

ECONOMICS

Paper 9708/12
Multiple Choice

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

Key messages

- Careful reading of the details in a question is imperative in achieving high marks.

General comments

No question proved to be particularly easy with more than 80 per cent correct answers. **Question 10** (76 per cent) and **Question 27** (77 per cent) had the highest rates of success. Only **Question 2** proved to be more difficult than the test's intended targets. A small percentage of candidates scored very high marks, and some were below the 'guessing' level of 8 marks, suggesting a weak grasp of subject content.

There was an improvement in scores on diagram-based questions, with verbal questions being tackled the least effectively. The majority of indicators highlighted an improvement in candidate performance over the first March sitting of the paper.

Comments on specific questions

Question 2

This question had the lowest number of correct answers from candidates. The question sought the most important or essential element needed to support the division of labour in modern economy. A supply of money that makes all of the functions of money available is vital, since without it trade would be severely hampered or impossible. Hence the key is **A**. Some of the stronger candidates opted for option **D**, while the largest group went for option **C**. While the absence of these features would reduce the efficiency of the operation, their impact is likely to be less significant than that of an absence of money.

Question 5

It was surprising that in **Question 5**, 45 per cent of candidates opted for option **B**. A fall in the price of a commodity will make a substitute less competitive so that the substitute's demand curve would shift to the left, not to the right. Key **C** is correct as the commodity's lower price would mean a reduced quantity supplied and hence a leftward movement in the supply curve of a commodity in joint supply.

Question 11

While the largest group selected the correct key in **Question 11**, there was an even spread of responses. This sometimes suggests guessing. The question dealt with the relationships between products, as had **Question 5**. Key **C** is correct as a rise in a product's price will put upward pressure on the price of substitutes (via higher demand) and downward pressure on the price of jointly supplied products (via increased supply).

Question 13

This is a very clear example of the importance of reading the question carefully. The wording focused on the *change* in consumer surplus. The 50 per cent of candidates who selected option **A** identified the *total* consumer surplus after the price change. The existing customers already enjoyed the consumer surplus *J*, so key **C** was correct.

Question 15

The concept of incidence was examined in **Question 15**. However, it was related to a subsidy rather a tax. The consumer would be affected by the change in price (QR) while the producer would be affected by the change in cost (TR). This made **B** the key. A significant numbers of candidates recognised the relevant distances but attributed them to the wrong agent when choosing option **D**.

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<p>Paper 9708/22 Data Response and Essay</p>
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Key messages

- Candidates must ensure that they read the question carefully to make sure that they provide an answer to the question set. It is essential that candidates are aware of the range of directive words used and how these can provide guidance on what the question requires.
- Candidates are advised that in addition to the required knowledge and understanding of the key economic concepts, they need to be able to apply these in a range of contexts to answer the questions set. Practice of past questions is essential to ensure this.
- Candidates should always ensure that diagrams are fully and accurately labelled. In demand and supply analysis, for example, where shifts in a curve occur, it is essential that the changes in equilibrium price and quantity that result are shown on correctly labelled axes.
- Candidates need to be reminded that this paper will always include questions that require evaluative comment. If this is not provided where appropriate, marks will not be awarded for this assessment objective.

General comments

Some candidates provided answers that displayed excellent knowledge and understanding of the economic concepts tested, together with the ability to apply these concepts and develop analysis that provided the foundation for evaluative comment where appropriate. Unfortunately, some candidates lacked a thorough understanding of the key concepts and this meant they were unable to develop their answers to gain a good score. There was also evidence that a large number of candidates did not read the question carefully and as a result provided answers that were poorly directed and largely irrelevant. A low mark was inevitable.

