

# ECONOMICS

Paper 0987/11  
Multiple Choice

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

## General comments

The questions for which most candidates selected the correct answer were **2, 11, 12, 18, 20, 25, 26** and **27**. These questions were answered correctly by 85 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 **5, 6, 14** and **21**. These were answered correctly by fewer than 60 per cent of the candidates.

## Comments on specific questions

### Question 5

**Question 5** was answered correctly by 58 per cent of the candidates who chose option **B**. 26 per cent chose option **A**, 10 per cent chose option **C** and 6 per cent chose option **D**. The question asked what outcome might adversely affect other government macroeconomic aims. Demand-pull inflation is not something that the government would actively seek to encourage (option **B**). The other outcomes improved economic growth (option **A**), reduced benefit payments (option **C**) and a stable balance of payments (option **D**) are all outcomes that fall within government macroeconomic objectives.

### Question 6

**Question 6** was answered correctly by 54 per cent of the candidates who chose option **D**. 12 per cent chose option **A**, 11 per cent chose option **B** and 23 per cent chose option **C**. At a price of \$2.50 per kilo the demand

is shown as 400 000 tonnes and the supply is shown as 800 000 tonnes. Supply exceeds demand by 400 000 tonnes. (Option **D**).

#### Question 14

**Question 14** was answered correctly by 58 per cent of the candidates who chose option **B**. 25 per cent chose option **A**, 8 per cent chose option **C** and 9 per cent chose option **D**. A consumer prices index shows how prices change so they do not have to be stable. This eliminates options **A** and **D**, leaving a choice of **B** or **C**. There has to be a comparison with a base year and weights are used to reflect the relative importance of the expenditure patterns covered by the index. Option **C** states that weights are not necessary. The correct option is **B**.

#### Question 21

**Question 21** as answered correctly by 54 per cent of the candidates who chose option **A**. 36 per cent chose option **B**, 6 per cent chose option **C** and 4 per cent chose option **D**. The economy in the question could achieve point X if all its resources were used. Point Y in option **A** represents a situation where some of the resources, in this case labour, are not fully used. Point Y in option **B** represents a different economy where all the resources are completely used and point X is not attainable.

# ECONOMICS

Paper 0987/12  
Multiple Choice

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

## General comments

The questions for which most candidates selected the correct answer were **1, 2, 4, 8, 11, 12, 15, 20, 24, 26** and **30**. These questions were answered correctly by 85 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **9, 13** and **16**. These questions were answered correctly by fewer than 50 per cent of the candidates.

## Comments on specific questions

### Question 9

**Question 9** was answered correctly by 31 per cent of the candidates who chose option **D**. 18 per cent chose option **A**, 8 per cent chose option **B** and 43 per cent chose option **C**. The question shows a diagram indicating total fixed cost, total variable cost and total cost. The fixed cost is represented by the horizontal line, or RS. Above that is added the variable cost of PR. However, with no fixed cost the variable cost would start at zero and is shown as the upward sloping line from O to Q. At output S, the variable cost is, thus, QS. PQ (option **A**) is the fixed cost; PS (option **B**) is the total cost.

### Question 13

**Question 13** was answered correctly by 49 per cent of the candidates who chose option **D**. 28 per cent chose option **A**, 5 per cent chose option **B** and 18 per cent chose option **C**. Operating a loss-making

business would not be compatible with the aims listed in options **A**, **B** and **C**. It would not be efficient; it would not be likely to lead to a growth in the business and it would not be making profits.

### Question 16

**Question 16** was answered correctly by 54 per cent of the candidates who chose option **C**. 12 per cent chose option **A**, 1 per cent chose option **B** and 33 per cent chose option **D**. To answer this question candidates had to determine which of the spending by the government was on public goods. Of those listed only law and order and defence are classed as public goods. Option **D**, the most popular option is calculated by adding the expenditures on health and education. These may be provided by the public sector but they are usually classed as merit goods, not public goods.

# ECONOMICS

Paper 0987/21  
Structured Questions

## Key messages

Command words matter as they help candidates to know what is expected from them in their answer. For example, in **Section B**, the key command words are usually explain, analyse and discuss and they require different types of responses. Often candidates are asked to define a term for 2 marks. All that is required is a precise meaning but sometimes candidate give a lengthier explanation which is not needed. Questions starting with 'discuss' will often require a balanced and structured answer whereas 'analyse' may well not and may simply require an explanation of a relationship e.g. **Question 2(c)** the relationship between an increase in income tax and the rate of inflation. The meaning of command words used in the exam is set out on page 23 of the syllabus.

