

Example Candidate Responses

Cambridge
International
AS & A Level

Cambridge International AS and A Level Economics

9708

Paper 4 – Data Response and Essays

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Introduction

The main aim of this booklet is to exemplify standards for those teaching Cambridge International AS and A Level Economics (9708), and to show how different levels of candidates' performance (high, middle and low) relate to the subject's curriculum and assessment objectives.

In this booklet candidate responses have been chosen to exemplify a range of answers. Each response is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

For each question, each response is annotated with a clear explanation of where and why marks were awarded or omitted. This, in turn, is followed by examiner comments on how the answer could have been improved. In this way it is possible for you to understand what candidates have done to gain their marks and what they will have to do to improve their answers. At the end there is a list of common mistakes candidates made in their answers for each question.

This document provides illustrative examples of candidate work. These help teachers to assess the standard required to achieve marks, beyond the guidance of the mark scheme. Some question types where the answer is clear from the mark scheme, such as short answers and multiple choice, have therefore been omitted.

The questions, mark schemes and pre-release material used here are available to download as a zip file from Teacher Support as the Example Candidate Responses Files. These files are:

| Question Paper 21, June 2016 | |
|-------------------------------------|--------------------|
| Question paper | 9708_s16_qp_21.pdf |
| Mark scheme | 9708_s16_ms_21.pdf |
| Question Paper 42, June 2016 | |
| Question paper | 9708_s16_qp_42.pdf |
| Mark scheme | 9708_s16_ms_42.pdf |

Past papers, Examiner Reports and other teacher support materials are available on Teacher Support at <https://teachers.cie.org.uk>

How to use this booklet

| Example candidate response – high | | | Examiner comments |
|-----------------------------------|-----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | (a) | <p>The revenue from Tourists arrivals would be written in the current account, under the income account as money would from tourists would be considered an inflow and if it's money into the economy, and bringing money into the</p> <p>Quantity supplied and demanded</p> <p>government investment in new technology creating</p> | <p>1 The candidate has referred to both where the revenue would be recorded, i.e. in the current account, and how it would be</p> <p>2</p> |

Answers by real candidates in exam conditions. These show you the types of answers for each level.

Discuss and analyse the answers with your learners in the classroom to improve their skills.

Examiner comments

are alongside the answers, linked to specific part of the answer. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.

How the candidate could have improved their answer

(e) This response could have been improved by the candidate explaining more clearly how new technology would lead to an increase in productivity and efficiency, likely strength of the link between investment and an increase in productivity.

(f) This response could have been improved by further discussion. The candidate was awarded one of these two marks for market equilibrium, but this evaluation could have been developed more fully than it was. For example, the candidate could also have brought in the concept of income elasticity of demand in relation to changes in income and decisions to go on holiday.

This explains how the candidate could have improved their answer and helps you to interpret the standard of Cambridge exams and helps your learners to refine exam technique.

Common mistakes candidates made in this question

In (a), most candidates referred to where the revenue from tourist arrivals in Fiji would be recorded, but relatively few went on to state how it would be recorded.

In (b), most candidates were able to show how the government could increase the price of sugar produced in Fiji, although a few candidates went to the right, bringing about a rise in price, rather than a fall.

This lists the common mistakes candidates made in answering each question. This will help your learners to avoid these mistakes at the exam and give them the best chance of achieving a high mark.

Assessment at a glance

For Cambridge International AS and A Level Economics, candidates:

- take Papers 1 and 2 only (for the Cambridge International AS Level qualification)
- or**
- follow a staged assessment route by taking Papers 1 and 2 (for the Cambridge International AS Level qualification) in one series, then Papers 3 and 4 (for the Cambridge International A Level qualification) in a later series
- or**
- take Papers 1, 2, 3 and 4 in the same examination series, leading to the full Cambridge International A Level.

All components are externally assessed.

| Component | Weighting | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| | AS Level | A Level |
| Paper 1 Multiple Choice 1 hour 30 multiple choice questions based on the AS Level syllabus content 30 marks | 40% | 20% |
| Paper 2 Data Response and Essay 1 hour 30 minutes Section A: one data response question (20 marks) Section B: one structured essay from a choice of three (20 marks) Based on the AS Level syllabus content 40 marks | 30% 30% | 15% 15% |
| Paper 3 Multiple Choice 1 hour 30 multiple choice questions based on the Additional A Level syllabus content 30 marks | | 15% |
| Paper 4 Data Response and Essays 2 hours 15 minutes Section A: one data response question (20 marks) Section B: two essays from a choice of six (50 marks) Based on the additional A Level syllabus content 70 marks | | 10% 25% |

Note: Papers 3 and 4 test the additional syllabus content for A Level, but also require a knowledge and understanding of the AS Level syllabus content.

Teachers are reminded that the latest syllabus is available on our public website at www.cie.org.uk and Teacher Support at <https://teachers.cie.org.uk>

Paper 4 – Data Response and Essays

Question 1

| Example candidate response – high | Examiner comments |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>1 (a) One government policy is the introduction of schemes which would help people buy property, increasing consumer spending and, by extension, aggregate demand (AD). 1 The second policy that could boost AD is low fixed interest rate rates which would make borrowing money cheaper, discourage saving and encourage spending.</p> <p>(b) Firstly, improvement in housing market would indicates that investment and employment in that industry has improved which would have an overall positive impact on economic growth and unemployment in the economy. These could lead to better living standards as increased investment and employment would raise disposable income. However, it is mentioned that property prices have been increased as well which could offset the rise in income by lowering real incomes. Still, despite the chances of inflation, increased spending on houses 2 would not only cause economic growth but people will be enjoy better lifestyles due to owning their own homes which would improve general welfare. Increased Increased investment would also generate revenue for the government through taxes; the government can use the revenue on welfare projects like providing healthcare and education. This would improve the wellbeing and product skills of labour in the economy. A more productive and skilled workforce will receive more wages which would again again raise living standards.</p> <p>(c) The article states that government schemes and low interest rates have made it easier for buyers to buy houses. This increase in demand has p resulted in</p> | <p>1 Two policies are identified. Mark for (a) = 2/2</p> <p>2 This is a well written paragraph which links house building to economic development and improving standard of living. Mark for (b) = 5/5</p> |

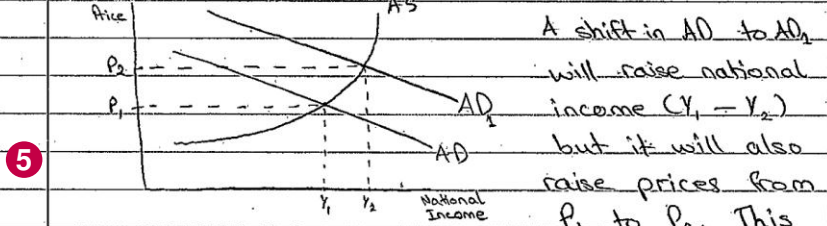
Example candidate response – high, continued

Examiner comments

increased property prices (seven times the average wage). However, while this has improved investment and employment the increase in prices can be troublesome in the future. The article mentions that sales of houses have increased due to borrowing which could lead to people having very high debts. Spending would, therefore, fall and the demand for housing would decrease causing prices to fall too. On top of that, falling spending would cause AD to fall to leading to a fall in economic growth. Also, the article mentions that expenditure of housing contradicts the export-led growth favoured by the government. So, this proves that the article contradicts the view that an increase in house prices is an improvement for an economy.

(d) Two macroeconomic aims of a government can include reducing unemployment and controlling inflation.

An increase in growth through consumer spending would increase AD which would have the following effect:



would conflict with the government's aim of controlling inflation. However increased AD would encourage investment and raise sales making firms hire more workers. This would reduce unemployment.

3 A series of points which suggest that rising house prices do not necessarily bring only positive effects. The paragraph concludes correctly.

Mark for (c) = 4/6

4 Two clear aims.

5 Good analysis of the effects of consumer spending.

| Example candidate response – high, continued | Examiner comments |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>6 On the other hand, growth through exports would also encourage investment if domestic firms start earning more from exports. This would help reduce unemployment as exporting firms may hire more workers to increase production. An increase in exports would cause the exchange rate to depreciate. A depreciation in exchange rate will make exports cheaper which would further increase sales made from exports – as long as they are price elastic – as but imports would become expensive. If the economy depends too much on imports for raw materials and other necessities then this can cause imported inflation. However, if imports are not important then an increase in the price of imports would stop spending on imports and may improve BOP.</p> | <p>6 The candidate correctly identifies the effect of increased exports on employment.</p> <p>Mark for (d) = 5/7</p> <p>Total marks awarded = 16 out 20</p> |

How the candidate could have improved their answer

(c) A wider range of evidence from the passage could have been included in the answer.

(d) The analysis of growth through exports needed to be more clearly linked to the aims.

Marks awarded = (a) 2/2, (b) 5/5, (c) 4/6, (d) 5/7.

Total marks awarded = 16 out 20

| Example candidate response – middle | Examiner comments |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p style="text-align: center;">Section A.</p> <p>1.</p> <p>(a) Two government policies that could increase aggregate demand (AD) determined in the article are firstly Monetary policy and secondly imposing maximum prices, gov. providing subsidies to the house market firms to boost up the supply and lower the price.</p> <p>(b) Economy can benefit in various ways from a 'market improvement in the housing market', this will cause this market to help in expand the country's gross domestic product causing a rise in the output and achieving economic growth. Secondly, due to interest rates being low and government providing help the country's investment would rise, more people will invest in housing market causing the aggregate demand to rise. But increased pricing. Moreover according to the text, the employment has also risen which has caused the GDP of the country to rise and unemployment to fall. Moreover this will also increase consumer spending within the country and demand. Also lastly the fall in price clearly determines that there is low inflation within the country which means consumers have high purchasing power.</p> <p>(c) The article does contradict the view that an increase in house prices is an improvement for an economy, firstly it is stated that in 2013 prices on average for houses were seven times the wage rate which caused a rise in borrowing relative to their income. In the future, when the demand and supply conditions causing the current situation will not last forever, and when that period ends the effect on housing market will have many people with high debts which will be very risky and worse off for economy. The government does so much expenditure on house market that will effect the AD curve of the economy causing the quantity demanded to fall and prices to rise.</p> | <p>1 One policy identified. Mark for (a) = 1/2</p> <p>2 The candidate makes three points but does not provide a developing narrative of their connections. Mark for (b) = 3/5</p> <p>3 The candidate explains why the article contradicts the statement, using two examples from the text. Mark for (c) = 3/6</p> |

| Example candidate response – middle, continued | Examiner comments |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>the housing market . . .</p> <p>(d) Increase in growth through consumer spending is possible therefore when the consumer spends in the country, it basically means investing in the country, which will cause the money supply of the economy to rise moreover it will also effect the aggregate demand curve causing the AD to shift towards left resulting in a rise in quantity demanded and a fall in Price, this will cause two effects the price falls this means the inflation in the economy is low moreover</p> <p>4 due to increased output the labour will be more efficient and the GDP of the country rise resulting in economic growth</p> <p>5 Secondly growth in economy will be two because of the growth-led model this is because one macro economic policy or aim of the government is Balance of Payment Surplus which keeps account for all the transactions taken between two countries therefore if trade barriers are removed and if the exports are greater than imports of country there will be goods coming into the country from outside so this will might result in BOP Surplus causing to achieve its macro economic aim.</p> | <p>4 This is credited as one aim.</p> <p>5 This can be more clearly credited as an aim, and some credit is awarded for a limited attempt to link it to the export lead growth element of the stem.</p> <p>Mark for (d) = 3/7</p> <p>Total marks awarded = 10 out 20</p> |

How the candidate could have improved their answer

- (a) The candidate needed to read the text more carefully: the second policy they identified was not in the passage.
- (b) The candidate needed to explain how the points identified bring about a benefit to an economy.
- (c) Only two of the relevant points were used to support the argument for contradiction.
- (d) The first aim was not clearly stated, and the link between it and the two policies needed development. For the second aim, more discussion of the effects of the two policies was required.

Marks awarded = (a) 1/2, (b) 3/5, (c) 3/6, (d) 3/7.

Total marks awarded = 10 out 20

Example candidate response – low

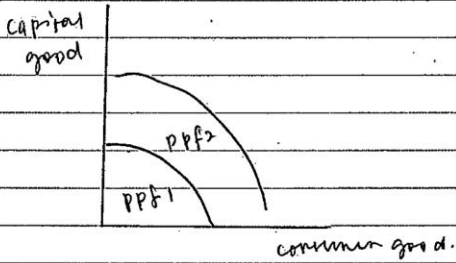
Examiner comments

| | | |
|---|-----|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | (a) | <p>The two government policies are the fixed interest rates being at an all time low at the central bank and also the government scheme 1 to help people with saving which meant people had 2 not find a large deposit when buying property.</p> <p>An impact</p> |
| | (b) | <p>A marked at improvement in the housing market may benefit an economy through investment increased investments and to rising employment in the construction industry. This will improve standard of living of the people and increase consumption. This increases tax revenue for the government which 3 can optimally be used to increase build more projects for welfare. and It will lead to economic growth. Firms will also be able to able to have higher profits. Economic growth is that when there is an a real increase in of real GDP or output. It may mean that the market is more economically efficient and making optimum use of output</p> |
| | (c) | <p>Economic growth is when there is a real increase in GDP/output. It It can be represented as by</p> <p>4</p> |

- 1** First correct policy.
 - 2** Second correct policy.
- Mark for (a) = 2/2

- 3** The candidate makes a clear link between rising investment/employment and government income, leading to a higher standard of living overall. Some reference to the multiplier process would have completed the answer.
- Mark for (b) = 4/5

- 4** The candidate has not answered the question here.
- Mark for (c) = 0/6

| Example candidate response – low, continued | Examiner comments |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>d) an outward shift of the ppf production possibility curve.</p> <p>d) Economic growth is an a macroeconomic aim which is achieved when there is an an increase in real real GDP or output. It can be It can be illustrated by an outward shift of a production possibility curve.</p>  <p>Economic development is an increase in quality of life of the people. They macroeconomic aims also include reducing unemployment to increase income and consumption. sustainability</p> | <p>5 Two aims are identified, but no links to the models quoted are made.</p> <p>Mark for (d) = 2/7</p> <p>Total marks awarded = 8 out 20</p> |

How the candidate could have improved their answer

- (b) The candidate needed to explain how the points identified bring about a benefit to an economy.
- (c) The candidate did not answer the question set.
- (d) The candidate identified two macroeconomic aims but needed to discuss how these were affected by the two growth models in the question.

Marks awarded = (a) 2/2, (b) 4/5, (c) 0/6, (d) 2/7.

Total marks awarded = 8 out 20

Common mistakes candidates made in this question

- (a) Referring to fiscal policy when this is not mentioned in the article.
- (b) Not linking the effects identified to an economic theory, e.g. the multiplier process.
- (c) Candidates often repeated the answer to part (b) here, ignoring all the evidence in the article which pointed to a contradiction. Often no conclusion was drawn.
- (d) Having identified the two aims, candidates did not apply the two suggested models to those aims.

Question 2

Example candidate response – high

Examiner comments

| Section B. | |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Q2. | <p>A free market system is where the forces of demand and supply allocate the economy's scarce resources and determine the equilibrium price. It is characterized by consumer sovereignty, competition, low prices and a wide choice for consumers. The producers are deemed as 'servants' to the consumers and must have to pay produce exactly what is demanded by the customers.</p> <p>Economic efficiency refers to a situation where the best combination of the resources is being used to produce the right types of goods and services in the right quantity.</p> <p>Economic efficiency has 2 aspects, productive and allocative efficiency. Productive efficiency not occurs when the or least possible resources are being used to produce maximum possible outcome.</p> <p>On an economy level, productive efficiency is an can be shown by any point on the production possibility curve.</p> |
| 1 | |
| 2 | |

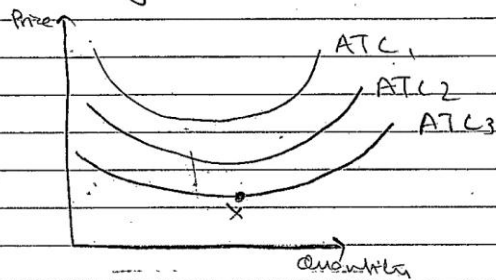
1 A clear definition of a free market system.