Comments on specific question

Section A – Data Response

Question 1

- (a) (i) Many candidates correctly stated that the country that had the greatest deficit on its balance of trade in goods with Vietnam was the United States, but a large number of candidates stated that China had the largest deficit. This was despite the fact that the text clearly explained the concern in Vietnam over the size of China's surplus with Vietnam. Seemingly candidates just looked at the figures without reading the text or the description of what the table showed. Weak comprehension of the whole set of data resulted in a disappointing number of candidates failing to gain the mark available.
- (ii) A large number of candidates correctly identified the three other components of the balance of payments that would allow the current account balance to be calculated. These were the services (or invisibles) account, the primary income account (in the form of investment income or interest profits and dividends) and the secondary income account (in the form of current transfers). Those who simply stated 'income', without clarifying what kind of income they were referring to, did not gain a mark. In addition, a small number of candidates appeared uncertain on transfers and confused current transfers with transfer payments. Some candidates lacked the required knowledge of the composition of the current account and cited irrelevant economic concepts such as inflation, exchange rates or interest rates, etc.

- (b) A disappointing number of candidates did not answer the actual question set here. Only a limited number were able to explain two appropriate factors that would determine the impact of China's decision to devalue the yuan upon Vietnam's trade with China. Acceptable factors included the price elasticity of demand for Vietnam's imports from China, in particular whether the Marshall-Lerner condition would be satisfied, the time period under consideration, especially in relation to the J-curve effect and the price elasticity of supply of China's exports. Other factors included whether a devaluation of the Vietnamese dong might offset the devaluation of the Chinese yuan, the possible use of methods of protectionism such as tariffs or quotas to offset the devaluation of the yuan, and the relative inflation rates in China and Vietnam. Unfortunately, some candidates simply described what was meant by a devaluation of currency and the effect of the devaluation upon the prices of exports and imports of Vietnam and China. As a result, many candidates provided largely irrelevant answers here and failed to score as a result. It is essential that candidates read the question carefully so that they can provide an answer in line with the question's requirements.
- (c) Many candidates were able to explain how subsidies for all Vietnamese goods and a boycott of Chinese goods were expected to help Vietnamese goods to compete and used supply and demand diagrams to support their answer. A number of candidates, however, were able to write clearly on the effect of subsidies but were less certain about the effect of a boycott. In particular, they seemed uncertain of an appropriate way to explain the impact of the proposed boycott of Chinese goods. Many, for example, shifted the supply curve for Chinese goods when in fact, if the boycott was effective, there would be a fall in the demand for Chinese goods and a contraction in supply. Also, some included a diagram to support their answer on the effect of subsidies, but did not include one on the effect of a boycott. A number also provided diagrams with inaccurately labelled or unlabelled axes despite this being identified as a key weakness in previous Principal Examiner's reports. In addition, some candidates failed to provide an explanation of how the two policies were expected to help Vietnamese goods to compete. It was insufficient simply to describe the diagrams in terms of changes in price and demand. Candidates need to understand that just drawing a diagram and/or simply describing what the diagram shows does not necessarily answer a question.
- (d) The majority of candidates found this question difficult and seemed uncertain of how to apply the underpinning knowledge to answer the question set. Most candidates were aware that comparative advantage related to lower opportunity costs but many seemed unsure with lots of vague explanations that lacked accuracy. This undermined the application of the concept and lower marks were often the result. In addition, a number of candidates provided answers that confused opportunity costs with financial costs. It was disappointing that many failed to provide a reasoned conclusion despite the fact that this was clearly necessary given the wording of the question.

Section B – Essays

Question 2

- (a) This was the most popular of the three essay questions. Many candidates were able to distinguish between public goods and private goods through reference to the characteristics of excludability and rivalry in consumption. Some good answers were provided to this part of the question. Unfortunately, some candidates displayed a lack of firm understanding here. A number for example became confused and applied the incorrect characteristics to each type of good. In addition, it was disappointing that many candidates who seemed to understand the meaning of excludability and rivalry in consumption suggested that roads and schools provided examples of public goods. In the second part of this question candidates were required to explain why profit could be made through the supply of private goods, but not through the supply of public goods. Again some good, clear answers were provided, but others displayed a lack of understanding. For example, many candidates referred to the existence of the free-rider problem in the case of public goods, but they did not always explain the significance of non-excludability in terms of the inability to charge a price and hence make a profit.