## General comments

Generally speaking, candidates used the source material well in answering the questions in **Section 1**. The only issue was with **Question 1(f)** as the majority of candidates did not understand that in figure 1.1 the size of a country's current account balance was expressed as a percentage of GDP. This was because the countries were of different size and expressing the balance in \$m would have given a misleading comparison. Too many candidates did not analyse whether or not the inflation rate affected the size and direction of the current account balance. The data showed that only 2 countries have a current account balance surplus, but this was rarely picked up by candidates. Instead, many just described the percentages for the inflation rate and current account balance without identifying the relationship.

Candidates should spend a few minutes at the start of the exam, or after they have completed **Question 1**, determining which three questions to answer in **Section B**. They should look carefully at the **part (d)** questions as they carry the most marks. There were quite a few cases of candidates answering **parts (a), (b)** and sometimes **(c)** before deciding to start another question when presumably they realised they could not give a good answer to **part (d)**. It is also important that candidates do not cross out any work if they do attempt all four questions in **Section B** as the examiner will mark all their work and the three questions with the highest marks will count. There were a limited number of candidates where the answer they had crossed out actually gained more marks than the replacement question.

## Comments on specific questions

### **Section A**

#### **Question 1**

- (a) Less than half the candidates got this question right. With a population of 1.2 m and a birth rate of 10.2 per cent, the correct calculation was  $1.2 \text{ m} \times 10.2 / 1000 = 12\,240$ , as the birth rate is calculated as the number of births per 1000 of the population. Quite a few candidates arrived at an answer of 10 200 as they simply multiplied 10.2 by 1000. In quite a few cases the answer given was 122 240 as candidates divided by 100 and not 1000.
- (b) The most common correct answers given were GDP per head and HDI. Life expectancy and education which were also mentioned in the source material were also frequently identified by candidates. A few incorrectly stated GDP which is not an indicator of living standards unless expressed as per head (or per capita). Some candidates selected terms in the source material that are not used as indicators of living standards, e.g., income and highly qualified workers.

- (c) It was common for candidates to write out in full the two sentences in the source material that stated that the bad weather had led to global grape production falling by 35 per cent resulting in a shortage. Some candidates correctly wrote about the bad weather but then did not explain why this caused disequilibrium in the market. In many cases they just stated that production had fallen by 35 per cent. A few did not mention bad weather but did show some understanding by stating that disequilibrium was caused by a fall in supply without a change in demand which was an acceptable answer to give.
- (d) There were three possible reasons in the extract material for why well-educated workers tend to work past retirement age. First, they were well paid and therefore motivated to continue working. Second, their income enabled them to be healthy and therefore were fit to continue to work. Third, their jobs did not require physical strength which lessens with age. Most candidates did identify two reasons but often only gave one explanation, e.g., did not explain why remaining healthy enabled them to continue working. A few approached it from the angle of why low-educated workers tend not to work past retirement age, e.g., *'their health would be affected by things such as machines and pollution'* and this approach was also acceptable.
- (e) A rise in the retirement age usually increasing the size of the labour force and reducing the numbers receiving a pension. Thus, the government benefits from extra tax revenue, e.g., from income tax or sales tax as people remain at work. The government also spends less on pensions as fewer people have retired. The majority of candidates demonstrated they understood at least one of those effects. A small minority of candidates mistakenly believed that raising the retirement age would lead to the government having to pay out more in pensions or benefits. Others wrote about the effect on younger workers being unable to find jobs as they were still filled by older workers. This might be an outcome, but the question was about the impact on the government's budget. Others expressed the view that the government would have to spend more on healthcare, hospitals and homes for old people which again is an incorrect analysis of people working beyond retirement age and more to do with an aging population.
- (f) In general, there were few strong answers to this question. Overall, answers were weak with many not even identifying the inverse relationship. Many candidates simply described the differences in the percentages between inflation and balance of payments. They did not appear to understand that a negative percentage for current account balances meant that the country had a deficit, and a positive percentage meant a current account balance surplus. The question requires candidates to analyse the data and look for a trend and any exceptions. Few managed to do this but many did correctly identify that the relationship was inverse, e.g., that the higher the rate of inflation, the higher the current account deficit. A common error was to describe the data, e.g. *'In Iceland, the inflation rate was 3 per cent and the current account balance was 6 per cent which is 3 per cent higher'* or *'Mongolia has a high rate of inflation, and the current account balance is -16 per cent'* whereas the correct analysis would be *'Mongolia has the highest rate of inflation and the highest current account balance deficit at -16 per cent of GDP.'* Quite a few correctly explained that Iceland/Slovenia were different, e.g. *'The inverse relationship applies for all countries except for Iceland and Slovenia because both their inflation rate and current account balance were positive.'* Surprisingly, quite a few candidates wrote about the relationship between interest rates and current account balance.
- (g) Most candidates showed in their answer that they understood what caused a PPC to shift to the right or to the left. Candidates needed to identify, from the source material, factors that affected the level of resources in Cyprus, e.g., land, labour, capital, or enterprise. Generally speaking, candidates were better at explaining what would cause the PPC to shift to the left, e.g., the emigration of entrepreneurs and that the quality of agricultural land was decreasing. The shift to the right could be caused by lower rates of interest leading to more investment and the rise in retirement age and population leading to a larger workforce. Weaker answers tended to discuss changes in the level of production and the effect of the bad weather on grape production which shows a misunderstanding of what causes a shift in the PPC. A PPC shows the productive capacity rather than actual output of a country.