2 Productive efficiency is not required by the question.

Example candidate response – high, continued

Examiner comments

For a firm productive efficiency has two criteria, production on the lowest average cost curve and also on the lowest point of the lowest average cost curve (technical efficiency).



The point X on ATC ³ is where both productive and ~~allocative~~ ^{technical} efficiency occur.

Allocative efficiency is when the right combination of products is being produced and consumer welfare is being maximized.

Allocative efficiency for a firm occurs on the PPC but the exact combination is ~~at~~ unknown.

3

For a firm however is said to be allocatively efficient if the $P = MC$ i.e. the value attached by the producer to a good is equal to the value attached by the consumer.

3

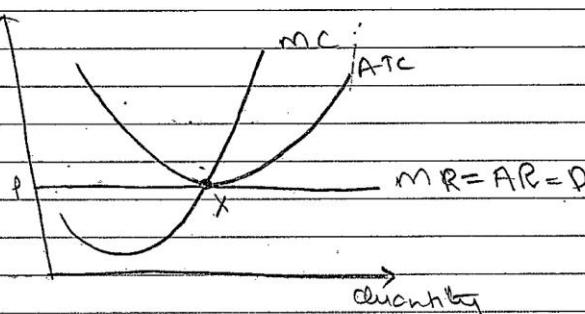
A sound explanatory paragraph on allocative efficiency.

Example candidate response – high, continued

Examiner comments

4

Firms in perfectly competitive markets are both productively and allocatively efficient. This is also known as Pareto optimality ie it is not possible to make someone better off without making someone else worse off.



The point X is where $P = MC$ and it is the lowest point of the ATC. A economic efficiency in this case does exist in a free market.

However, the market fails to allocate resources efficiently in the real world. Perfect competition is a theoretical extreme which does not exist in reality.

5

Market failure occurs due to imperfection in the markets - Firms are price makers and have control over the price - They use this power to exploit consumers. An example for example, in order to maximize profit firms will restrict output,

4

A good illustration of efficiencies, which suits the context of the question.

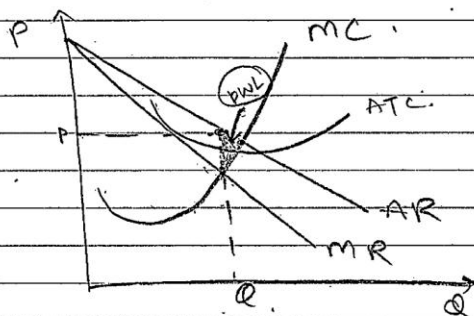
5

Given the previous analysis, a logical approach to identifying and analysing inefficiency.

Example candidate response – high, continued

Examiner comments

produce at $MC = MR$ and charge a very high price to earn a profit. Thus even it is not being ps efficient as it does not meet the criterion of p economic efficiency.



It may or may not be productively efficient but clearly it is not allocatively efficient since $P \neq MC$. There is a dead weight loss = the triangle shaded.

Due to information failure, people tend to ~~over~~^{under} estimate the ~~benefits~~^{harm} caused ~~by~~ for certain goods and ~~overestimate~~^{underestimate} the ~~benefits~~^{harm} of certain goods.

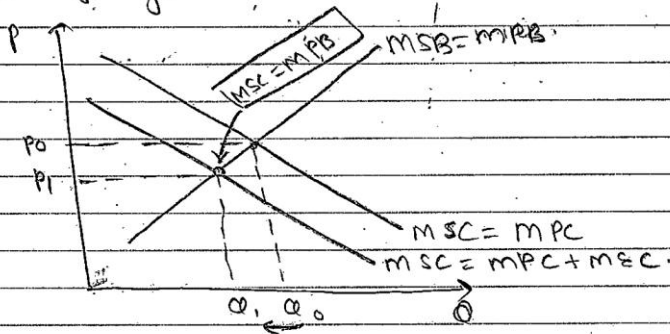
- 6 This happens because the people are not fully aware and lack proper information. Information failure, thus, leads to over production and over consumption of merit goods and under consumption and under production of merit goods.

- 6 A further example of market failure linked to inefficiency.

Example candidate response – high, continued

Examiner comments

Permanent goods are ~~goods~~ non-excludable and non-rivalrous goods that have negative externalities. eg cigarettes. Negative externalities are the negative spill over effects of the consumption of a good faced by a third party that is not even involved in consumption or production of this type of good.



Assuming zero external benefit, if the external cost of such goods is realised, the price for producer and consumer will fall from P_0 to P_1 and quantity from Q_0 to Q_1 and price from P_0 to P_1 , bringing consumption/production down to the socially desirable level where $MSC = MSB$. (This is also the case for ^{positive externalities}) This shows that resource had been overallocated when left to market forces of demand & supply. ~~the~~ The govt thus intervenes to correct this failure and bring

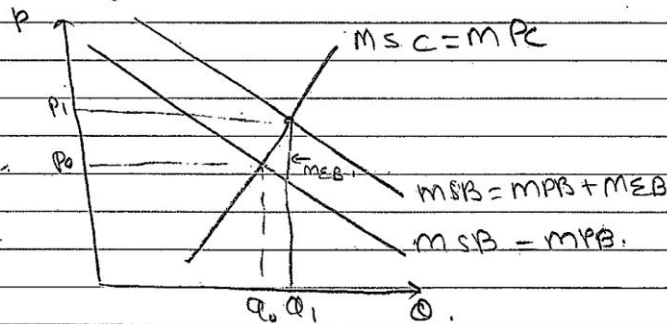
7 A good analysis of both negative and positive externalities and efficiency.

Example candidate response – high, continued

Examiner comments

at consumption down to socially desirable level. by the use of taxation. The same case is for other goods with negative externalities like pollution. The harm caused is not fully realized thus these are then over consumed and over produced.

In the case of merit goods, positive externalities exist i.e. the positive spill over effects of production / consumption to the 3rd party.



Assuming MSC to be zero, if all benefits of these goods are realized, then their consumption will rise from Q_0 to Q_1 , socially optimum level of consumption. This shows under allocation of resources. This arises in the case of goods/services like education and health care.

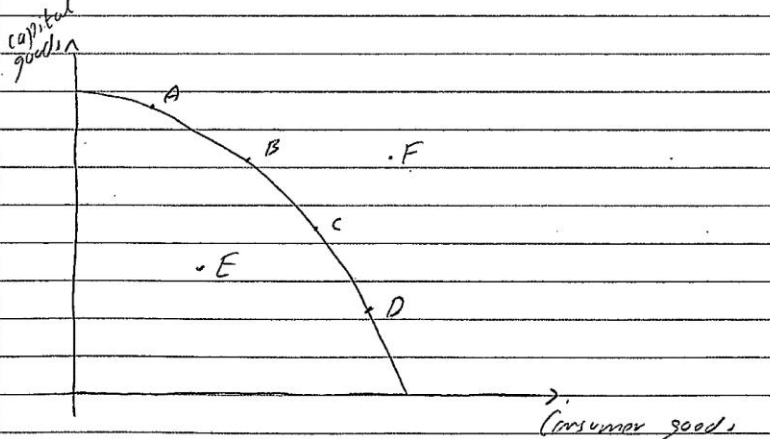
| Example candidate response – high, continued | Examiner comments |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(Continued)</p> <p>As Thus, the government intervenes in order to bring consumption up to socially desirable level by using subsidies.</p> <p>8 However, govt. failure may also occur is the govt over subsidises or over taxes such goods. This, instead of efficiently allocating resources, may lead to further distortions in the market. The govt may face problems in realising or identifying the exact amount of tax and subsidy to be used. Thus Moreover the govt also may find to achieve efficient allocation of resources.</p> <p>9 Moreover, The view that people cannot be trusted as we having of their choice and that they don't know what is best for them is against principles of a free market. The govt does not get to choose people's preferences. Also, this view contradicts with economic theory that states consumers are sovereign and know best.</p> | <p>8 Some limited discussion of government intervention and its drawbacks here.</p> <p>9 A neat concluding paragraph which reflects the free market approach.</p> <p>Level 4</p> <p>Total marks awarded = 19 out of 25</p> |

How the candidate could have improved their answer

A more thoroughly developed discussion of government policies, linked to each form of inefficiency, would have improved the answer.

Example candidate response – middle

Examiner comments

| | | |
|---|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| ② | | <p>Free Free market system is where the factor of production is controlled by private individuals.</p> |
| 2 | | <p>Allocation of resources is done according to the demand of the consumer. So only good which is more demanded is produced with the limited resources. Firms in these system work for self interest and low cost will produce what they will be more benefited.</p> |
| | | <p>Efficiency is the production of goods and services with in best way. Efficiency can be break into two types, allocative and productive efficiency. Allocative efficiency is the production of all the resources in the efficient manner. Allocative efficiency is closely related with Production possibility curve (PPC).</p> |
| 1 | |  |
| 2 | | <p>If the economy is operating at any point at PPC then that economy will be</p> |

1 A good definition of a market system.

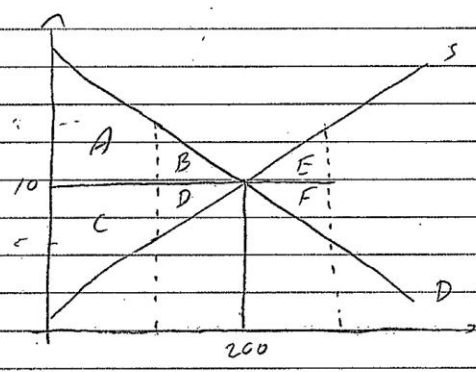
2 The candidate has a good understanding of allocative efficiency and explains it well, though possibly at too much length.

Example candidate response – middle, continued

Examiner comments

said to be allocative efficient. If the economy is operating at point E in the above diagram then the economy should use its ~~best~~ ^{best} ~~total~~ ^{total} resources to come at any point on PPC. However, point F is outside the PPC and it is currently unattainable with the current resources.

When talking about the firm, it will be allocative efficient when its price will equal its marginal cost. This will result in higher consumer surplus. This can be shown by the following diagram of consumer and producer surplus:



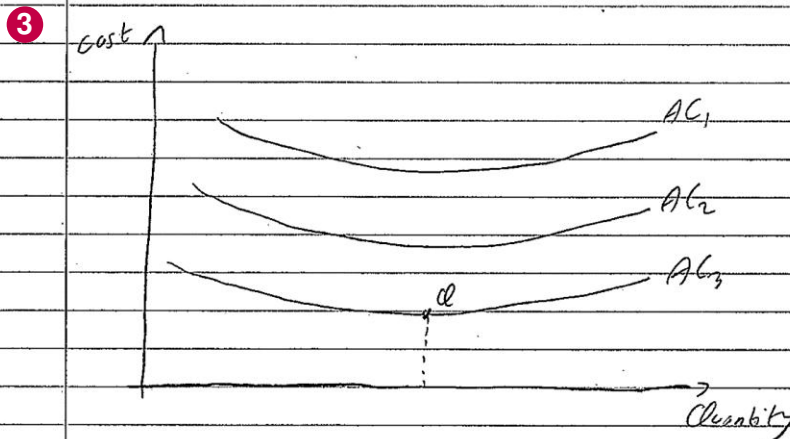
In the above diagram region A and B is the consumer surplus and C and D are producer surplus, at the correct amount of quantity is produced where $MC = P$. Any increase or decrease in the production will result in dead weight loss. This can

Example candidate response – middle, continued

Examiner comments

identified by region B, D, F and F

Productive efficiency is the production of goods and services at the lowest point possible. In other words, the production cost should be lowest. This can be done by using most efficient technology. This can be shown below:



In the above diagram AC_3 is lowest curve in the above diagram so the firm first should try to produce while occurring cost at AC_3 . Further after achieving this, Q on the AC_3 is least possible cost of production. So the firm should produce at point Q to produce efficient.

As it was discuss earlier, the private firms work for their self interest and want to maximise the profits. So they will

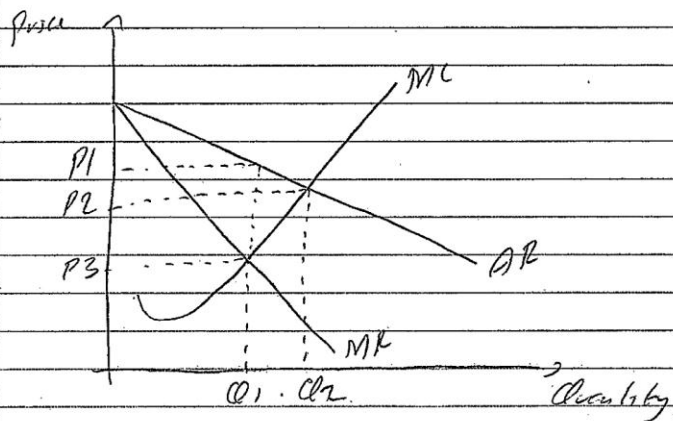
3 This page on productive efficiency is not required as the question deals with allocative efficiency.

Example candidate response – middle, continued

Examiner comments

try to allocate the resource in such a manner that they can satisfy all the needs and wants of the consumer. So they must be allocative efficient. Secondly, to increase profits, firm will decrease its cost and will use most efficient technique of production. Thus, they must be productive efficient.

However, in many circumstances they fail to allocate resources efficiently. This is because private firm will maximise its profits where its MR will be equal to MC, not where $MC = P$. This is shown below:



Firm will produce at Q1 where its $MC = MR$. It will charge the price even more higher at P1. Allocable point was the production of Q2 and price should be at P2. Thus, its

4 A good use of monopoly to illustrate inefficiency.

Example candidate response – middle, continued

Examiner comments

| | | |
|---|--|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | | <p>consumer surplus and create dead weight loss. Thus, it results in inefficiency.</p> |
| 5 | | <p>Market failure exist where where there is high externality. Externality is the cost cost to the third party who is not involved in the production process, such as pollution from the factories. In market system, this is common that the goods and services with negative externality is over produced and goods with positive externality is not produced upto the optimal level. Thus, it will damage the environment.</p> <p>Consumers does not have perfect knowledge which the producer will have than. It result in some cost are transferred to consumer and producer enjoy ^{higher} higher profits. Another example of im-perfect knowledge is that of merit and demerit goods. Due to imperfect information consumer does not know the importance and benefits of merit goods such as education and health, thus they are under consumed while the demerit goods such as alcohol have high demand and they are over produced and over consumed. It is resulted in inefficiency inefficiency.</p> <p>Very last, market will never produce the public goods such as street lights and</p> |

5 Further good examples of causes of inefficiency are dealt with in these three paragraphs.

| Example candidate response – middle, continued | Examiner comments |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>defence. But no one will be willing to pay for them. Public goods have ^{two} three common characteristics, non-rivalry and non-excludable. Thus, excludability principle does not apply so the market forces will never provide them. Every one will want this but the demand will never be registered in the market.</p> <p>Thus, it can be said that market often lead to failure and an efficiency in-efficiency. It is necessary for the government to 6 interfere in the market by deciding the efficient way to correct market failure. This would be imposition of taxes; government spending and government can transfer correct information to consumer. This will lead to consumption of the correct products.</p> <p>It can be concluded that alone market forces might achieve production 7 efficiency in the hope to increase profits but it will never achieve allocative efficiency. Thus, government intervention is necessary.</p> | <p>6 The paragraph on government is very limited. It mentions possible approaches, but fails to explain how they might be applied to the inefficiencies previously identified.</p> <p>7 A brief conclusion but no justification is given.</p> <p>Level 3</p> <p>Total marks awarded = 15 out of 20</p> |

How the candidate could have improved their answer

The candidate dealt with two aspects of the question well: a definition of allocative efficiency and forms of market failure. The role of government intervention and the limitations of that intervention were not discussed fully enough. This meant the conclusions reached were limited.