- (b) Many candidates provided a good explanation of the reason for the under-consumption of merit goods in a mixed economy. They then went on to consider whether maximum prices or education campaigns were likely to be more effective in ensuring that merit goods were supplied in appropriate quantities. There was some good analysis of the potential advantages and disadvantages of each, although a few candidates confused maximum prices and minimum prices and whether the price should be placed above or below equilibrium. Also, many candidates provided irrelevant material here. Some for example, wasted time discussing demerit good provision and how to reduce consumption. Others provided long explanations of the meaning of what represents a 'mixed economy'. It was also disappointing that relatively few candidates offered a clear and reasoned conclusion as to which approach was likely to be more effective despite the fact that the wording of the question showed that this was required.

Question 3

- (a) This was the least popular essay question, but some good answers were provided. Most candidates began by offering a definition of the concept together with an accurate formula. This was used to explain the difference between elastic and inelastic price elasticity of supply. They then went on to explain the factors that would be likely to make the supply of a product relatively price inelastic. Factors explained included the lack of availability of stocks, the time period under consideration and a shortage of factors of production. This was generally done well and some good marks awarded.
- (b) The candidates who attempted this question suggested a number of ways in which businesses might try to increase the price elasticity of supply of their products. These included a build-up of stocks, investment in new technology that might increase the speed of the production process and the training of new staff to increase the availability of labour. Some good answers were provided although a number of candidates failed to consider fully the strengths and weaknesses of the suggested approaches. This weakened the basis on which to provide evaluative comment on the likelihood of the success of the measures. Again, relatively few candidates offered a clear and reasoned conclusion as to whether the approaches being considered would be likely to be successful. Also, some candidates provided largely irrelevant answers that focused on measures that could be taken by governments rather than businesses and some focused on measures that would increase total output rather than the price elasticity of supply.

Question 4

- (a) This question was poorly answered by a large number of candidates. Many provided a great deal of detail on the functions of money. This was not required and failed to score. Brief reference to money as a medium of exchange was all that was necessary in this question. Candidates also need to understand that cheques, credit cards and methods of contactless payment for goods and services are not in themselves money, but are ways in which money in the form of bank deposits can be transferred and as a result settle debt in a modern economy. Most candidates recognised the impact of an increase in the money supply upon the price level, although many gave incomplete answers because they did not explain the process through which an increase in the money supply can cause an increase in inflation through its impact upon spending power. Overall, many answers to this question were poorly directed.
- (b) Many candidates were able to discuss the consequences of high inflation but it was surprising how many were unable to differentiate between the internal and external effects. As a result, many candidates wrote rather generally about the impact of inflation upon an economy. These approaches were often poorly structured and contained superficially explained lists of the consequences of inflation with no distinction between the internal and external consequences. As a result, evaluative comment was inevitably limited since an assessment of whether the internal consequences could ever be more serious than the external consequences in an economy with extensive foreign trade could not be provided.

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Paper 9708/32
Multiple Choice

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

Key messages

- Candidates should ensure they have understood the details of the question before choosing their answer.

General comments

392 candidates took this paper and the mean mark was 17.7 which is higher than the mean mark of last year of 16.4.

The questions for which most candidates selected the correct answer were **6, 7, 10, 17, 20, 21, 25, 28** and **30**. These questions were answered correctly by 70 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **23, 26** and **29**. These questions were answered correctly by fewer than 40 per cent of the candidates.

Comments on specific questions

Question 23 was answered correctly by 34 per cent of the candidates, who chose key **B**. Option **A** was chosen by 25 per cent of candidates, 22 per cent chose option **C** and 19 per cent chose option **D**. It might have been the case, with a distribution of responses such as this, that candidates were guessing the answer.

According to the quantity theory of money, if either the money supply or the velocity of circulation of money increases faster than real GDP then prices will rise.

Question 26 was answered correctly by 35 per cent of the candidates, who chose key **A**. Option **B** was chosen by 20 per cent of candidates, 9 per cent chose option **C** and 36 per cent chose option **D**. Those who chose option **D** perhaps did not notice that the question stated that real national income per head had increased. This would mean that income per head had increased despite any change in the price level so option **D** should have been disregarded.

