ECONOMICS

Paper 9708/12
Multiple Choice

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

General comments

Overall performance across individual questions varied significantly. Candidates were particularly successful in relation to microeconomic based questions.

Questions 1, **2**, **5**, **14**, **10**, **15**, and **16** were answered most successfully. These questions covered the full range of skills but the majority assessed microeconomic syllabus topics.

Questions 3, **13**, **19**, **22**, **23**, **26**, and **28**, were answered correctly by fewer than 55 per cent of the candidates.

Comments on specific questions

Question 3 was answered correctly by 45 per cent of the candidates, who chose the key **A**. A significant number chose option **C** which referred to unemployed labour. It should be noted that unemployed resources will not determine the actual production possibility curve. It is the availability of resources which determine the actual boundary. It was assumed that unemployed resources were still available to be used.

Question 6 was discounted from the test since it did not draw on the AS Level section of the syllabus. We are sorry for the erroneous inclusion of this question and any concern it caused. We can assure you that no candidates were advantaged or disadvantaged as a result.

Question 13 was answered correctly by 50 per cent of candidates. The key was **A**, because the two changes would counteract each other. A decrease in consumer incomes would decrease demand and an increase in the price of a substitute good would increase demand for the existing good.

Slightly more than half of candidates answered **Question 19** correctly. Option **D** was the key. Many chose option **C** but the key distinction related to the impact of a reduction in taxation. This would help to reduce unemployment but unlikely to reduce a balance of payments deficit.

53 per cent of candidates answered **Questions 22** and **26** correctly. **Question 22** was knowledge-based and the key **D** referred to the requirement to select an appropriate exchange rate before international trade takes place. **Question 26** also tested basic knowledge of the balance of payments accounts and those choosing the key **B** clearly demonstrated an ability to distinguish between current account and capital account items.

In **Question** 23, 39 per cent of candidates were able to identify that the money supply – key **D** – has to be assumed constant when drawing an aggregate demand curve because of its impact on nominal GDP.

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Key messages

- It is essential that all elements of the syllabus are covered in sufficient depth to answer all the questions set.
- In order to score well it is essential that candidates are able to apply their knowledge and understanding as required.
- Careful reading of the question requirements is essential to ensure that the answer provided is relevant and appropriate.
- Analysis must be well directed and sufficiently developed to cover all aspects of a question.
- Evaluative comment should be balanced and sufficiently detailed to lead to a reasoned conclusion.

General comments

There was considerable variation in how much of the required knowledge and understanding for this paper candidates displayed. There were clear weaknesses in the ability of some to apply the concepts in the context of the question set. In addition, many candidates did not make good use of their knowledge and understanding because they apparently did not read the question sufficiently carefully. As a result, many answers contained material that was irrelevant or poorly directed. A shortcoming which persists from previous years was insufficient evaluative comment – many scored poorly on this assessment objective.

Comments on specific questions

Section A: Data Response

Question 1

(a) (i) Although many candidates were able to use the data in Table 1.1 to perform the necessary calculation it was disappointing that so many candidates treated this question as a test of arithmetic. The question asked *what happened* to Egypt's current account balance between 2014 and 2016. The data showed that Egypt's deficit increased and this simple statement was sufficient for the mark available. A large number did not score because they simply produced an increasingly negative figure without reference to the economic context of the data.

(ii) This question was done much better by most candidates who were able to demonstrate knowledge and understanding of how the percentage rate of inflation was calculated given the index numbers shown in the Consumer Price Index in Table 1.1. Disappointingly, a number of candidates omitted this question. They clearly lacked the confidence to handle this data that is a key indicator in all economies.

(b) Disappointingly, a large number of candidates omitted this question and many who did simply wrote out passages of the text that they hoped might be relevant. The canons of taxation are specified in the syllabus as required knowledge but candidates did not appear to know them.

(c) This question was very well done by many candidates. There was clear understanding that a decline in the exchange rate would make exports more competitive and that this would lead to a rise in net exports which was likely to cause demand-pull inflation. Similarly, many candidates explained that the fall in the exchange rate would make the cost of imported raw materials rise and this could generate cost-push inflation. A number of candidates did not score on this question, however, because although they explained how demand-pull and cost-push inflation could arise,

sometimes in considerable detail, they failed to make any reference to the decline in the value of the Egyptian pound. It is essential that candidates read the question carefully and respond to the question set to ensure that they provide a relevant answer.