Example candidate response – low

Examiner comments

| | |
|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2 | Free Market is depend only on private people or firms and uses price mechanism of Demand and supply. Free Market sometimes is good for individuals, and economy's because free market is based on consumers needs and wants on produce only on the demand of consumers. In a free market, profit is a main aim of the firms. They produce everything of consumer wants and not think about the side effects of some production. People do not know that what is good for them or what is bad for them and choose things that are harmful for them as well as for environment. Free market cannot allocate resources efficiently and waste the resources. There for people have to pay cost of it. For example a firm of chemical production in a free market can produce chemical and their wastes through or split into the river. People have to pay cost for cleaning as well as water companies who filter water find it difficult to filter water from their waste so the government intervenes and impose taxes and regulation to that firms. Their policies help to use resource efficiently and to protect people and environment for example green tax on firms or pollution permits. |
|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

1 The opening page is a good general discussion of features of a market economy, but it contains no reference to efficiency.

2 A description of externalities.

Example candidate response – low, continued

Examiner comments

Free market is a profit based market so they produce anything like demerit goods. Demerit goods are bad for us and for our health such as fast food, cigarettes and alcohol consuming. Therefore Government policy of taxes on these items such as on alcohol or cigarettes ^{and also helps people as well as} environment. Government also ^{set barriers} on the imports of alcohol and in some economies such as KSA (SAUDI-ARABIA) a muslim ~~to~~ country have fully banned the consumption of alcohol. Government as well as provides merit goods such as education and free hospital which free market is failed to fully give benefits of it. Though free market also ~~have~~ provide education and hospitals but some people with low incomes not afford them. As well as Wrong information is given in free market and wrong prices. And some consumers or people do not know and donot have information about what is good or what is bad so they buy everything on high prices in the free market. So Government provides information and right prices to protect them from wrong decisions. Sometimes by compaigns or advertisements. Free Market wastes resources in such thing which can be better use in something else.

3

3

This part of the answer is the best in terms of analysis.

| Example candidate response – low, continued | Examiner comments | | | | | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---|--|--------------------------------------------------------------------------------------------------------------|---|--|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <table border="1"> <tr> <td></td> <td></td> <td>I support this argument because the thing I mentioned above are proving</td> </tr> <tr> <td>4</td> <td></td> <td>That free market doesn't allocate resources efficiently. Government policies are set to organise free market</td> </tr> <tr> <td>5</td> <td></td> <td>and resources efficiently or properly. And people don't always know what is good and bad for them. Government economic policies help people as well as the environment.</td> </tr> </table> | | | I support this argument because the thing I mentioned above are proving | 4 | | That free market doesn't allocate resources efficiently. Government policies are set to organise free market | 5 | | and resources efficiently or properly. And people don't always know what is good and bad for them. Government economic policies help people as well as the environment. | <p>4 The answer is very general in its approach and contains only limited analysis. It also deals with just one aspect of the question.</p> <p>5 The candidate partially deals with one element of the question, that of market failure. There is no clear definition of allocative efficiency, only a narrow range of government policies are mentioned and there is no comment on the limitations of such policies.</p> <p>Level 1</p> <p>Total marks awarded = 9 out of 20</p> |
| | | I support this argument because the thing I mentioned above are proving | | | | | | | | |
| 4 | | That free market doesn't allocate resources efficiently. Government policies are set to organise free market | | | | | | | | |
| 5 | | and resources efficiently or properly. And people don't always know what is good and bad for them. Government economic policies help people as well as the environment. | | | | | | | | |

How the candidate could have improved their answer

The candidate needed to provide a clear definition of allocative efficiency and discuss a broader range of examples of inefficiency, then suggest a number of government policies and comment on the limitations of such policies.

Common mistakes candidates made in this question

Some candidates wrote at length and unnecessarily about productive efficiency. Some candidates did not realise that there were four elements that needed to be covered: the definition of efficiency, the market's failure to achieve efficiency, government policies aimed at addressing this failure, and the limitations of those policies.

Question 3

Example candidate response – high

Examiner comments

a. **1** Indifference curve is a curve showing the possible combinations of goods and services that give the same amount of total utility. Consumer equilibrium is achieved when budget line is tangential to the indifference curve. This means the total utility is maximised. Budget line is a line showing the maximum possible combinations of goods and services that can be consumed at a constant price level with constant disposable income.

Fig 1

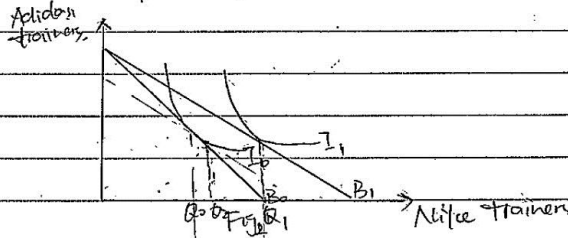
1 A clear beginning which identifies the equilibrium between the budget line (BL) and the indifference curve (IC). Both the IC and BL are clearly defined. They are brought together in Fig. 1, and this figure is referred to correctly in the text.

Example candidate response – high, continued

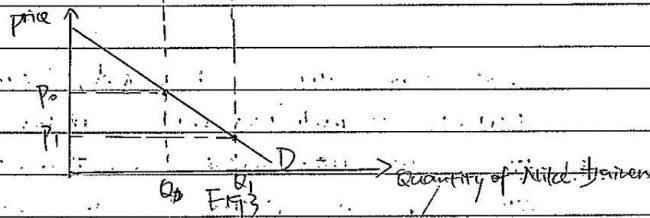
Examiner comments

2

According to Fig. 1, the point ~~is~~ X is the consumer equilibrium point. At this point, the quantity of good A consumed is Q_A and the quantity of good B consumed is Q_B . At point X, $\frac{MU_A}{P_A} = \frac{MU_B}{P_B}$. ~~This means that~~ the marginal utility per unit of price of good A and B is the same. This means that the ~~extra~~ additional satisfaction derived from the consumption of goods A and one extra unit of good A and B per unit of price is the same. ~~As a result,~~ total utility from consumption of A and B is maximised.



3



According to Fig. 2 and 3, if the price of Nike trainers decrease from P_0 to P_1 , the budget line will shift from B_0 to B_1 because the real income of consumers increases. The budget constraint increases. As shown in Fig. 2, due to the substitution effect, the consumer will prefer to buy more cheaper Nike trainers rather than buy more expensive Adidas trainers. As a result, the quantity of Nike trainers increases from Q_0 to Q_1 . Moreover, due to the ~~income~~ income effect, the consumer will increase its demand to Q_1 to obtain a higher total utility. As a result, due to the substitution effect and income effect of a normal goods, the demand curve is ~~an~~ downward sloping. This means as price decreases, quantity demanded will increase.

2

This paragraph is concerned with the marginal utility approach and does not add anything to the response.

3

A change in the price of one of the two goods and its effect on demand.

Fig. 2 is correctly drawn and Fig. 3 shows the consequences of Fig. 2 translated into a conventional demand curve.

The text below the diagrams is correct and explains fully what is shown.

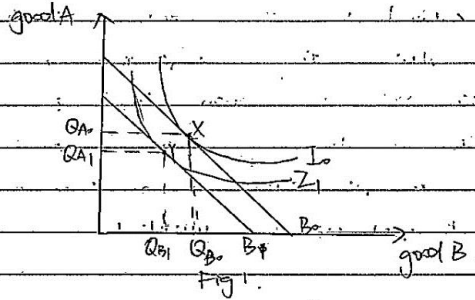
Example candidate response – high, continued

Examiner comments

In conclusion, ~~when~~ for an abnormal good like giffen good, the negative income effect will be greater than positive substitution effect. ~~It~~ Therefore, the demand curve is upward sloping.

Mark for (a) = 12/12
Level 4

b. Indirect tax is the tax imposed on goods and services. The effect of tax may depend on price elasticity of goods.



4 As shown in Fig. 1, if ~~the demand for~~ both good A and good B are price inelastic, the equilibrium will be affected ^{at} by a great extent. If the government increase taxes on ~~both~~ ^{both} goods, the ~~price~~ ^{consumer's} has to pay part of the tax. ~~It~~ ^{is} due to price inelastic demand. As a result, the ~~total~~ ^{disposable} income of consumers will decrease. This will ~~shift~~ ^{cause} the inward shift of B budget line from B0 to B1. In the short run, the consumers may not be able to decrease the ~~the~~ demand in order to rise ~~the~~ MU according to the law of diminishing ~~the~~ marginal utility. This means as more and more goods are consumed, the marginal utility will decrease. ~~However,~~ ^{equilibrium} in the long run, ~~it~~ ^{is} a result, ~~is~~ ^{equilibrium} consumers ~~may not~~ may not be achieved immediately; However, ~~is~~ ^{after} that, consumer equilibrium will be achieved again at point Y where the total utility decreases compared to the initial one at X. The quantity demanded for good A and B decreases from QA to QA1 and from QB0 to QB1.

4 This response identifies the effects of an indirect tax on both goods, and correctly illustrates and analyses these effects.

| Example candidate response – high, continued | Examiner comments |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>5 However, if the demand for goods is price price elastic, the shift of budget line will be at a lower extent. As a result, the consumer equilibrium may not be changed greatly because most of the tax is paid paid by the producers as is the cost of production. Moreover, if the demand for goods is perfectly perfectly price elastic, the the increase in indirect tax will not affect the consumer equilibrium because the tax is totally totally paid by the producer and and the quantity demanded will not change. Furthermore, increased tax may lead to increase in price. Some producers may not want higher price which may cause the loss of competitive edge of goods and services. As a result, they may to maintain or even lower the price to in order to achieve competitiveness and sales more sales turnover.</p> <p>In conclusion, the consumer equilibrium point may be affected by a government fiscal policy that raises tax on goods only if the demand for goods and services is price inelastic and, and the it depends on the objective of the firm. If the firm aims at sales maximisation, equilibrium may not be affected by the tax.</p> | <p>5 This loses focus on the aim of the question, i.e. to discover and analyse the income and substitution effects of a relative price change in the two products.</p> <p>Mark for (b) = 6/13 Level 2</p> <p>Total marks awarded = 18 out 25</p> |

How the candidate could have improved their answer

(b) More developed discussion of the effect of a price change on one good was needed here. This would have allowed the candidate to explain the difference between income and substitution effects.

Marks awarded = (a) 12/12, (b) 6/13.

Total marks awarded = 18 out 25

Example candidate response – middle

Examiner comments

| | | |
|---|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3 | a | <p>Consumer equilibrium is a concept that makes up a very big part of marginal utility theory. Marginal utility theory believes states that consumers aim to maximise their total utility which is the total satisfaction one gains from consuming all of the goods. In this theory a few assumptions have to be made: consumers behave rationally, they have a fixed money income, their demand makes up a very small portion of the market demand, therefore does not affect the price, they know exactly how much satisfaction they gain from consuming that good, and all their money income is spent (no borrowing or saving).</p> <p>In consumer equilibrium, 2 things are used, the budget lines and indifference curves. A budget line is a line that shows all the possible combinations of a good one can buy given their current money income. A change in price of either good or money income will shift the curve, pivotally or by a certain amount. There are 2:</p> |
| 1 | | |
| 2 | | <p>The graph illustrates budget lines. The vertical axis is labeled 'Good Y' and the horizontal axis is labeled 'Good X'. Two parallel budget lines are shown, both sloping downwards. The original budget line is labeled 'original BL = BL1' and has a vertical intercept at 'B'. A second budget line, shifted outwards, is labeled 'fall in P(x) = BL2' and 'fall in money income = B2L2', with a vertical intercept at 'B2'.</p> |
| 3 | | <p>An indifference curve on the other hand shows the combination of goods that yield the same total utility. Since the total utility on any point on the curve is the same, the consumer is indifferent to it. They are convex to the origin because as less of one good is consumed, its marginal utility increases therefore the consumer is less willing to give it up and requires more of the other good to give up one of the first good. The further away the indifference curve from the origin, the higher the total utility.</p> |
| 4 | | |

1 An opening paragraph based on utility theory. Some limited statements towards the end of the paragraph refer to indifference curve analysis.

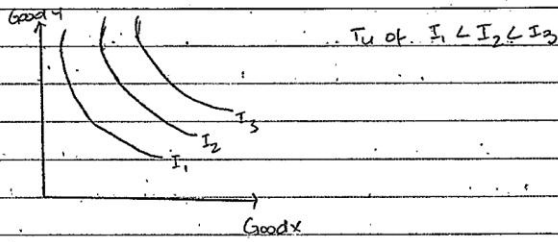
2 A good paragraph on the budget line (BL) definition and illustrations of changes in the BL

3 Here, the candidate defines, illustrates and explains the concept of indifference curves (IC) correctly.

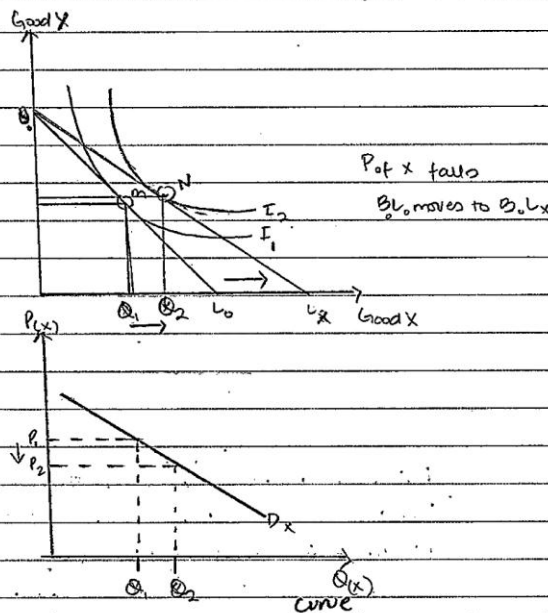
4 The reference to marginal utility is a distraction, as IC analysis is based on the concept of satisfaction.

Example candidate response – middle, continued

Examiner comments



5 The consumer equilibrium is determined where the two, indifference curve and budget line, meet. Since the consumer tries to maximise their total utility, they go for the point #A on the budget line that is tangent to the curve. This is the consumer equilibrium, where all the money income is spent and total utility is maximum. This is point M in the diagram below.



This can be used to derive the demand for 'X'. When the price of X is P_1 , the point of equilibrium is Q_1 , when its price falls to P_2 , the budget line pivots outwards and moves to a higher indifference curve where the new quantity at equilibrium is Q_2 . This can then be used to derive a demand curve as

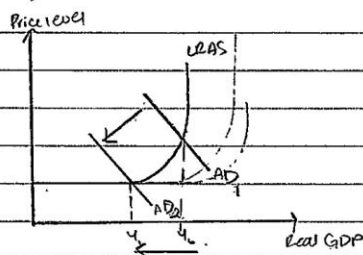
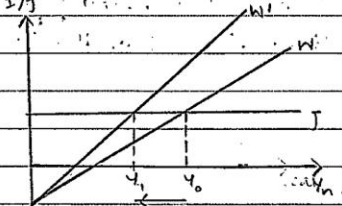
5 The candidate combines changes in the BL and IC to analyse the price effect on the quantity of 'X' demanded. The answer links this clearly to the demand curve for the product.

Example candidate response – middle, continued

Examiner comments

no we know what the quantity the consumer demands with a change in the price of the good.

b Governments implement fiscal policies in order to achieve macro economic objectives. A fiscal policy is one where the government alters its spending or its taxation on the population. ^{where taxation and gov. spending is altered} Increasing the ~~there are two types, discretionary and non-discretionary~~ ^{where the gov. reduces or cuts in gov. spending to smooth the business cycle.} increasing taxes on goods is a ~~non-discretionary~~ ^{discretionary} contractionary policy. when it raises taxes on goods, withdrawals increase while injections remain the same. This results in a fall in national income.