Question 29 was answered correctly by 33 per cent of the candidates, who chose key **D**. Option **A** was chosen by 12 per cent of candidates, 36 per cent chose option **B** and 18 per cent chose option **C**. Rationing or regulating building development (option **A**) would not encourage industrial expansion. A general reduction in tax allowances (option **B**) would have the reverse effect as a lower allowance would be permitted and also any effect would not necessarily be targeted to particular areas of high unemployment. Restricting employment to local labour (option **C**) might cause recruitment problems if the required skilled labour was not available and, therefore, would not encourage investment. Key **D** would not restrict potential investors to national wage rates and they might be able to negotiate favourable wage rates, from their perspective, when there was a pool of unemployed labour.

The rest of the questions gave results which were well within the levels expected.

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Paper 9708/42
Data Response and Essays

Key messages

- Careful reading of the details will help candidates apply their analysis to the specific situation in a question.
- Essay questions test all four of the Assessment Objectives, so candidates will achieve better marks through relevant analysis, examples and application to the specific situation, as well as evaluation – and not by simply showing further points of knowledge and understanding from the syllabus.
- Evaluative and discussion questions always need a ‘conclusion’ or a statement indicating what the candidate believes.
- Evaluative statements can be a preface to the answer rather than an addendum but must be made somewhere.

General comments

As last March, there were some good responses to this paper and those candidates are to be congratulated on the use of their studies to achieve such marks. They presented well-balanced and clearly structured answers, accurately directed to the question and enhanced by relevant examples and applications where appropriate.

Better organisation and presentation of the material was necessary in some cases, particularly in **Questions 3(b), 4(b), 5(b)** and **7**. Comments on these questions are given below.

Quite often candidates merely presented material and left the reader to decide what the candidate believed. Examples of this omission occurred in **Question 1(d), 4, 5(b), 6(a), 6(b)** and **7**.

Comments on specific questions

Section A

Question 1

- (a) Supply-side policies are policies aimed at making markets and industries operate more efficiently with the aim of increasing aggregate supply. Candidates were able to explain this and give examples such as an increase in training, reducing planning regulations, changing labour/employment rules, or encouraging research. Some candidates did not grasp the significance of aggregate supply and restricted their answer to an individual firm’s supply.
- (b) There was some confusion in the answers to this question. Candidates often correctly suggested that low interest encourages borrowing/investment and this may result in a rise in employment. The extent of the rise would depend on capital/labour ratios. They were often not able to apply that to the chart. Perhaps candidates were expecting that the chart would confirm this hypothesis but, in fact, the chart is equivocal about this. For example, rates rose in 2011 but unemployment fell; rates were fairly constant in 2012–2014 but unemployment was still falling.
- (c) Candidates considered that house price rises would increase household wealth if owners sold the property. They also mentioned that expenditure on houses involves an increase in spending on items to modernise or change the new property. Oil price reductions, they suggested, would lower costs of production and encourage investment.

- (d) The argument in the article is that the finance minister has little power to influence the economy. The article gives examples of other influences; firm's investment, central banks, consumer spending, immigration, international trade all have an impact. Most candidates explained the main argument in the article; regrettably some missed that point.

However although article mentions lack of power it does not give much evidence of what influence the Finance Minister might have in terms of tax changes, both direct and indirect, on revenue and expenditure policies, on effect of tax changes on consumer spending – maybe on house purchases, durable consumer goods. Tax changes affect consumer and producer spending and investment, as well as government revenue and public spending. Relatively few candidates considered these ideas and only a few drew a final conclusion.

Section B

Question 2

- (a) The question required an explanation of utility that is based on the assumption of given tastes, prices and income. Candidates were expected to explain the condition of equilibrium for one product, and for a number of products with different prices. Alternatively the equilibrium could have been explained with indifference curves. This part of the question was relatively well done and a clear analysis of consumer equilibrium was given.
- (b) This part of the question appeared to present more challenges than **part (a)**. The question required an analysis of the change that might occur for a normal good and for a Giffen good. Indifference theory can show more precisely why the outcome is not the same by using income and substitution effects. With a normal good a price fall would cause the substitution effect to increase demand and the income effect would further increase the demand. There would be an overall increase. For there to be an overall decrease in demand as a result of a price fall, as asked in the question, the good must be a Giffen good. The price fall would cause the substitution effect to increase demand but the income effect would decrease demand to a greater extent resulting in an overall decrease in demand. Candidates were often able to explain the normal good, but did not give accurate accounts of the Giffen good.

