrote at great length. In many examples these responses were poorly directed towards the question set. Candidates who can produce a relevant, concise and well directed answer will always be fully rewarded.

Comments on specific questions

Question 1

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

(a) (i) This was a question where over 50 per cent of candidates took heed of the paper's title and extracted from the passage two examples of policies which the government of Uruguay had introduced. 40 per cent of candidates responded in general terms of fiscal policy and monetary policy.

(ii) Most candidates who successfully identified two policies in **(a)(i)** went on to develop an explanation of how these increased Uruguay's growth rate. Many who identified policies in general terms also developed their responses with the effect of specific policies to gain full marks.

(b) Candidates who drew and correctly annotated a diagram which showed the impact of a national minimum wage (NMW) either above or below the market clearing wage and commented on its impact on the supply and demand of labour scored four marks. Those who went on to discuss, for example the effect of NMW on productivity or the impact of increased aggregate demand accessed the additional marks.

(c) Those candidates who correctly identified the changes in the economic indicators in figures 1.1 to 1.4 and went on to develop an explanation of why they had changed either in terms of each other, for example linking the change in unemployment and inflation through the Phillips curve or who used information in the text were able to gain the full range of marks.

Question 2

(a) Candidates who concentrated their responses on a clear explanation of allocative efficiency and the nature of pollution as an external cost and the impact in terms of over-production of the polluting activity accessed the full range of marks. Other candidates concentrated on a single aspect of the question. Many good explanations of efficiencies were given but without the necessary focus on the question.

(b) Candidates who identified and explained the impact of at least two policies and commented on the ability of the government to successfully implement those policies scored well, over 30 per cent of candidates were able to access level 4.

Question 3

(a) Where candidates defined and explained the stated terms and related then to their roles in determining the level of output and the level of profits when linked to marginal revenue and average revenue scored well. Candidates who explained the marginal cost equals marginal revenue statement rather than merely stating it were rewarded for their efforts However, many candidates only defined the terms without further development of their responses.

(b) Candidates who recognised the significance of 'always' in the question and who wrote about the benefits of large scale production and compared them to the disadvantages of oligopoly/monopoly behaviour when output may be reduced and prices increased scored well. Other candidates fail to recognize the requirements of the question and limited their response either to the basics, or a one-sided response.

Question 4

This was the least popular question on the paper.

Candidates scored well on this question. Those candidates who explained the demand for labour in terms of the marginal revenue product (MRP) theory and the factors affecting the supply of labour establishes the basis of strong answer. Where the response went on to discuss the implication of elasticities on wage levels and commented on the possibility of sex discrimination the full range of marks was accessed. Other candidates dealt with only one or two aspects of the question and were appropriately rewarded.

Question 5

This was the most popular essay question with two-thirds of candidates attempting it.

(a) Candidates demonstrated a strong ability to analyse the causes of unemployment in the context of their country. Many candidates reached level 4.

(b) Whilst the better candidates grasped the significance of the question many failed to link supply-side policies to causes of unemployment. This lack of context meant that marks were limited to the lower levels of attainment.

Question 6

Candidates' responses to this question reflected the extent to which they had read the opening statement. Those who read it fully, analysed and discussed the three elements within the context of a multinational corporations (MNC) in developing countries, were rewarded. Many candidates wrote a more general essay regarding the advantages and disadvantages of MNC which limited the range of marks available to them.

Question 7

(a) Despite its popularity only a minority of candidates scored highly. Those who did addressed the question asked and dealt with the three themes of gross domestic product (GDP), economic growth and the standard of living in some depth and linked these elements together. Other candidates dealt with either one or two of the elements or all three superficially.

(b) Many candidates showed a great depth of understanding of the technicalities and purpose of alternative measures to GDP and were able to articulate this whilst they demonstrated a strong understanding of the limitations of GDP. Other candidates divided into two groups those who concentrated on the limitations of GDP or those who concentrated on the alternatives to GDP. Both of these groups usually wrote good responses but based on too limited a reading of the question.

ECONOMICS

Paper 9708/43
Data Response and Essays

General comments

Many candidates presented well-balanced and clearly structured answers, accurately related to the question and enhanced by relevant examples and applications where appropriate. There was more evidence this year that the candidates directed their responses to the whole of the question asked rather than to only part of the question. Exceptions to this occurred with **Questions 2(b)**, **3(b)**, and **4(b)**.

Diagrams were presented in a clear manner. The exceptions occurred, if at all, mainly with **Question 3(b)**. Indifference curve diagrams are not easy to draw but it is not helped if candidates present small diagrams where the difference between income and substitution effects are not able to be seen clearly.

Comments on specific questions

Section A

(a) Most candidates were able to relate economic growth to an increase in the amount of goods and services (or real GDP). A significant number omitted to mention that measures of economic growth relate to a particular period of time.

(b) Candidates were able to explain that although economic growth is not the same as economic development, economic growth can lead to economic development through improved standard of living, increased output, employment and income.

(c) Candidates could have used various facts from the article. For example, the rapid rise in the labour force in developing economies with the population skewed towards a younger work force. This means that job creation in developing economies cannot keep pace with the growth in the work force (candidates could have compared the estimated growth with that of China 1978 – 2011). Further, the situation in developing countries is not helped by low investment by developed economies, and development is low. This would 'push' potential migrants from developing economies.

'Pulling' them towards developed economies would be the better opportunities, better standards of living, higher incomes, better education and health provision.

(d) There was information in the article that suggested links were beneficial but also that they need not be beneficial. Supporting the argument, candidates could have mentioned that:

- capital investment from the developed world can be used for infrastructure and manufacturing in the developing world.
- this would create employment opportunities in developing economies and reduce the need for economic migration.
- also, the developed world would receive dividends and profits that would increase their GDP.