A raise in tax ~~increases~~ ^{decreases} the national income which means that the consumer's money income has now fallen. Additionally, the AD, shifts back to AD₂ and price level falls that results in a fall of prices of the goods. Depending on how significant each effect is, the consumer equilibrium may increase, fall or stay at the same. However since the goods are being taxed, it is likely that the goods will be more expensive even if the price level falls since taxation generally is inflationary. Therefore the most likely result of a

Mark for (a) = 11/12
Level 4

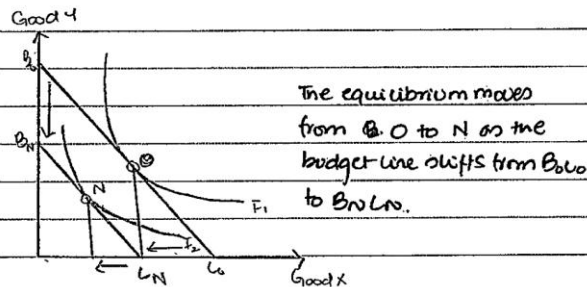
6 The candidate's opening paragraph focuses on fiscal policy rather than on a change in taxes on goods. The analysis is good but misplaced.

Example candidate response – middle, continued

Examiner comments

7

government fiscal policy where it raises taxes on goods is a fall in the consumer equilibrium on both an increase in prices and fall in consumer income will shift the budget line to the left onto a lower indifference curve.



The equilibrium moves from O to N as the budget line shifts from B_0L_0 to B_1L_1 .

However while this may be the most likely outcome, it is difficult to see be certain as it depends on the amount of tax that has been implemented on each good, how much it has changed the money income of the consumer, how much has the price level fallen by. Without proper values it is difficult to gauge the net effect a raise in taxes will have on consumer equilibrium.

7

This analysis is relevant but it is applied to all goods. This prevents the candidate from exploring the income and substitution effects that take place when relative prices change.

Mark for (b) = 5/13
Level 2

Total marks awarded = 16 out of 25

How the candidate could have improved their answer

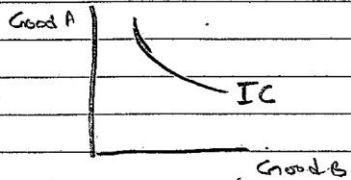
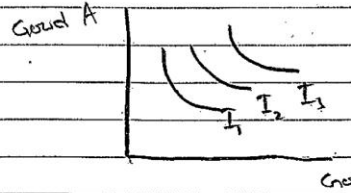
- (a) The candidate needed to refer to satisfaction rather than utility in this answer.
- (b) More developed discussion of the effect of a price change on one good was needed here. This would have allowed the candidate to explain the difference between income and substitution effects.

Marks awarded = (a) 11/12, (b) 5/13.

Total marks awarded = 16 out of 25

Example candidate response – low

Examiner comments

| | | |
|---|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3 | a | <p>An indifference curve basically shows the utility a consumer gains by buying two sets of goods.</p> |
| | |  |
| 1 | | <p>The indifference curve has a decreasing gradient because the law of diminishing marginal utility states that a consumer's marginal utility gained keeps decreasing. Thus as he goes down the curve he has to give up less of B to gain more of A. Consumers like to gain as much utility as possible and this is done when a consumer buys on the outermost indifference curve. The outermost curve provides the maximum utility of both goods.</p> |
| 2 | |  <p>The curve I_3 would provide the consumer with the maximum utility. Also if a consumer has a given income</p> |

1 The candidate provides a good explanation of the shape of the indifference curve.

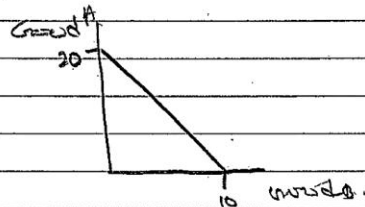
2 This is a good explanation of the consumer seeking a higher indifference curve to provide higher levels of satisfaction.

Example candidate response – low, continued

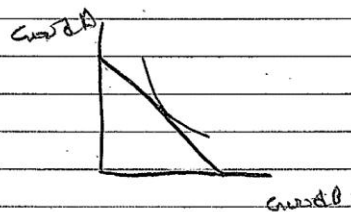
Examiner comments

3

he can spend then he consumes on the indifference curve that is tangent to the budget line. The budget line shows the maximum a consumer can buy of both goods given his income.



This shows that if the consumer only wants to buy good A then he can buy 20 units. And if he only buys B then he can afford 10.



To maximize utility given an income the consumer will consume on the outermost indifference curve as shown in the diagram.

Also, if a consumer has a fixed income and has to buy many goods and he wants to choose how much of each to buy he will follow the equi-marginal principle.

3

The candidate introduces and explains the role of the budget line, linking it to the indifference curve.

No conclusion is drawn regarding the amount of good A and good B chosen.

Example candidate response – low, continued

Examiner comments

This principle states that a consumer is best off when all the MU/P ratios are the same.

$$\frac{MU_A}{P_A} = \frac{MU_B}{P_B} = \frac{MU_C}{P_C} \dots$$

4 This is how the consumer would decide how much of each good to buy to maximise utility.

To derive a demand curve through the utilities we alter the price of a good and we get a consumer demand curve. For example, if P_A was 10 and P_A was 5 – and both had the ^{different} ~~same~~ marginal utility then the consumer would spend on each until he reached a point where the marginal utility to price ratios were the same. This would be our first point. We would then decrease the price of A – and this would lead to the consumer consuming more of A until the MU ratios would again be equal. We would keep altering the prices and obtaining the points and would thus draw a demand curve.

4 The answer abandons IC analysis in this paragraph

5 A development of the shape of the demand curve based on marginal utility theory rather than indifference curve analysis.

6 The candidate's answer needed to show the effect of changing the price on the budget line and how this affects the point of intersection with the 'family' of indifference curves and hence how the demand curve emerges.

Mark for (a) = 6/12
Level 2

Example candidate response – low, continued

Examiner comments

| | | |
|---|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3 | b) | <p>A government induces a fiscal policy in order to increase aggregate demand. In a fiscal policy the government can either increase government spending or alter the taxation. If they increase spending and reduce taxes then aggregate demand increases. However, if a government increases taxes, then aggregate demand would fall. As goods would be more expensive and the income effect would kick in. Also the substitution effect would kick in as consumers would impact goods.</p> <p>Now if a consumer is currently consuming at an indifference curve on the budget line and the prices of the goods rise then the budget line would shift inwards. As both goods will increase in price, the budget line would have a parallel shift inwards. This is because the consumer can afford less of each good.</p> <div style="text-align: center;"> </div> <p>As the budget line has shifted inwards the indifference curve will also shift inwards. As the consumer can afford less and thus the total</p> |
|---|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

7 The opening paragraph is not relevant to the question.

8 This is a correct description of the effect of price increases through taxation on the budget line, but no indication is given of the indirect nature of the tax change and the fact that it may apply to only one of the goods.

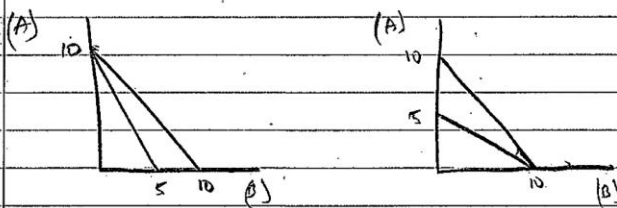
The candidate needed to make explicit reference in their answer to the correctly-drawn diagrams.

Example candidate response – low, continued

Examiner comments

9

utility he would gain would be less.
 If the consumer was previously buying where $MU_A = MU_B$ then as the prices $P_A = P_B$ have risen the marginal utility per dollar will fall. However, if the goods don't increase by the same proportion and the price of A increases by more than the consumer would increase spending on B so we can get back to the equation $MU_A/P_A = MU_B/P_B$.



10

The above diagrams show different budget lines. As the price of B increases then the consumer can buy less of B for every A and vice versa. Also, as the prices increase the substitution and income effect kick in. The substitution effect leads to the quantity demanded of the good to fall as they both have an inverse relationship. And the income effect also leads the quantity demanded to fall as the consumer has less real income and can't afford less of the good with his given income.

9

Marginal utility analysis is prominent here, but the question is concerned with IC analysis.

10

Good basic analysis of the impact of price changes on individual budget lines here. However, there is no IC to back up the assertions that demand will fall.

| Example candidate response – low, continued | Examiner comments |
|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The above diagram shows the result of the price increase.</p> | <p>11 The budget lines need IC to develop the answer logically.</p> <p>Mark for (b) = 5/13 Level 2</p> <p>Total marks awarded = 11 out of 25</p> |

How the candidate could have improved their answer

(a) A clear link between the movement of the budget line and its intersection with the new indifference curve needed to be translated to a demand curve falling from left to right.

(b) More developed discussion of the effect of a price change on one good was needed here. The candidate also did not develop their response in terms of both budget lines and ICs. This would have allowed them to analyse the distinction between income and substitution effects and to explore the development of normal and inferior goods.

Marks awarded = (a) 6/12, (b) 5/13.

Total marks awarded = 11 out of 25

Common mistakes candidates made in this question

(a) Many candidates did not establish the link between the movement of the budget line and its intersection with a new indifference curve and the need to relate this to a demand curve falling from left to right.

(b) Candidates needed to consider the income and substitution effects of a relative price change, rather than assume the indirect tax increase applied to all goods.

Question 4

Example candidate response – high

Examiner comments

| | | |
|---|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 | a | <p>1 A perfectly competitive labour market is one in which all parties are wage takers, they are not able to alter the market equilibrium wage rate. All labour is identically skilled, so they're paid the same wage rate. All parties have perfect knowledge, so the workers are fully aware of the occupation elsewhere. Also, they're perfectly mobile, both occupationally and geographically. So there won't be an taken job in an area whereas people unemployed in another. Firms are self-interested and pursuing maximisation in profit, so they will employ at the point $MC = MRP$. There's no barrier to stop wage rise or fall.</p> <p>The demand for labour is MRP, marginal revenue product. It equals to MPP; marginal physical product \times price of product. It's the extra revenue the firm can gain by employing an additional unit of labour. In the short run, as fixed capital is fixed, the MRP is diminishing as more workers are hired. MRP therefore slopes downwards as shown.</p> <div style="text-align: center;"> </div> <p>2 As it's a perfect competition, the firms take the industry equilibrium wage rate W_e, and will produce hire labour at Q_e as it's the profit maximising point where $MC = MRP$.</p> <p>The MRP differs from industry to industry. But in perfect competition, the productivity of labour is the same, price is the same, so MRP will not differ. But in different occupation, MRP differs. For instance, MRP will be higher for a manager than for a cleaner. Thus, the MRP for manager will be far more to the right, the equilibrium</p> |
|---|---|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

1 The answer clearly focuses on the labour market and identifies the assumptions of a perfect labour market.

2 The marginal revenue product (MRP) is defined, as is the link between the market and the firm's demand for labour. The diagrams are correctly referred to in the text.

Example candidate response – high, continued

Examiner comments

3 quantity of labour that a firm is willing to hire is greater than that of a cleaner. The demand for managers is much higher than that for cleaners in the industry.

At the same time, the supply of cleaner will be much greater than for managers. To be a manager, years of study and ~~of~~ is needed, but ~~if~~ to be a cleaner, there's ~~not~~ no strict requirements needed.

4 Therefore, the supply of manager is to the left of supply of cleaner.

As shown, the wage rate for a manager will be higher than the wage rate of cleaner in the industry. Firms will have to take that wage rate. This difference is caused by different level of skills people acquire. In the short run, cleaner can't study enough to become a manager. In the longer run, it's possible to educate a cleaner to be a qualified manager.

5 Also, in the short run, the labour may not notice a better paid job opportunity elsewhere. As MRP is diminishing, the lack of labour will mean higher wage rate. As what they bring to the firm diminishes with quantity of labour increases, ~~they~~ their effort is worth less to the firms. But in the long run, workers will finally find it out as they have perfect information.

Overall, in the long run \rightarrow the assumption behind a perfect labour market is more complete, so the wage differentiations will be fixed.

3 The candidate argues that MRP can differ between occupations and gives examples, but does not clearly explain why the difference exists.

4 An example of why wages may differ due to different supply and demand conditions for managers and cleaners, together with some explanation of why supply may differ.

5 An example of imperfect knowledge is used to explain further why wages may differ.

Mark for (a) = 10/12
Level 4

Example candidate response – high, continued

Examiner comments

| | | |
|---|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 | b | <p>An imperfect labour market means the assumptions = all parties have perfect knowledge, all workers are perfectly mobile, all parties are wage takers, workers are identical and are paid the same, no barrier can stop wage change, firm aims to maximise profit, do not exist at the same time. A trade union is an organisation that acts on workers' behalf. It can bargain for a higher wage rate or limit the supply of its workers to increase wage rate.</p> |
| | 6 | <p>In a perfect competition, any demand of wage rise by trade union will create unemployment.</p> |
| | 7 | <p>For instance, a claim for a higher wage rate with the threat of strike will create unemployment. Trade union asks for W_T which is above W_e, the market equilibrium, will lead to excess of labour, $Q_S > Q_D$. There will be Q_D people employed, $Q_e - Q_D$ people lose their job, $Q_S - Q_e$ people willing to take that job but unable to.</p> |
| | 8 | <p>Also in a closed shop, trade union can reduce supply of labour from S_L to S_{L1} for a higher wage rate of W_T. This will also create unemployment of $Q_e - Q_T$. The members that are still in employment will be able to enjoy higher wage rate.</p> |

6 This opens by explaining why the assumption stated previously may no longer apply and defines a trade union's (TU's) role.

7 A good analysis of the effect of TU intervention and its effect on employment and wages.

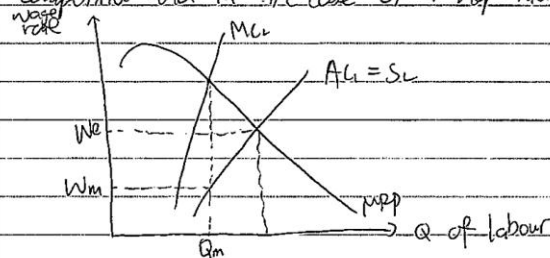
8 Further analysis of the TU role in a closed shop and its effects.

Example candidate response – high, continued

Examiner comments

of W_T , whereas those made out of job will receive no money now.

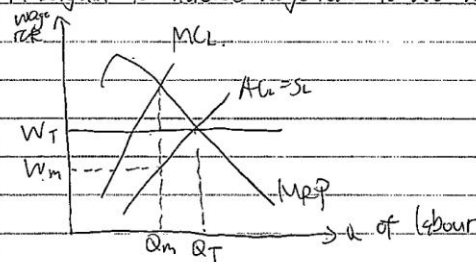
However, this may not happen in an imperfect market. The existence of trade union will bring the market back to a competitive end in the case of a monopsony.



A monopsony is the sole employer in a labour market. As a profit maximiser, it will hire Q_m of labour, paying only W_m of wage rate as this is the profit maximising point ($MC_L = MRP$). It will be able to exploit workers, not paying them what they bring to the firm, (marginal revenue product) W_c .

A bargain to increase wage rate to W_c will fix this exploitation.

9



A strong trade union can force the monopsonist to raise the wage rate up to W_T , the equilibrium wage rate where workers are paid equal to that they add to the revenue of the firm. Also, more workers will be employed ($Q_T - Q_m$). In this case, trade union doesn't lead to unemployment but actually help increase the employment.