Question 3

- (a) This was a very popular question. Market power enables firm to fix price, rather than take market price. Such a power occurs in imperfect competition. It is possible to maintain price above competitive levels for a period, usually above cost. Market power can also have an influence on the quality of product, on the service and on the extent of innovation. It usually occurs when a firm has dominance of a market, or is fairly large, or there are few substitutes for the product. Contestable markets mean a potential threat of competition because of limited barriers to entry which might prevent a firm from charging excessive prices should they wish to stay in the market. Buyers would be able to switch suppliers, with a consequent effect on the firm's revenue. Candidates were able to explain the idea of market power and understood the significance of the existence of barriers to entry and exit.
- (b) This part of the question was not as well answered as **part (a)**. Many candidates were able to describe different aims of the firm – including profit maximising, behavioural, managerial, satisficing, sales maximising and following a price leader. The descriptions of the different aims were well presented. The answers, however, were mainly descriptive and did not always deal with the crucial phrase in the question: *in order to continue with production*. The change in aim had to be one that enabled production to continue. In the long run this would mean that any price had to be sufficient to ensure that at least average variable cost was covered.

Question 4

This question required an analysis of wage determination and employment levels. Candidates should have considered both perfect and imperfect labour markets. Part of the answer should have discussed the meaning of 'improvement'. There is an implicit judgment being made in the statement – what form would the improvement take, and for whom? Employment levels, wages, productivity, efficiency of firms and worker health and safety are all possible areas for improvement in labour markets. Workers, employers, the general public and the government are all possible agents who could benefit from changes in labour markets, depending what these changes are. Candidates certainly understood the analysis – although there were

familiar errors in the diagrams drawn. However they were less expansive in discussing whether there might be an improvement in the labour market.

Question 5

- (a) This, and **Question 3**, were the two most popular questions. Candidates commented on differing importance of agriculture/industry/services. They mentioned the balance of rural/urban occupations. Sadly, some candidates stopped there and did not read the rest of the question. There was, therefore, no comment on birth rates, death rates, infant mortality and migration.
- (b) This question required a discussion of changes that might occur as a country develops. Candidates gave examples of changes in social factors, health, education, housing, incomes, sanitation, environmental change, resource use and the distribution of income. All were relevant. This was another example of where many candidates did not read the whole of the question. Their answers remained as descriptive accounts of the changes and did not consider whether such changes were beneficial. Their mark was, as a result, not as high as it might have been if some evaluative comment had been added.

Question 6

- (a) It was expected that candidates would give a description of the transactions, precautionary and speculative demands for money with comment on the significance of income. It could be suggested that income is a determining factor in the transactions demand, less so in precautionary and only residual in speculative. Candidates spent time explaining the three motives but did not give enough weight in their answers to the consideration of the role of income for each of the motives. This was a weakness in the responses.
- (b) The question required a discussion of the weakness of using an increase in national income as a measure of standard of living. Its weakness could be partly overcome by using real GDP per capita but that still omits social issues such as education, health, sanitation or working hours. GDP per capita also doesn't account for unpaid work, the informal economy, quality of goods, types of goods, long run versus short run, environmental issues, distribution of income or sustainability. These qualitative factors are considered with other indicators. This question concentrated on whether an increase in national income could indicate an improvement in standards of living within a country. Some candidates wrote about whether it might be used as a comparison of different countries and thus were not answering the question asked.

Question 7

This question was answered by many candidates, with clear explanations and with a good structure to their answers. It required an explanation of the meaning of an efficient allocation and an explanation of the analysis which ensures an efficient optimum may be reached. Candidates were expected to distinguish between productive and allocative efficiency. Further, they were expected to write an answer that included a discussion of the reasons for market failure and necessity/desirability of government intervention to achieve efficiency. As well as by direct intervention or fiscal and monetary policy, this could be by persuasion (nudge theory) rather than by enforcement. Nudge theory, originally an ethical idea not a government manipulative tool, involves designing choices to encourage decision making in the wider positive interests of society. But it can be used in a government context. The question required a conclusion to the comments made by candidates. Sadly, this was often lacking.