- (h) What was meant by capital-intensive production was understood by most candidates. Candidates generally did better on the benefits stating lower costs and prices, better quality goods, faster and more efficient production. Answers for why it might not be beneficial were less well done although good answers described less variety of goods, higher maintenance costs, and equipment might break down. Quite a few candidates assumed consumers were also employees and wrote about being replaced by capital equipment and losing their jobs. This approach would not gain marks as it falls outside of the scope of the question.

### Question 2

- (a) This was correctly answered by many candidates as they understood that the foreign exchange rate was the price or value of a currency in terms of another currency. Some gave examples, e.g., £1 = \$1.2. Weaker answers got the idea of the comparison with another currency, without stating price or value. Very weak answers confused this term with the balance in value between total imports and total exports, e.g., *'it's when a country exchanges goods and services with another country at a particular rate.'*
- (b) This question was not well answered as candidates struggled to identify causes; often explaining why exports were more expensive than imports rather than the total value of exports was greater than imports. Good answers explained the impact of higher demand for exports arising from better quality goods or cheaper goods due to low inflation or weaker currency or specialisation. They also commented on imports being low because of recession in the home economy or protective measures in place. Some mentioned high value exports such as oil and gas not unexpected given the current high world market prices of energy. Weak answers used incorrect analysis, e.g., that a high rate of inflation led to exports having a higher value leading to the value of exports being higher than imports.
- (c) Most candidates showed a good understanding of both income tax and inflation rate. Good answers simply stated that higher income tax reduced disposable income, reducing consumer spending and total demand which led to lower prices and lower inflation. A few stated lower demand-pull inflation. The strongest answers also commented that if workers asked for pay rises to offset lower disposable income. This would lead to firms putting up prices as their costs had risen causing cost-push inflation. Quite a few candidates mistakenly only referred to changes in demand for a good - a microeconomic term - whereas the question was about macroeconomics. A few confused income taxes with taxes on goods and wrote about it leading to higher prices and increasing the inflation rate.
- (d) The term economic growth was understood by most candidates. Good answers were well balanced with reasons for why the government should aim for it and why it should not. Answers tended to be stronger on the reasons for economic growth. These included higher output, more employment, better standard of living and more tax revenue to develop the economy and help reduce poverty. Common answers for why it should not include depletion of resources, environmental issues such as pollution and inflation. Weak answers tended to pick up one or two points without developing them whereas strong answers covered more points with greater depth.

### Question 3

- (a) A wide range of answers were possible for this question and many candidates correctly identified two influences. Common influences given were price, quality, and advertising of the goods; plus, the income and tastes/habits of consumers. There were a few wrong answers which for some reason did not relate to what a person may buy but why demand for a product may be high.
- (b) Candidates showed a good understanding of what was a demerit good. Good answers explained two ways of reducing consumption such as tax on the good making it more expensive and less affordable to buy and a government advertising campaign to provide information on the harmful effects of consuming the good. Weaker answers tended to identify a way without explaining the impact, e.g., *'government should place quotas on imports of demerit goods.'* In some cases this simply meant that they stated that imposing a tax would lead to lower consumption which was in the question. A few mistakenly referred to giving subsidies to merit goods in the belief that merit goods were an alternative to demerit goods, which is usually not the case.