9

Analysis of the monopsonist labour buyer and the TU explains the role of the TU in negotiating both a higher wage and more employment, based on MRP theory.

| Example candidate response – high, continued | Examiner comments | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 5%;"></td> <td style="width: 5%;"></td> <td style="width: 90%;">Overall, I don't agree with the statement. It's in a perfect competition labour market that trade union activity will eventually lead to a rise in unemployment.</td> </tr> </table> </div> <p>10</p> | | | Overall, I don't agree with the statement. It's in a perfect competition labour market that trade union activity will eventually lead to a rise in unemployment. | <p>10 A very brief but accurate conclusion.</p> <p>Mark for (b) = 10/13 Level 4</p> <p>Total marks awarded = 20 out 25</p> |
| | | Overall, I don't agree with the statement. It's in a perfect competition labour market that trade union activity will eventually lead to a rise in unemployment. | | |

How the candidate could have improved their answer

(a) The candidate could have given a clearer explanation of why there are differences in supply and demand for labour.

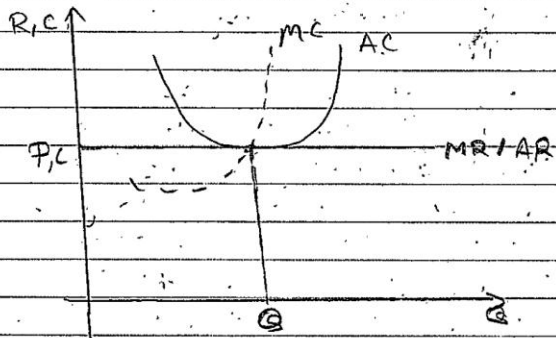
(b) The candidate needed to explain that, while wages can improve without resulting necessarily in a fall in employment, if a trade union persists in demanding higher pay, employment will eventually decline.

Marks awarded = (a) 10/12, (b) 10/13.

Total marks awarded = 20 out 25

Example candidate response – middle

Examiner comments

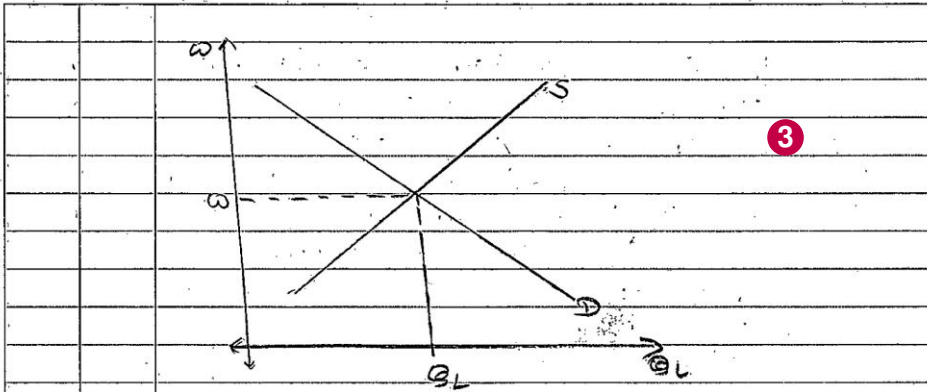
| | | |
|----|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4) | a) | <p>Perfectly competitive market is that in which there there are large number of buyers and sellers in the market. All the firm in this market produce the same kind of product, the there is no product difference. Firm are price-takers not a price makers, Industry fixed price for a product and that is to follow by the whole market. There is no barriers for a new firm to to enter into and exit out of the industry and consumers have perfect knowledge about the product. In the long run perfect market in perfect competition gain normal profit. It can be shown as:-</p>  <p>The maximum profit is where MR MC cuts MR from below and sufficient condition for profit is when $MR = MC$.</p> <p>Wage is the reward given to the workers for their effort on making goods and service. wage is determined by the market force of demand and supply as:-</p> |
|----|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

1 The essay opens with a clear definition of perfectly competitive markets.

2 The analysis here does not contribute to the answer.

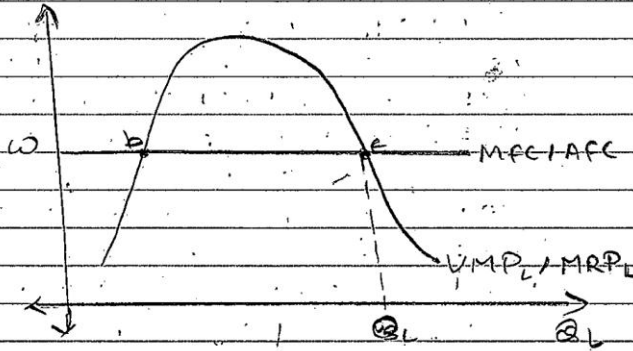
Example candidate response – middle, continued

Examiner comments



4

In case of perfect competition wage is determined where when MRP_L equal MFC it can be shown as -!



It is determined at point e because at point b there is still chance for increase in the wage.

In perfect competition in the short run, a firm can achieve normal profit, abnormal profit and even loss. Wage rate in some occupation would be higher in short run perfect competition in which

3

A clear definition and diagram to illustrate the market clearing wage.

4

A limited reference to marginal revenue product (MRP) theory, which improves the quality of the response overall. A good illustration of the demand for labour within a firm.

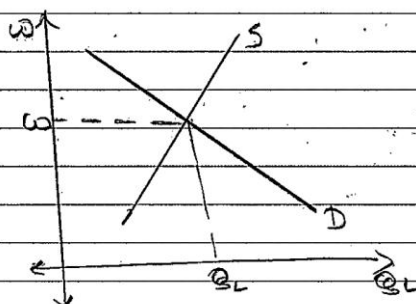
Example candidate response – middle, continued

Examiner comments

5 firms are ~~at~~ attaining abnormal profit. All the firm does not obtain abnormal profit in short run. So, that who can achieve would give high wage to its workers. But it is not possible for so firm to give high wage than others. And the firm ~~is~~ having loss gives low wage in short run.
Hence, some of the ~~use~~ firms in perfect competition gives high wage than in others, ~~and~~ according to the profit they make in the short run.

4 (b) Imperfect market is the market where there are large number of buyers and few sellers. There is product difference between in the market. Firms decide on ~~to~~ the price of the product so firm are price maker not a price taker. There are

6 Strong and weak barriers for a firm to enter into and exit out of the industry. Consumer have perfect knowledge about the product. Imperfect market is ~~it~~ divided into monopolistic competition, oligopoly, Duopoly and monopoly. Wage in imperfect market is determined by the market force of demand and supply as shown below:-



The wage in imperfect market is also determine ~~to~~ where MRP_L equals MFC it can be shown as:-

(Pro)

5 Here, the candidate loses focus on the question, which is concerned with wage differentials in perfectly competitive markets.

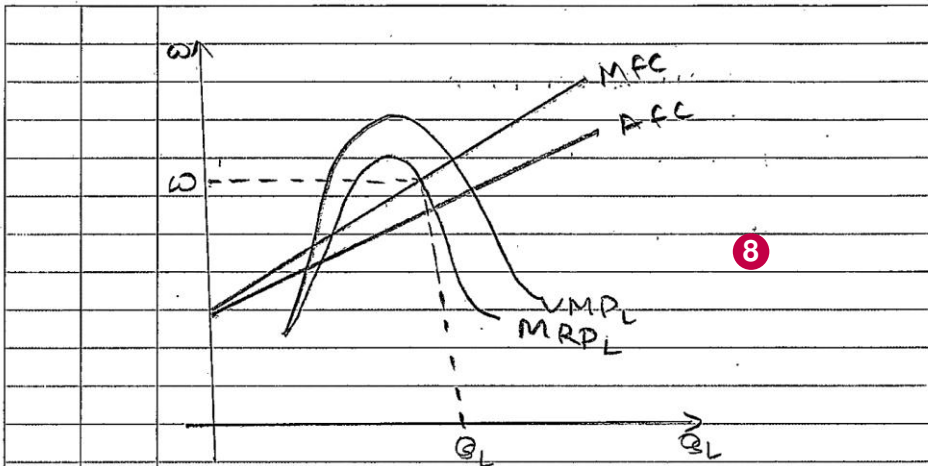
Mark for (a) = 7/12
Level 3

6 A definition of an imperfect product market rather than an imperfect labour market.

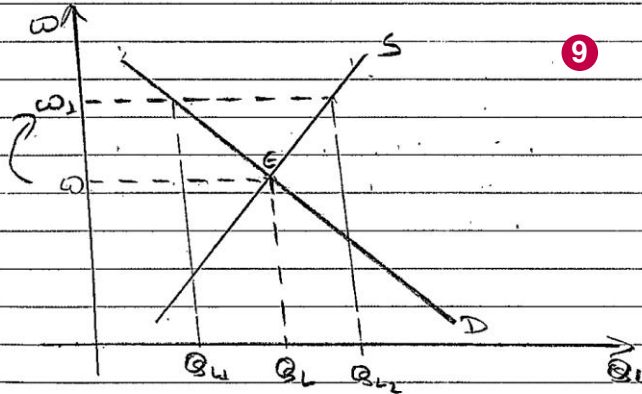
7 The diagram and text do not link up.

Example candidate response – middle, continued

Examiner comments



Trade union is the union of workers that is form for the welfare of the workers. Trade union intervene in the determination of the wage and set the wage rate above equilibrium level. It can be shown as:-



As the trade union set wage at ω_1 there would be increase in supply of labour and decrease in demand for labour

8 There is no reference to the diagram in the text.

9 A description of the role of a TU, together with an example of the effect of TU activity in raising the wage level. The consequence of such an action is also correctly identified.

Example candidate response – middle, continued

Examiner comments

which will create unemployment, leads to poverty and cause of loss of social welfare. Trade union set wage to w_1 , so that workers would be motivated and they could get sufficient wage from their work but it will act negatively.

It is not always the case that increase in wage would create unemployment. In case of highly demand for highly skilled labour. They are paid high wage so, that they are motivated towards the work. In the case of risky job the raise of wage by trade union would not decrease the quantity demanded for labour.

When the price of a product or service that the firm sold is price inelastic then also the raise on the wage by trade union above equilibrium would not cause lead to unemployment as maximum cost could be pass to the consumers.

Yes it is true in some cases in the imperfect market the raise of wage by trade union would lead to unemployment in the market, mostly in case where demand for a product is elastic and workers are semi or unskilled. But it will not always leads to unemployment in the market in case of highly skilled workers, risky job and inelastic demand.

10 These two paragraphs do not make a clear link to imperfect labour markets.

11 The assertion is correct but there is no explanation why this is the case.

| Example candidate response – middle, continued | Examiner comments |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The firm would be ready to pay the wage determined by the trade union in case there is high demand for a workers. In case of monopsony where there is ^{only a} A giant firm supplying workers. They are not ready to give wage sufficiently. There will be a doubly exploitation of resources. It can be shown as:</p> <div style="text-align: center;"> </div> <p>wage should is not given in w_1 again equilibrium wage of w_e is not given and finally wage is given. In such case trade union wage determination would not affect the wage and only creates unemployment.</p> <p>Hence, Sometime wage determine by trade union can can in some case can achieved and in some not. So, in p imperfect market it is not always that egg raise of wage by trade union only cause leads to unemployment.</p> | <p>12 Here, the candidate attempts to use MRP theory to explain the increase in wages without an increase in unemployment which can occur in monopsony. The diagram is not clearly explained in the text, but the two together show some understanding.</p> <p>13 A limited conclusion.</p> <p>Mark for (b) = 8/13 Level 3</p> <p>Total marks awarded = 15 out of 25</p> |

How the candidate could have improved their answer

(a) A fuller explanation of marginal revenue product theory and the reasons for differences in the supply and demand for labour was needed here.

(b) The candidate needed to explore a wider range of trade union intervention and extend their analysis to monopsony.

Marks awarded = (a) 7/12, (b) 8/13.

Total marks awarded = 15 out of 25

Example candidate response – low

Examiner comments

4 a) Perfect competition refers to the market structure where all of suppliers produce homogeneous goods or, there are a large number of suppliers and there is perfect information about goods and services trading in a market.

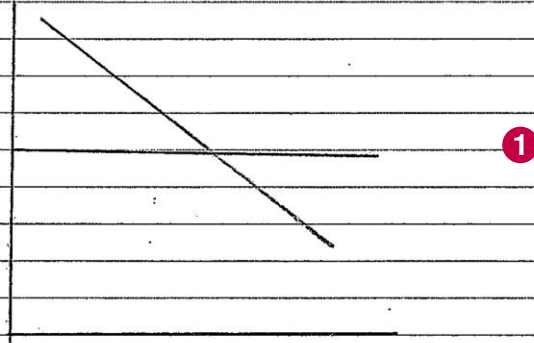


fig (1)

As due to homogeneous goods and a large number of suppliers firms in perfect competition are price takers (fig 1). They face a price decided by consumers and cannot affect it. Firms will produce where their marginal cost is equal to marginal revenue. So it makes sense that firms will higher, market to the point where there they

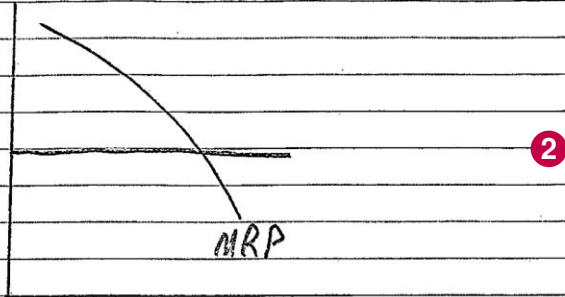
1 A partial definition of perfect competition, followed by an unlabelled diagram.

The following text is correct for the goods market, but no reference is made here to the factor market.

Example candidate response – low, continued

Examiner comments

instead output equal to hiring them, is equal to their cost of hiring



But in the long run the amount of workers gradually some output will be paid some wages but in the long run as labour is not mobile which means ~~more~~ less workers may be available in short run which means ~~more~~ higher wages

2 A limited attempt is made here to explain the theory of marginal revenue product (MRP).

Mark for (a) = 4/12
Level 1

Example candidate response – low, continued

Examiner comments

4 (b) Assumptions for perfect labour market which include "some skills" of all workers, perfect mobility of labour, perfect information for jobs available may be hard to find in practice of reality; market power may be held by producer (monopsony) or in the hands of labour.

~~Trade unions are an organisation by the workers~~

A trade union is an organisation formed by the workers to protect their interests and it can put a considerable pressure on employer. The success of trade union depend on their militancy and the kind of market the employer is operating in.

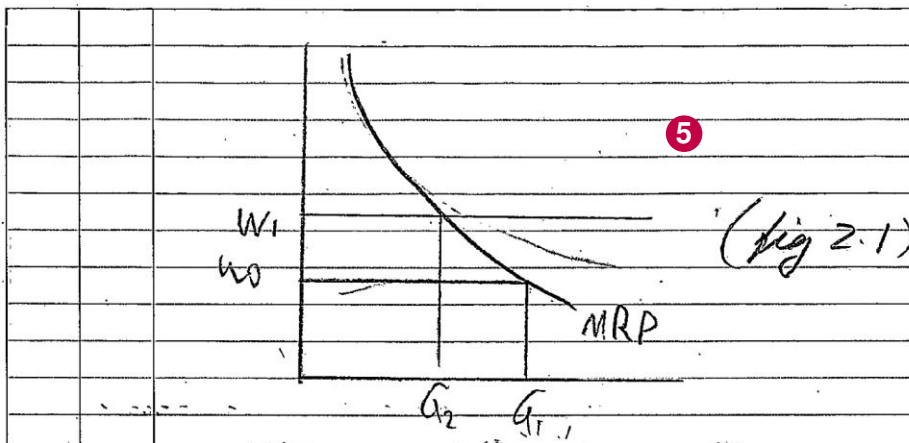
If the employer is operating in a perfectly competitive market as shown in the diagram (2.1) then it cannot pay more than the rate W_0 without firing workers as it is not making any supernormal profit and cannot make any profit by paying

3 A confused opening paragraph. It is not clear what the candidate is trying to say.

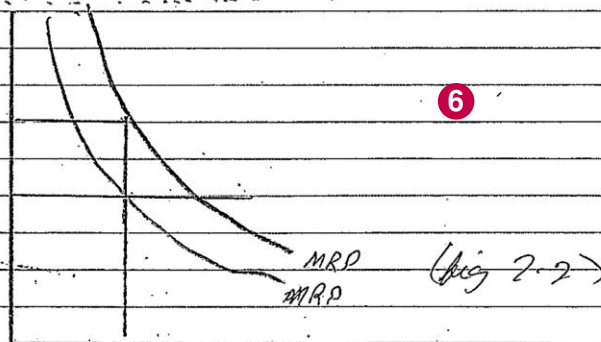
4 A clear description of the role and effectiveness of a trade union (TU).