The overall effect is an increase in economic growth (multiplier) in both sets of economies.

Against this view candidates could have mentioned that:

- the idea of beneficial aid was under attack because developed economies, such as the USA, have protectionist policies as well as policies to halt inflows of migrant labour.
- capital investment flows were only about 2 per cent of GDP of emerging economies which was the level in the 1980s. Flows reached maximum of 8 per cent of GDP in 2005 but fell rapidly

after world financial crisis in 2007 – 8. Supporting information could have been drawn from the chart.

- there was a forecast that this will mean the developing economies situation will worsen by 2030.
- the result will be that economic migrants will place ever greater pressure on the world economy in seeking jobs. Hence migration (legal and illegal) trends will increase and income inequalities between developed and developing economies will not improve.

Section B

Question 2

(a) There were some good answers to this question stating that optimal allocation involves Pareto allocative efficiency. They explained that this would mean that it is not possible to make someone better off without somebody else being worse off. They commented on the validity of the analysis that to reach this optimum, price should equal marginal cost. Many candidates, however, did not explain that the marginal cost should be marginal social cost if true allocative efficiency were to be achieved.

(b) As with **part (a)** there were some excellent answers to this question which was one of the most popular on the paper. Candidates commented on the reasons for market failure, mentioning, for example, the existence of public goods, control over the market in some market structures, externalities, and imperfect information. Where there was a weakness it was because of the omission, or very brief mention of the second part of the question. Candidates could have considered government intervention by means of taxation, subsidies, regulation, persuasion (nudge) or ownership.

Question 3

(a) This question required an explanation of consumer equilibrium, its link to price changes and the construction of the demand curve. Either marginal utility analysis or indifference curves could have been used. One relates the equilibrium directly to a point on the demand curve, the other does not. Both determine the maximum satisfaction for a consumer. Where answers could have been improved it was because the candidate failed to link the analysis precisely to the demand curve. This was particularly evident when indifference curves were used. Explanations of diminishing marginal utility or combinations of goods with indifference curves demonstrated a reason for a particular quantity demand. The answer then did not show how the rest of the demand curve could be constructed.

(b) Candidates understood that with indifference curves there could be a distinction between income and substitution effects and attempted to show how a change in price would cause a change in demand. Sometimes there was confusion about the movement of the two effects with a Giffen good. There were some very clear answers to this question. The weaker answers spent too long on the first part of the question and either omitted the second part of the question or gave only a very brief reference to the reasons why a manufacturer might be interested in the analysis. Mention of changes in revenue and possible changes in profit, which would depend on the type of good, were lacking.

Question 4

(a) A majority of candidates wrote very clear answers on the structure of a perfectly competitive market and how profits were determined. Many, though, did not recognise that in a perfect market there are no barriers to entry. Barriers to entry imply imperfect markets. The average revenue becomes downward sloping and, in the long run it is possible that profits could be higher than in perfect competition – presuming that profit maximising is still the aim. However, the firm may now have other aims and these may mean profits are not maximised and may not be higher than under perfect competition.

(b) It was expected that candidates would discuss the cause of a falling long-run average cost, mentioning economies of scale. Maximum profit output is likely to rise, price may well fall. As with ***section (a)*** a significant number of candidates spent too much time on the first part of the answer, developing the idea of economies of scale, and did not concentrate sufficiently on whether

consumers might benefit from the situation. Better answers gave reasons why consumers might benefit but also mentioned some drawbacks of the possible increase in market power that comes with large scale production.

Question 5

It was expected that this question would enable candidates to give an analysis of wage determination using marginal revenue productivity theory. The question asked for a diagram so this was necessary. Wage rates differ depending on position of marginal revenue product and costs. An equilibrium market wage is likely to be lower in imperfect markets that in perfect competition. Trade Unions, however, may increase wages. The result on employment would vary depending on the extent to which the union managed to increase the wage level. It is likely that employment would not be the same. With a monopsony, the union might achieve an increase in employment (but wages would be lower than under perfect competition). Or, if they bargained for a much higher wage, employment would be lower than the perfectly competitive level (but wages would be higher than under perfect competition). There were some commendable explanations of the initial analysis setting out the position but the second part of the question which commented on the trade union activity was not as well done.

Question 6

(a) This question required an explanation of the causes of demand deficient unemployment. Each cause should be discussed in relation to its overall importance. For example, if this type of unemployment is caused by a fall in the level of exports, this will have potentially negative effects on the exchange rate which will have additional impact on other key macroeconomic performance indicators. The same approach could be applied to any of the other factors which might influence the level of aggregate demand and cause unemployment. This question produced some very good responses with some clear analysis.

(b) The theory of Keynesian demand management policy emphasises the role of the government and its use of budget deficits to stimulate aggregate demand. It was expected that candidates would give an evaluation of the effectiveness of this theory and mention, for example, problems such as crowding out; the risk of causing inflation; balance of payments problems or problems associated with the subsequent growth of the national debt. A significant minority of candidates referred solely to monetarist policies and concentrated on the changes in the rate of interest.

Question 7

It was expected that the links between changes in interest rates and changes in employment, economic growth, inflation and the balance of payments would be considered. For example, discussion might relate to the impact of a fall in interest rates on the exchange rate and how this change might subsequently affect imports and exports and ultimately the balance of payments. Either increases or decrease in interest rates could have been discussed. The answer should then have considered whether interest rate changes might be considered to be one of the most significant economic variables. This was a very popular question and some excellent answers were presented.