- (c) Most candidates were able to analyse at least one reason why a worker would want to join a trade union. The most common reasons given were greater bargaining power for higher wages and better working conditions. Strong answers were able to give depth to their answers citing other reasons such as protecting rights, increasing job security and service provided by trade unions to their members. Weak answers often only gave one reason and, in some cases, believed that the trade union was the employer.
- (d) Strongest answers were from candidates who were able to discuss both why tertiary workers would normally receive higher pay than primary sector workers, but also why in some cases primary workers may get paid more. Common reasons given were that of higher demand and lower supply of tertiary workers due to skill levels and value added to the product or service they provided. For primary workers, reasons why some might be paid more included dangerous occupations e.g., gold mining or working with high value-added product, e.g., oil. A few noted that cleaners were usually low-paid and worked in the tertiary sector. Weaker answers tended to be one-sided or simply reversed the argument for tertiary workers when explaining why primary workers got paid less. A few confused primary workers with the secondary sector. A few made the valid point that a primary worker in a developed country might be paid more than a tertiary worker in a developing country.

#### Question 4

- (a) The majority of candidates understood that privatisation was 'the selling of firms in the public sector to the private sector.' A few mistakenly referred to a public company becoming a private company which is not the same thing as both are in the private sector.
- (b) Most candidates understood that absolute poverty meant a lack of necessities and/or low income. A few gave an example of under \$2 a day or referred to lack of housing, food, or clothing. Relative poverty was less understood. Most knew that those with relative poverty had less income than others but were unable to explain how this relativity was measured. A typical answer was 'Relative poverty is when a person can afford their basic needs but compared to another person cannot afford all their wants.'
- (c) The term specialisation was understood by most candidates although a few did not apply their analysis to firms but to individual workers which resulted in weak answers. For most, the benefits for firms were explained well. Quality and lower prices led to higher demand, higher sales /revenue for firms and therefore higher profits. It led to good brand image and reputation. Strong answers also often explained how such firms benefited from economies of scale. Weak answers often lacked depth and, in some case, included disadvantages of specialisation which was not required by the question being asked.
- (d) Supply-side policies were not understood by many candidates. Instead, weak answers often referred to other policy measures such as fiscal and monetary policies which affected the level of unemployment. Answers often concentrated on how government could reduce unemployment, and, in some cases, no supply side measures were mentioned. Strong answers were well balanced with a discussion on how actions such as education and training for workers and subsidies and grants for firms would encourage more employment of workers. The reasons why not were less well discussed. The most common reasons given was that it took longer to implement than other policies and that firms might not use any subsidies given to them to employ more workers but keep it as profit or invest in capital equipment instead.

#### Question 5

- (a) This question was well answered with most candidates identifying that the reward for labour was wages and for land it was rent. Weak answers instead referred to other features such as profit or having a job for labour and building premises or 'plants and crops' for land.
- (b) Answers to this question were poor as many candidates were unable to relate earning higher income to mobility of labour. Some thought it simply meant working faster or greater job satisfaction. Others explained that higher income meant that they would simply move to jobs with higher pay. Good answers explained that higher income meant that workers could afford to move other areas for jobs increasing geographical mobility or use the income to get better qualifications or skills which would improve their occupational mobility.



- (c) Most candidates were able to draw an accurate diagram showing how greater awareness of the benefits of eating fruit would lead to an increase in demand and higher prices. There were some errors such as wrong labelling of the demand and supply curves, the shifting of the supply curve rather than the demand curve and mixing up the price and quantity labelling of the axis. A few also did not show the change in equilibrium in the market for fruit but got everything else right!
- (d) Some candidates did not understand that a market economic system did not include government intervention, so they often discussed involvement of the government in applying taxes and providing public goods. Better answers concentrated on the benefits of competition both for firms and consumers based upon the profit motive for firms. Strong answers looked at the impact on economic growth and ability to compete internationally. Strong answers also mentioned that the profit motive led to the provision of demerit goods and lack of public and merit goods. This could lead to market failure and the creation of monopolies if there was no government intervention.