Example candidate response – low, continued

Examiner comments



wage W_0 above W_0 and this is some amount of members that if union forces wage rate above W_1 then there will be unemployment



but as shown in figures 2.2 if union decides to increase productivity or enlarge its membership then it could

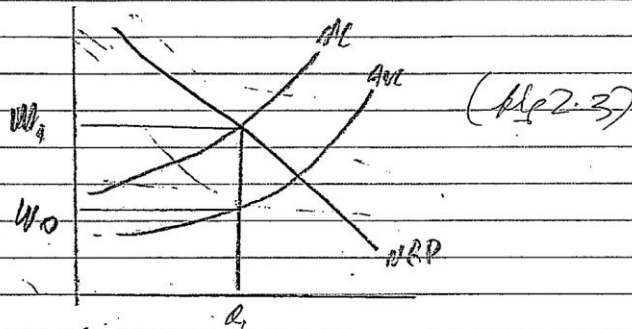
5 A correct attempt to analyse the effect of a TU on wage rates and employment in a diagram. Implicit reference to MRP through the labelling of the demand for labour; the axes, however, are not labelled.

6 A good development of how the loss of employment may be avoided. There is the same problem with a lack of labelling on the diagram.

Example candidate response – low, continued

Examiner comments

enjoy some wage without loss of employment.
 However if employer is operating in imperfect market than imperfect market.

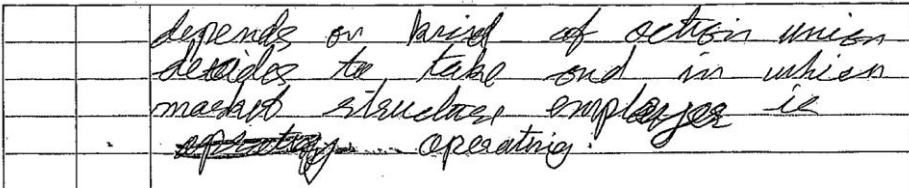


7

then there is scope for unions to increase wages without causing unemployment to them is figure. employer will employ to the point where $MC = MR$ but pay wages W_0 on basis of its average cost. the if unions force a wage rate of W_1 it will then not be unemployment as it is still profitable for employer to employ L_1 workers.
 So activities designed by trade union may not always lead to unemployment it

7

The candidate deals reasonably well with the case of monopsony, analysing how wages may rise without a loss of employment.

| Example candidate response – low, continued | Examiner comments |
|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|
|  | <p>Mark for (b) = 8/13 Level 3</p> <p>Total marks awarded = 12 out of 25</p> |

How the candidate could have improved their answer

(a) The candidate needed to develop the marginal revenue product demand for labour further, and then to account for different supply and demand conditions in the labour market.

(b) The candidate needed to explore a wider range of trade union intervention and extend their analysis to monopsony.

Marks awarded = (a) 4/12, (b) 8/13.

Total marks awarded = 12 out of 25

Common mistakes candidates made in this question

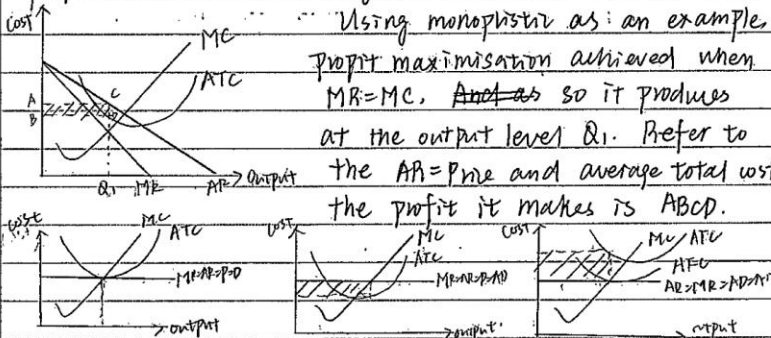
(a) Many candidates wrote about perfect competition, having failed to realise that the question related to wages. Among those who did realise this, many omitted any reference to marginal productivity theory or explained how different wage rates could exist due to conditions of supply and demand.

(b) Some candidates did not extend their analysis to include monopsony, which would have enabled them to discover the fallacy of the statement in the question.

Question 5

Example candidate response – high

Examiner comments

| | |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>5</p> | <p>(a) The objective of a firm is usually what it wants to achieve or what it aims for. Profit is the amount of money that calculated by total revenue minus total cost. In some companies, their their objective is the profit maximisation. Using mo</p> <p>Using monopolistic as an example profit maximisation achieved when $MR=MC$. And as so it produces at the output level Q_1. Prefer to the $AR=Price$ and average total cost, the profit it makes is $ABCD$.</p>  <p>In the perfect competition, $AR=MR=Price=Demand$. When ATC is lower than the $Price$, the company will make a normal profit. When ATC is equal to $Price$, the company experiences a zero profit, all the revenue cover the cost. At that time It aims for an profit maximisation, but at that point it fails to achieve. In reality, the company won't shut down at ^{at} the same time although if it fails to achieve, because because the revenue can still cover the a fixed cost. It If it stop cease production, it still needs to pay for the fixed cost. It's not worthwhile. However, if the ATC $AFC = Price$, the company needs to consider carefully, at that time the company has already made a loss. It's agreeable that as long as the AFC is larger than $Price$, the company will immediately to avoid a more serious loss. Before that point, the company will never shut down ^{shut down} the production because maybe to someday, the company may recovery and achieve the profit maximisation again.</p> <p>This model explains that a company who has profit but ^{maximisation} objective doesn't always need to make a profit necessarily. For a small company in the perfect competition, it may tough to keep profit maximisation during the whole production process.</p> |
|----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

- 1 The candidate gives a clear definition of profit.
- 2 A good analysis of why the $MC = MR$ rule leads to a range of profits.
- 3 Good analysis of how the shutdown position in the short run results in losses and why the firm continues in production.
- 4 In this paragraph, the candidate makes a reasoned analysis of why a start-up firm may not make a profit.

Example candidate response – high, continued

Examiner comments

| | |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>As the start-up cost is a large amount of money for them, they won't give up easily even if they fail to achieve the objective. The only thing they must take care is that they do not make a big loss in the production process. With the growing of the size and revenue, they can begin to achieve profit maximisation always. In the The company need to achieve the objective in the long run.</p> |
| <p>(b)</p> | <p>Market structures includes perfect competition, ^{oligopoly} oligopoly, monopolistic competition, and monopoly.</p> <p>In oligopoly, there are usually a few companies that have more than 50% market share. They are price makers as they have strong market power. In some situation, they may be collude with each other tacitly. In order to control the market, these large companies in the market set the same price, using limiting price so interdependence strategy. Also, sometimes, they also use limiting price to set a price that is too low for small companies, to so set as small companies can't achieve cover its cost. When there is only big companies in the market after driving small companies out of the market, they usually use collusion to set a price that achieves profit maximisation and gain supernormal profit. However, there is an exception. When a company wants to gain for even larger market share, it may leave the collusion, and set an even lower price to attract consumers to sell more. At that time, it doesn't aim for profit maximisation but sales maximisation.</p> <p>In monopoly, there is only one company who controls the whole market. It Usually, it the monopoly will set a</p> |

5 This response includes some good analysis of a range of profit levels and why they may exist.

Mark for (a) = 10/12
Level 4

6 The candidate refers clearly to oligopolistic industry and the ability of firms to limit pricing, but does not clearly link this to profit level.

7 The candidate develops their analysis of how sales revenue maximisation may occur. The wider effect on other firms and the development of a price war is not covered. Greater analysis of the sales revenue maximisation model was needed here.

| Example candidate response – high, continued | Examiner comments |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>8</p> <p>very high price as people don't have other choice. And monopolist can achieve profit maximisation. However, sometimes, it's a public-owned monopoly, a natural monopoly for example. It usually has benefit of natural resources. For instance, in China, the electricity is controlled by the country, and people can only buy electricity in that company. However, its main aim and objective is to provide basic necessity for people rather than make profit. Thus, the price of electricity won't be high but a normal price that everybody can afford it. In this situation, the objective is to provide public with their needs.</p> | <p>8</p> <p>This offers reasonable development of the idea of provision of goods for social reasons rather than in pursuit of profit. Reference to merit goods could have been made here.</p> |
| <p>9</p> <p>In perfect competition, there are a large amounts of small companies, selling homogenous products, acts as price takers, consumers have information about the product and price. Some companies in this structure are just start-up and their aim is survive in the market. They don't ask for a much profit but try to lower the total cost. In some situations, the price is even larger than average variable cost, but as long as it's larger than average fixed cost, it won't shut down. Thus, companies in perfect competition is asking for survive.</p> | <p>9</p> <p>Repeats material used in part (a) but no application to other objectives of the firm.</p> |
| <p>10</p> <p>On balance, each companies in each structure has different objective. It much depends on the business size and products. So even in the same structures, there are more than one objective. In perfect competition, there are also companies can achieve profit maximisation as their products have better quality or some unique selling point. Also, no matter in which structure, there are companies wants to show their CSR, and only gain satisfying profit, using the extra amount to help their employees.</p> | <p>10</p> <p>A good conclusion, which links the form of competition to its objective and points out that they may differ.</p> |
| | <p>Mark for (b) = 10/13 Level 4</p> |
| | <p>Total marks awarded = 20 out 25</p> |

How the candidate could have improved their answer

(b) The candidate needed to make a more positive connection between the forms of competition and the alternative objectives.

Marks awarded = (a) 10/12, (b) 10/13.

Total marks awarded = 20/25

Example candidate response – middle

Examiner comments

Q5 (a) A firm don't always make profit. A firm's equilibrium is at a point where $MR = MC$. However, it is difficult to ~~see~~ calculate the actual costs incurred.

1 It is easy to calculate or see direct costs but difficult to determine and include all direct costs. So the point $MR = MC$ is not always determined accurately.

The average revenue curve is also determined by the demand curve. We assume ceteris paribus or provided other things remain the same but they actually don't remain the same and it is difficult to calculate it in real life. So a firm cannot maximize the profit. These calculations are so complex and in practical life not easy to determine.

2 There are also even those costs which we are not aware of these has to be taken into account in order to maximize profit.

1 A correct statement of the condition for profit maximisation. The candidate makes a good attempt at explaining why achieving such a point is difficult.

2 The difficulties of identifying the demand curve are explained here, but the analysis does not extend to either the marginal revenue or the supply curve and marginal cost curve.

| Example candidate response – middle, continued | Examiner comments |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>3 The point E is known as the equilibrium point where $MR = MC$ and where the firms maximize its profit. It is almost impossible / very difficult to determine.</p> | <p>3 The candidate could have explored abnormal profit/losses in different market structures here.</p> <p>Mark for (a) = 7/12 Level 3</p> |
| <p>(b) Besides maximisation of profit there are also other objectives in different market structures. The other objectives can be</p> <p>4 <u>Revenue maximisation</u> In this objective the firms target to maximize its sales. However in profit maximization $MR = MC$ and we produce that output but in revenue we go beyond it. We target sales not profit. People are also employed and are given bonuses on more sales done by them. In order to cover peoples salaries, bonuses and to increase the capacity or expansion of firm it is somehow necessary. Firms make this as their one of the objectives.</p> | <p>4 A clear alternative to profit maximisation is identified here, namely sales revenue maximisation, along with some of the consequences of such an objective. The candidate should have explained why such a policy could be pursued.</p> |
| <p>5 <u>Output Maximization</u> Firms tend to produce maximum output by Economies of scales can also be increased. It tends to expansion of firms and one of the main output.</p> <p>Different market structures include perfect competition, monopoly, monopolistic and oligopoly.</p> | <p>5 A brief comment on a further objective, but no explanation is given at this point and no link with market structure is provided.</p> |

| Example candidate response – middle, continued | Examiner comments |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Each market structure has their own objective.</p> <p>Oligopoly is a real life market structure. It has many objectives collusive or noncollusive.</p> <p>In collusive there is a price leadership.</p> <p>In this the firms combine to gain more monopoly power and to control prices. One firm acts as a leader. Their main motive is to maximize output at a cost price. The firms with lower production costs gain from it.</p> | <p>6 A confused attempt to link oligopolistic market structure to objectives. The link between price leadership and output maximisation needed to be explained.</p> <p>7 The candidate needed to go on to describe this as a short-term effect and explain that the long-term effect may be maximum profit.</p> |
| <p>Other reasons objectives can be to maintain a good relationship with consumers. If they maximize profit and charge higher profits consumers will be exploit.</p> | <p>8 A correct statement regarding natural monopoly, but no reference to the alternative objectives of the firm.</p> |
| <p>However in monopoly there are natural barriers on the entry and exit of firms. They even acquire control on total supply of raw materials so that no new firms can enter the firm. So they can exploit and the consumers and charge for maxi and take full advantage.</p> | <p>9 For a better mark, more development of the idea of the market structure already identified was needed in the later paragraphs, along with discussion of alternative objectives to the profit maximisation.</p> |
| <p>How Different market structure target different objectives based upon circumstances and vary.</p> | <p>Mark for (b) = 7/13 Level 3</p> |
| | <p>Total marks awarded = 14 out of 25</p> |

How the candidate could have improved their answer

(a) The candidate needed to explain why $MC = MR$ (marginal costs = marginal revenue) leads to profit maximisation, rather than simply stating the equation.

(b) The candidate needed to develop the link between the market structure identified and alternative objectives to profit maximisation.

Marks awarded = (a) 7/12, (b) 7/13.

Total marks awarded = 14 out of 25

Example candidate response – low

Examiner comments

5. (a). Maximisation of profit means ^{where} MC equals to MR. To get the greatest profit is the aim for most of firm. However, a firm with this objective not always makes a profit.

At first, the firm may achieve a point where ~~MC = MR~~ ^{enable it to} gain abnormal profit for a short time. When this firm make abnormal profit, more and more firm will attract to this industry so as to make abnormal profit. More entrants means the demand will reduce, so demand curve shift to the left. When it shift to a certain level, there is no extra profit ^{could} gain. Once the profit equals to the cost, the firm just make normal profit.

Sometimes, there is also other aim exist in their firm's aim such as sale maximisation and sale revenue maximisation. These different target may caused conflict between them. This is another reason for why a firm can not always makes a profit.

- 1 A correct statement of the profit maximisation rule.
- 2 A correct illustration of the profit maximisation rule, but no explanation of why $MC = MR$ leads to maximum profits.
- 3 A correct statement of the effect of abnormal profits and their consequences.
- 4 The candidate mentions alternatives to profit maximisation, but does not develop these.
- 5 Overall, the response to (a) consists of a series of statements with very little explanation to support them. The candidate does not explain why $MC = MR$ leads to profit maximisation nor whether profit maximisation is the only possible outcome.

Mark for (a) = 5/12
Level 2

| Example candidate response – low, continued | Examiner comments |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>5 (b) There are four kinds of market structures. Complete competition, monopoly competition, monopoly and Oligopoly.</p> <p>6 Complete competition is just a ideal model in market structures, with lots of sellers and buyers, no barrier to entry and all the sellers sell the same product.</p> <p>7 In contrast, as for monopoly competition, sellers sell differential products, so firms are price taker. They do not have the ability to control the price system, so firms in monopoly competition are very hard to get maximisation of profit.</p> <p>8 However, from the firm which hold 25% share in a typical industry can be included in monopoly market. These firms are the leaders in the industry and they have no competitor rival usually, so they have the power to control market price in order to make maximum profit.</p> <p>8 Oligopoly, only a few big firm produce similar product in one industry. These may be an existed maximisation of profit when these firms are make a collision, which means they may discuss the amount of output and market price illegally to achieve their aims.</p> <p>9</p> | <p>6 A correct though basic definition of perfect competition, with no attempt to consider any alternative objectives of the firm.</p> <p>7 A limited attempt to define monopolistic competition, with no consideration of any alternative objectives of the firm.</p> <p>8 Paragraphs 4 and 5 both provide a limited attempt to define monopoly and oligopoly but do not relate these to other objectives of the firm.</p> <p>9 Overall, part (b) of the question required candidates to consider the different objectives of the firm and their link to market structure. The candidate explains a range of different market structures but does not link these to the possible differing objectives of the firm.</p> <p>Mark for (b) = 5/12 Level 2</p> <p>Total marks awarded = 10 out of 25</p> |

How the candidate could have improved their answer

(a) The candidate needed to explain why $MC = MR$ (marginal costs equals marginal revenue) leads to profit maximisation, rather than simply stating the equation.

(b) The candidate needed to develop the links between each market structure identified and alternative objectives to profit maximisation, rather than just discussing different market structures.

Mark awarded = (a) 5/12, (b) 5/13.

Total marks awarded = 10 out of 25

Common mistakes candidates made in this question

(a) Many candidates stated the profit maximising rule of $MC = MR$ rather than explaining why this gave the maximum profit.

(b) Candidates concentrated on describing different market structures rather than linking the different structures to different objectives.

Question 6

Example candidate response – high

Examiner comments

| | |
|---|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6 | Quality of life in your my country means the standard of living and all types of index. For this I would use all the |
| 1 | indicators of HDI (Human development index), MPI (Multi dimensional Poverty index) and I would also go for characteristics to check out that whether my country is an LEDC (less economically developed country). Moreover, I will also check out the results of inflation, employment and etc. and include all of it in my report. |
| | Firstly, I would use the HDI indicators to measure the standard of living. It actually have three components; GDP per capita, Average age of schooling and life expectancy at the date of birth. GDP per capita is when the whole yearly output of a country by its own factor of production is divided against the population of the country. e.g. in my country it may be \$ 6000 so through this we it can be judged that the income quality of life is not just good really as a person is not having about 1500 Rs a day approximately so I would include this point in my report. Average age of schooling is how much of school years have each individual attended. e.g. it may be so low about 11.4 years in part my country which means that the country my state don't have a good quality of life since the of individuals are not well educated. and Life expectancy at the date of birth is the time someone is expected to live after he is born. It may |
| 2 | |
| 3 | |

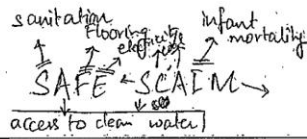
1 A good opening paragraph where the candidate sets out their approach to the answer.

2 The candidate identifies the three aspects of the HDI and discusses these with regard to their own country.

3 Explicit reference is made to the question here.

Example candidate response – high, continued

Examiner comments



be IBW and hence should be included in report. These three features would make clear about the living standards in my country.

4

Secondly I would check out the poverty in my country using MPI. This would include all indicators such as sanitation, flooring, access to clean water, infant mortality, electricity and etc. If the sanitation in my country would be poor, it would be checked by knowing that whether ~~people~~ ~~in~~ ~~many~~ families share washroom with each other. If the families go to travel for 30 min and move to get clean water, then there is poverty. Moreover, if the floor of a country is made up of cow dung then the family is poor. Also if there is a high infant mortality rate which means that people are dying before the age of 5, then the family is considered poor. If the family does not have an electricity connection then it is considered poor. Moreover, if the family burns cows dung and coal as a fuel for cooking, then this would indicate family as in poverty. I would include all these in my reports since this would allow me to check out whether the quality of life is rich or poor.

Thirdly, I would use other indicators such as that the dependence on ~~my~~ primary sector in my country as if more than 50% of the economy is dependent on the primary sector then the quality of life is

4

The candidate mentions the MPI here, describing its indicators and how these apply to the candidate's country.

Example candidate response – high, continued

Examiner comments

Income disparity

poor since the ~~econ~~ primary sector products has low money value.

5

Now the most important economic indicators I will use are inflation, unemployment and etc. Inflation is the ~~three~~ consistent increase in the general price level of the country. General price level is the ~~pr~~ average price of goods and services in an economy. If inflation is high in Pakistan (my country) this means that the purchasing power is low and hence quality of life is poor since consumers real income is less to spend a good life. This also indicates a poor value of countries currency making it ~~pr~~ bad for quality of life.

5

The candidate moves beyond standard measures of quality of life to discuss the impact of inflation on the ability to purchase goods and services and real incomes.

6

Furthermore, I would include unemployment stats in my ~~country~~ report. ~~This is that~~ ~~the~~ ~~pr~~ Unemployment refers to the population willing and able to work but does not find jobs. This is measured by claimant count ~~and~~ or international labour organisation. If level of unemployment is high in my countries this means that there is more dependency and hence quality of life is poor.

6

This is a weaker paragraph than some of the others, but it attempts to link unemployment to quality of life, although without making this explicit in terms of lack of personal/household income.

In addition, I would go for the tax rates and government intervention in the economy. e.g. if the government is responsible enough and is in favour of social welfare then it would intervene in the economy by

| Example candidate response – high, continued | Examiner comments |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>7 giving tax relief to some people who are poor and also by charging higher tax to those who are poor indirectly clearing the worst act of income disparity, then this indicates that quality of life is good in the country since government is with the public.</p> | <p>7 The candidate could have linked this paragraph with the preceding one to illustrate how the lack of income due to unemployment could be tackled.</p> |
| <p>8 I would include all these points in the report since HDI and MPI would allow me to measure the living standards and poverty helping to indicate the condition of the country. However other indicators such as unemployment and inflation and government would help me to conclude that whether this is enough for the country or it can be made better.</p> | <p>8 A good essay, but with a fairly weak conclusion that mainly summarises the answer. Clearer consideration of the drawbacks of monetary measures, e.g. working hours, pollution, would have improved the answer.</p> |
| <p>Level 4</p> <p>Total marks awarded = 20 out of 25</p> | |

How the candidate could have improved their answer

The candidate could have included more thorough consideration of the more recent measures of quality of life, such as the Human Development Index (HDI) and the Multidimensional Poverty Index (MPI), and analysed the relative importance of the different indicators.

Example candidate response – middle

Examiner comments

straight forward

b.

1 GDP per capita is the well-known way to measure the life quality of a country. It is ~~more~~ GDP is gross domestic product, which shows the values of all goods and services produced in a country. Dividing by population of the country, we get GDP per capita. The higher the ~~GDP~~ figure, the wealthier the citizen of the country are.

2 Next, unemployment rate. Unemployment rate is a broad indicator of how many people of the country is employed. The full employment of a country is defined as nearly 47% of people employed, due to some ~~optical~~ structural unemployment. Unemployment rate, either by Claimant Count or labour survey, is useful enough to roughly see ~~what state~~ ^{where} the economy currently is, the capacity of the economy, and also highly related to the crime rate, for if there is more ~~employed~~ ^{unemployed} means they have ~~or~~ income and hence ~~will~~ will not commit robbery or other crime. ~~than those who are~~ ~~with comp~~. Higher employment also mean less ~~poverty~~ ~~welfare~~ ~~welfare~~ poverty welfare, which government could be use to improve the whole economy welfare. Also, high employment. Moreover, high employment indicates there is less beggars on the street, which would decrease the image of a country.

(BOP)

3 After that, the position of balance of payment. A ~~BOP~~ surplus means ~~the country~~ ~~is~~ A well developed country would have The position of balance of payment tells whether the country is export or import base, the inflow and outflow of money, the investment underlying ~~in~~ and a rough image of what ~~the~~ how the country use its ~~own~~ ~~money~~ money, and where the money came from. For example, Malaysia, a developing country, ~~are~~ have a current account surplus but a deterioration of its ^{which} currency. Meaning the country is not doing well and hence its living standard.

1 A good opening paragraph which could be improved by reference to prices to define real GDP per capita.

2 The second paragraph deals well with the effects of unemployment and would have benefited from recognising that higher unemployment results in lower GDP.

3 In this paragraph the candidate refers to the balance of payments but makes no clear link to the quality of life.

Example candidate response – middle, continued

Examiner comments

| | |
|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4 | <p>Consequently, the exchange rate, or more specifically, the rate of change of exchange rate throughout the decades. A country with high exchange rate means their citizens enjoying the benefit for exchanging buying foreign goods. For example, Americans enjoyed a lot from purchasing goods from China, which makes the United States a China a largest debtor of the United States. Besides, if there is a rising trend of an exchange rate of a currency, implies that the country, and parallelly their its citizens, are developing. For instance, SGD has been rising from the 2000s until now, where Malaysia still the same (even deteriorate in drastically in 2015!)</p> |
| 5 | <p>Subsequently, house mortgage prices. Mortgage price is an indicator of cost of living of the country. If more it is high, which mean the cost of living is high too in that country. For example, real estate in Singapore Singapore the price of housing in Singapore is far more be higher than other countries (due to its small landscape). It also means the affordability of their citizens' affordability to buy ^{or rent} a house.</p> |
| 6 | <p>Moreover, the literacy rates. In In developed countries like like England and German, the literacy rate is at almost 99%. Literacy rate is an indicator of the level of education of that country, and education is is directly related to the crime rate. Low ^{Country with low literacy rate} educated country, like like Africa, and India (or specific state of India) has high crime rate compare to the developed country. I remember during 2012, there is a rape case in India, which state the where the girl is penetrated with iron stick (no offense, just fact), and the rape jerk claimed in before his sentence: "She should just let us in."</p> |

4 The candidate links the quality of life with the ability to purchase foreign goods more cheaply. This can link with the real value of GDP.

5 This paragraph deals with an aspect which relates to the general price level but does not make it explicit.

6 This paragraph develops the candidate's theme of interpreting quality of life in terms of the aims that governments may pursue.

Example candidate response – middle, continued

Examiner comments

Reserves

7 ~~country~~^{country's} debt level. ~~A~~ A country has high debt means that it has to pay them back in the future, which restricted the ~~own~~ potential growth of a country. Developing ~~country~~ countries which has failed their projects have high debt level, for they tend borrow money from the rest of the world to fund their projects. Taiwan, a ~~developed~~ successful developed country, has reach debt free ~~at~~ and successfully developed into a culture rich, economic ~~prosper~~ prosperous country.

7 The candidate needed to extend their analysis to explain how government aims affect taxation or interest rates and hence the quality of life.

8 These are the indicators I would collect to make my judgement about the quality of life in my country. However, ~~there is still~~ some unquantifiable ~~indicators~~ ~~which~~ ~~which~~ ~~deals~~ impacts the ~~for~~

8 Also, gini coefficient. Gini-coefficient is a ~~measure~~ ~~to~~ measurement of ~~equality~~ equality. The nearer the coefficient to 1, the more equality the country is, ~~Equal~~ and the more equality the country is, ~~conclude~~ the ~~no~~ better understanding between the citizens in the country, and hence ~~the~~ a better living standard.

8 Equality means a better standard of living.

These are the indicators I would collect to make my judgement about the quality of life in my country. However, ~~there is still~~ some unquantifiable indicators such as happiness,

but last but not least, marriage rate. ~~A country love is~~ Love is an universe language, ~~and~~ the drive of human action. A country with high marriage rate means the ~~of~~ people in the country are loved. A high marriage rate means less more family harmony, and less isolation. ~~And~~ It can't be great no more to live in a world with rich of love!

These are the indicators I would collect to make my judgement about the quality of life in my country. However,

| Example candidate response – middle, continued | Examiner comments |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <div style="border: 1px solid black; padding: 5px; margin-bottom: 10px;"> <p style="margin: 0;">9 There are still some unquantifiable indicators such as happiness, culture, prospects, technology, and factors of ^{and} bonding, and more</p> </div> | <p>9 Much of what the candidate writes is correct, but often they neither make nor explain clear links between their statements and measures of the quality of life. Few criticisms of using GDP per capita to measure quality of life are included, and there are no references to more recent indicators, such as the Human Development Index.</p> <p>Level 3</p> <p>Total marks awarded = 14 out of 20</p> |

How the candidate could have improved their answer

The candidate could have improved their answer by making explicit links between the statements they made and the quality of life, or by explaining these more fully. They could also have shown greater recognition of the limitations of using real GDP per capita and included some references to the more recent measures of the standard of living or quality of life, such as the Human Development Index.

Example candidate response – low

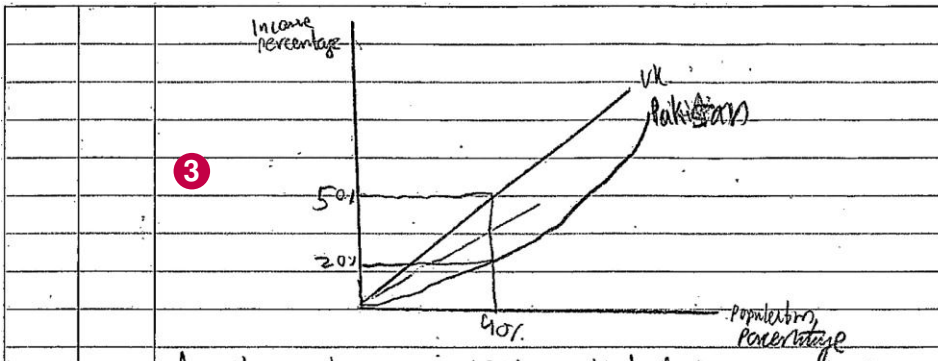
Examiner comments

| | |
|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6 | <p>1 When asked about quality of life we refer to 'Standard of living' which can only be improved with economic growth. In the economy and factor that would be important to include</p> <p>2 there would be the Employment structure of the economy, where we could tell the kind of jobs the people do and the skill sets they have to give us an indication of their quality of life, population growth rate as the larger the population shows people within the economy may not have access to advanced medicines and be living in congested areas.</p> <p>Other than that we would take into account income distribution which could illustrate through the Lorenz curve as lesser the income inequality there would be, it would show there is less economic discrimination ^{discrimination} in the economy which can be shown below.</p> |
|---|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

- 1** This very definite statement may not be the best way to start the essay.
- 2** A good range of factors which may contribute to the quality of life are identified here.

Example candidate response – low, continued

Examiner comments



3

As shown above can assume that 40% percent of ~~the~~ ^{population} United Kingdom controls 50% of that national income of United Kingdom while 40% of Pakistan's population controls 20% of its national income which shows that there is far more income ~~equality~~ ^{equality} in United Kingdom than there is in Pakistan.

4

~~Ratio of~~ Urbanization is also an important factor we have to take into account as with more people in the economy living in urban area it can tell us that the majority of the economy's population is living a good quality life

5

~~Economic develop~~ Access to basic infrastructure is a crucial factor as it gives us the outlook of how many people with an economy are surviving with all their basic needs taken care of.

The economic indicators we would want to use to reach a proper conclusion as well as a near to perfect indication of the quality of lives of people within the

3

A good illustration of the relative inequality of incomes, but no clear link to quality of life.

4

The equating of urban life with quality of life is not explained.

5

An explanation of the meaning of 'basic infrastructure' should have been included here and how this improves the quality of life, e.g. health care.

| Example candidate response – low, continued | Examiner comments |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>6 respected economy would be indicators such as Human development index developed by economist Dr. Mehbub ul Haq, Mehbub ul Haq which takes into account income level, healthcare, Education levels of people in the economy but it ignores political conditions that may determine the future economic conditions of the economy. Other than that we could use Real GDP per capital to see how much does each person in the economy earn as well as the GDP per capital, which would gross national product and we could also use measure of economic welfare to see whether the positive effects in the economy outweigh its harmful effects such as pollution and crime.</p> <p>7 So with all the content above we here can conclude that the given list of factors and economic indicators used in the report would give me an indication of near to a true picture of the quality of lives of the people within the respected economy's.</p> | <p>6 The candidate refers to the HDI and GDP but does not explain what is covered by either term or how they may relate to the quality of life.</p> <p>7 This is not a conclusion.</p> <p>Level 2</p> <p>Total marks awarded = 11 out of 20</p> |

How the candidate could have improved their answer

The candidate mentioned a wide range of relevant factors which can affect the quality of life but did not explain them to any great extent. When they did develop their ideas, these were not clearly linked to the quality of life.

Common mistakes candidates made in this question

Candidates needed to make a more explicit link between the indicators they selected and the quality of life. Candidates often failed to discuss the relative importance of the indicators chosen.

Question 7

| Example candidate response – high | Examiner comments |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>7 (a) A developing country is characterised by low economic growth, poor living standards, lack of investment and high poverty. In contrast, a developed country usually has high growth, living standards and investment. There are many other indicators that can be used to measure development. However it is generally believed that developing countries have very different age and employment structure than a developed country.</p> <p>Developed countries usually have low birth rates and low death rates which results in a population pyramid that is narrow at the bottom and wider at the top. This is because there are more old people than young children.</p> <p>According to 2013 consensus the birth rate in USA</p> | <p>1 A clear understanding of the developing economy, with a brief link to the question at the end. This sets the scene.</p> <p>2 The candidate correctly links the birth and death rates to the population pyramid, a standard form of representation.</p> |

| Example candidate response – high, continued | Examiner comments |
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| <p>was population growth rate, measured by subtracting death rate from birth rate, in USA was 0.7% compared to 1.6% in Pakistan. This ^{shows} contrasts the difference in developed and developing countries. Developing countries have high birth rates and often low life expectancy which results in a large proportion of population being young. For example, the majority of India's population is under thirty years of age. These figures cause the population pyramid of developing countries to be triangle shaped: narrow at the top but wide at the bottom. In some cases, developed countries can have negative growth rate. An example is Japan with a population growth rate of -0.2% in 2013. This is a dangerous situation as it means older people will have fewer and fewer people to depend on in the future and can cause shortages in workforce and healthcare for old people.</p> <p>In terms of employment structure, developing countries generally depend on ^{the} primary sector for most of their employment with secondary sector after that, and tertiary sector in the end. In contrast, developed countries have a high dependency on the tertiary sector while the primary sector is just a minor contribution to employment. Deindustrialization has also led to the secondary sector losing importance in developed countries (DC) and many businesses in DCs have located to less developed countries (LDC) due to lower wages and costs. In 2014, Pakistan's contribution to GDP from the three sectors was: 25.1% from agriculture, 21.3% from industry and 53.6% from services. Since Pakistan is a</p> | <p>3 Good use of statistics to illustrate the point made, which is developed throughout this paragraph.</p> <p>4 A good understanding of the employment structure in both developing and developed economies.</p> <p>5 A sound explanation and illustration of changes which are taking place in the structure of employment in developing and developed economies.</p> |

| Example candidate response – high, continued | Examiner comments |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>developing country it has a significant primary and secondary sector. It Meanwhile, UK had 78.4% of GDP from services and only 0.6% from agriculture.</p> <p>In conclusion, developed and developing countries have very different age and employment structures.</p> <p>6 Lack of health care, contraception and awareness about family planning lead to high birth rates in developing countries. However, as a comp. country develops it may face lower birth and</p> <p>7 death rates while its employment may move more towards the tertiary sector.</p> | <p>6 A partial concluding paragraph, explaining why the population data differ but not the employment structure.</p> <p>7 This is a good answer which deals with the main aspects of age and employment structure. Some further development of relevant aspects of developed economies could have been made.</p> |
| <p>(b) Unemployment occurs when a person is willing and able to work but cannot find employment due to various reasons.</p> <p>One ^{type} cause of unemployment is frictional unemployment and it occurs when people move from one job to another, and are temporarily unemployed. This type of unemployment can occur in both developing and developed economies. Although, labour mobility may be low to in developing countries due to lack of skills affecting occupational mobility and lack of information or preference to stay with family which can reduce geographic mobility. This can cause frictional unemployment to occur less in developing countries but it does occur.</p> <p>8</p> <p>9 Structural unemployment is also present in both types of countries. It occurs when an industry is in decline which causes people to lose due to changing structure of the economy. This would make people lose jobs and their skills may be</p> | <p>Mark for (a) = 10/12 Level 4</p> <p>8 A clear definition of frictional employment and an explanation which links it to both types of economy, especially developing economies.</p> <p>9 A clear definition of structural unemployment and an explanation which links it to both types of economy, especially developing economies.</p> |

| Example candidate response – high, continued | Examiner comments |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>insufficient for other jobs. Again, this is less likely to occur in developed countries and more likely to occur in developing ones as they move from dependence on primary sector to the secondary and tertiary sector. However it can exist in developed countries too.</p> | |
| <p>Seasonal unemployment which occurs when demand has patterns in employment are established for a certain season. For example, cotton manufacturing in Pakistan or tourism during holidays. This too, is experienced in both developing and developed countries.</p> | <p>10 Again, a clear definition of seasonal unemployment and an explanation which links it to both types of economy, especially developing economies.</p> |
| <p>Cyclical unemployment is caused by the changes in economic cycle with employment rising during boom and falling during recession. This was introduced by Keynes and depends on AD and economic growth. Since both developed and developing countries go through recessions and booms this type of unemployment is also likely to exist in both developed and developing economies.</p> | <p>11 Again, a clear definition of cyclical unemployment and an explanation which links it to both types of economy.</p> |
| <p>Unemployment is a universal phenomenon so a to developing and developed countries experience a lot of the same types of the unemployment. However, developing countries are likely to face disguised unemployment which may ^{is} not be present in developed countries. This is when two people are employed for the job of one person and this usually occurs in the agriculture industry in developing countries. On the other hand, developed countries are more likely to in experience technological unemployment. This occurs when a job previously done by a person is now done by</p> | <p>12 This is good, as it deals with disguised unemployment, a type of unemployment which is often omitted from the standard textbooks.</p> |

| Example candidate response – high, continued | Examiner comments |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>13 a machine. This is an increasing type of unemployment in developed countries where high wage rates have caused businesses to invest in capital. For example, self check-outs are used in many departmental stores instead of cashiers.</p> <p>So, it can be stated that developing and developed countries do not experience a lot of similar types of unemployment, but there are still some types of unemployment which are not experienced by the other. Disguised unemployment is unlikely to occur in developed countries while technological unemployment is unlikely to occur in developing countries where it is cheaper to employ labour.</p> <p>14</p> | <p>13 A good distinction between developing/ developed economies and technological unemployment is made here.</p> <p>14 This is a comprehensive answer, slightly let down by a limited conclusion.</p> <p>Mark for (b) = 11/13 Level 4</p> <p>Total marks awarded = 21 out 25</p> |

How the candidate could have improved their answer

(a) The concluding paragraph needed to explain why both the population structure and the employment structure differ, not just why the former differs.

(b) A better conclusion was needed.

Marks awarded = (a) 10/12, (b) 11/13.

Total marks awarded = 21 out 25

Example candidate response – middle

Examiner comments

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|----|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 7. | (a) | <p>Developing country countries are the countries with low income rate, high unemployment rate, high proportion of people live in rural area, lower technology, the large population size, high dependency on primary sector and rely a lot on export of primary product. Developed countries have high income, developed technology, high living standard and so forth. The age structure of a population in a developing country is younger than that in a developed country. This is because the high birth rate and mortality rate in a developing country which lead to a great number of children but less number of olds. The life expectancy in a developing country is also lower than that in developed country since since the poor healthcare, low quality of life, low living standard, unclear environment and so forth.</p> <p>However, the workforce in a developing country ^{country} is more than that in a developed country. This can also provide evidence about high unemployment rate in developing country countries.</p> <p>What's more, the employment structure of a population is different between these developing countries and developed countries. In most of developing countries, there is more people employed in primary sector, the such as an agriculture industry. On the contrary, people in developed countries tend to work in tertiary sector, such as educational market.</p> |
| | | <p>1</p> |
| | | <p>2</p> |
| | | <p>3</p> |
| | | <p>4</p> |
| | | <p>5</p> |

- 1 The candidate defines differing levels of development.
- 2 A clear statement about the main feature of the population in a developing country, with a reasonable attempt to explain why this is so. The second part of the paragraph is confused and there is no clear link between the death rate and the elderly.
- 3 A good attempt to link life expectancy to economic and social aspects of a country.
- 4 Many developing countries have small working populations.
- 5 This is a basic attempt to link employment to sectors of the economy and whether the country is developing or developed, although there is no attempt to link the education sector to employment in developing/developed economies. This paragraph shows that the candidate has tried to discuss both aspects of part (a) of the question.

Example candidate response – middle, continued

Examiner comments

and service sector.

(b) There are four main kinds of unemployment. Voluntary unemployment is the unemployment which people agree to be redundant.

Seasonal unemployment arise ^{due to} ~~the~~ different seasonal period in a year.

6 Structural unemployment is caused by the shift ~~of~~ in structure in an economy.

Frictional unemployment arise when people are between jobs.

A developing country is likely to experience seasonal unemployment as the high dependency ~~on~~ ~~rely~~ ~~on~~ primary sector. For example, most of the farmers are unemployed in winter. Frictional unemployment also serious in developing countries because the population size is so large, and there is not so many workplace available. This evidence gives illustrative ~~at~~ reason about high unemployment rate in developing countries.

7 Structural unemployment may happen in ~~both~~ developing countries ~~too~~ as the economy ~~structure~~ ^{structure} is not always stable.

On the other hand, developed ^{countries} ~~country~~ are likely suffer from voluntary unemployment.

Mark for (a) = 7/12
Level 3

6 The opening three paragraphs provide brief and accurate definitions of three types of unemployment.

7 A good paragraph, which links the level of development, type of work and type of unemployment. A comparative statement with respect to developed economies would have been a significant improvement.

| Example candidate response – middle, continued | Examiner comments |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>This may due to high living standard, good welfare and subsidies subsidy policies. Some citizens choose not to work as they and they can also gain money to support their life.</p> <p>8 Frictional unemployment also exist in developed countries, but structural and seasonal structure unemployment, must less than other two types of unemployment. ^{most of} The economic structure is stable and people stay in secondary sector and thindary sector in developed countries.</p> | <p>8 The candidate continues to link types of unemployment to level of development, but the explanations are limited.</p> <p>Marks for (b) = 7/13 Level 3</p> <p>Total marks awarded = 14 out of 25</p> |

How the candidate could have improved their answer

(a) The explanations of the links between age structure and sectors of employment could have been more fully developed.

(b) The explanations of the links between types of unemployment and levels of development needed to be more extended.

Marks awarded = (a) 7/12, (b) 7/13.

Total marks awarded = 14 out of 25

| Example candidate response – low | Examiner comments |
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| <p>07 a) Age and employment structures differs in a the devel. developed and developing country. In a the developed country the standards of living of people is higher than where as in developing economies. In a developed country. More merit goods are provided such as good health service and good education service. Better health service leads to higher life expectancy, people are more where as in developing country health is not cared of and health service is not as good. So the death rate is high also people do not live for a very long time They die in their 60s. Better health care means healthy work force. This could lead to motivation and better quality goods produced whereas in developing economy due to a poor health care service there may be more sick work force. In a developed economy because there is high level of providing opportunities for jobs or work the employment level tends to be higher and also mostly due to high level of output more workers ^{people} are employed whereas in developing economy economy may face different types of unemployment. One could be due to not finding the opportunities for work.</p> <p>1 This is because there is less production of goods (less GDP) so not many people are required by the business to produce goods. In developing economies workers are not well educated / trained mostly so they do not produce the best quality of goods. People may rather import the good then buying domestic goods because their quality isn't good. This could also cause</p> | <p>1 The opening deals with the features of developing/developed countries and successfully links them to life expectancy.</p> <p>2 The part of the answer on employment deals only with the level of employment rather than the structural distribution of employment and is therefore awarded no marks.</p> <p>3 A possible passing reference to the secondary sector of employment, but the meaning is not clear.</p> |

Example candidate response – low, continued

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| | | unemployment because production might stop Also Developing ec |
| | 4 | Developing economies may also face unemployment because the death rate is low and the life expectancy is high, there are many old people at home not working, the rise in the demand for imports in developing countries could lead to unemployment. Also if goods that are not being produced in the home country, such as sports cars or other types of cars. Mobility could be a cause. |
| | 5 | In developing countries workers have to move to cities to find jobs and some people may be reluctant to leave their families behind, so they do not apply for the job. This rises unemployment in developing economies. |
| 07 | b) | Yes developed and developing economies are likely to experience different types of unemployment. In a developing economy people start working at a very small age. They do not get higher education or go to university so they are less educated and less trained compared to the workers of developed countries. When workers are not well trained or educated they do not produce the right quality and quantity of goods. This could lead to a demand of imports and the domestic demand may decrease. When demand decreases, people's workers will have to be made redundant and this increases unemployment. Developed countries also face unemployment but in a different way. Because of better health services, the life expectancy rises of the population. This means that there will be more old people sitting at home with |
| | 6 | |
| | 7 | |

Examiner comments

- 4 The candidate has lost focus on the requirements of the question.
- 5 Again, the candidate has lost focus on the requirements of the question.
- 6 The candidate shows only a limited understanding of the requirements of the question. The remainder of the response, although largely true, did not answer the question and it was not possible to award further marks.

Mark for (a) = 3/12
Level 1

- 7 The candidate does not identify a type of unemployment or relate it to developing/developed economies.

| Example candidate response – low, continued | Examiner comments |
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| <p>no job. In developing countries a cause of unemployment could be lack of opportunities. There is not much work / production going on so people do not find jobs where as in developed economy this won't be a problem. But in the case of seasonal unemployment both a developed and developing country could face this. For example workers hired in the tourism industry may find no work in winters since work stops. In winters whereas in summers due to more tourists, employment might rise. In a developed country unemployment may be faced when switching from one job to another. This is also faced in a developing economy. Another unemployment in a developed country can be caused when students are out of college or university and looking for a job. Structural unemployment could be faced in a developed country. When an economy / country is developed they use the help of latest technology to produce goods efficiently. This could however cause an unemployment between people who are not familiar with these types of machinery and are not well trained. In developing countries unemployment may occur due to lack of knowledge about the job. Firms do not advertise for the job and people do not know where to search or find the right jobs. Whereas in developed economies workers or people willing to work are well aware of jobs available. There are many different types of unemployment experienced in the developed and developing economy but there are many similar ones too.</p> | <p>8 Seasonal unemployment is clearly identified and linked to both types of economy.</p> <p>9 A brief description of a second form of unemployment here, though unnamed.</p> <p>10 A good explanation of structural unemployment and a link to developed economies.</p> <p>11 The candidate identifies some types of unemployment and links them to developing or developed economies. They needed to identify more types of unemployment and discuss their relevance to both developing/developed economies, rather than just one type of economy.</p> <p>Mark for (b) = 5/13 Level 1</p> <p>Total marks awarded = 8 out of 25</p> |

How the candidate could have improved their answer

(a) The candidate needed to describe the different age structures of developing and developed countries clearly. The employment structures also needed to be defined and linked to the development levels.

(b) The candidate needed to demonstrate the links between the types of unemployment and the level of development, rather than just define and explain a number of types of unemployment.

Marks awarded = (a) 3/12, (b) 5/13.

Total marks awarded = 8 out of 25

Common mistakes candidates made in this question

(a) Many candidates stated the discussed death rates and birth rates but often they did not make it explicit what the difference in these meant for the age distribution of the population. They also needed to explain the division of population between the primary, secondary and tertiary sector of employment and how this may be affected by the age distribution.

(b) Candidates often neglected to explain whether the type of unemployment described was more likely to occur in developing/developed economies or if there was no difference.

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