(d)   Two broad approaches were acceptable in response to this question and both were seen. Some candidates explained that a fall in unemployment shown in the table would result in a rise in incomes and purchasing power. They went on to explain that this would be likely to lead to a rise in import spending and also a fall in exports as goods formerly exported were diverted to the domestic market where demand was rising. This, they deduced, could lead to a rise in the current account deficit. Others adopted a different approach. They suggested that the fall in unemployment meant that there was an increase in the employed labour force and that more goods would be produced as a result. This, they reasoned, meant that there would be more goods to export and fewer goods would need to be imported. This would lead to a fall in the current account deficit. As stated either approach was acceptable and many candidates gained credit for suggesting that either outcome was possible. Six marks were available here, but some candidates did not develop their answers sufficiently.

(e)   Many candidates found it difficult to respond to the question's requirements. Many chose to write extensively around the way in which fiscal and monetary policies can be used to cure inflation without any reference to the way in which the Egyptian government was using these policies. In a data response question candidates are expected to consider the material given. They should not produce responses based upon pre-prepared answers to generic questions on the topic of inflation. Other candidates confused tools of fiscal and monetary policy. The better answers carefully examined the data to explain how the Egyptian government's fiscal policy attempted to cure inflation through a reduction in the budget deficit. Also, that monetary policy through an increase in the rate of interest by three percentage points was designed to cure the inflation problem through an increase in the cost of loans. They then went on to evaluate the policies and arrive at a conclusion over whether these policies are likely to succeed.

Section B: Essays

Question 2

(a)   This was a popular essay question and many candidates were able to demonstrate their understanding of the concept of income elasticity of demand and apply it to distinguish inferior goods from necessary goods. Some common confusions were apparent, however, such as between inferior and normal goods. Some also incorrectly stated that inferior goods display inelastic income elasticity rather than a negative coefficient. In addition, a disappointing number of candidates were unable to provide an accurate explanation of necessary goods. Nevertheless, many high-scoring answers were provided here.

(b)   As in previous years, many candidates wasted time explaining at considerable length the distinction between elastic and inelastic, perfectly elastic and perfectly inelastic goods and goods with unitary elasticity. Often, these were supported with formulae, diagrams and so on. However, this question was concerned with attempts to change the elasticity; many gave insufficient consideration to this. In order to do well it was necessary to understand the factors that influence the price elasticity of demand for a product, and then explain how these factors could be manipulated by businesses to change their PED. The most popular factor chosen by candidates was the number of substitutes available and some good answers were provided that examined the extent to which this could be changed by businesses. As stated, however, many answers to this question were poorly directed.

Question 3

(a)   Answers to this question were generally quite disappointing. Few were able to distinguish clearly between regressive taxes and progressive taxes. A common error was to state that in the case of progressive taxes high income earners would pay more tax than low income earners. This is of course a true comment, but it is not sufficient. The distinction between regressive and progressive taxes is that in the case of regressive taxes the percentage of income paid as tax is higher for lower income earners and lower for higher income earners. Higher income earners are still likely to pay more in absolute terms under both types of tax regime. Clearly, this lack of understanding hampered candidates' attempts to answer the second part of this question and many candidates here scored few marks.

(b)   This was quite well done with most candidates appreciating the different impact on resource allocation if both merit and demerit goods were subsidised. Some candidates also questioned whether there was any justification in subsidising public goods and some questioned the justification for subsidisation of those private goods that could not be considered as merit goods.

Question 4

(a)   Very few candidates adequately explained what is meant by 'protectionism'. Many provided a simplistic statement that protectionism occurs when governments adopt policies to protect their industries. Often this was placed within the context of import controls, but this is clearly an incomplete explanation in the context of the question. A full explanation required more and needed to consider how export subsidies provided an example of protectionism. Although many candidates scored marks for explaining how subsidies lowered the price of a product few set this in the context of exports. Most simply referred to subsidies that applied to all domestic output.

(b)   This question was generally answered well. Most candidates were able to suggest and explain a range of arguments to justify protectionism, but there was some variation in the extent to which these were examined in terms of whether they could be justified. The higher scoring scripts provided good evaluative comment and arrived at a reasoned conclusion.

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Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **2**, **3**, **5**, **7**, **8**, **10**, **13**, **18**, **23**, **26** and **27**. These questions covered different parts of the syllabus and were set to test different skills.

There were only two questions that were answered correctly by 45 per cent or fewer of the candidates. These were **Questions 4** and **28**.

Comments on specific questions

Question 4 was answered correctly by 36 per cent of the candidates, who chose the key **A**. 9 per cent chose option **B**, 50 per cent chose option **C** and 5 per cent chose option **D**. Those who chose option **C** were thinking of the point where marginal utility becomes negative. The commencement of negative marginal utility causes the total utility curve to start to fall. This is at five units (option **C**). But before that point marginal utility, while still positive, begins to decline. As it does, so the slope of the total utility curve decreases. The maximum point of marginal utility, therefore, is where the slope of the total utility curve begins to decrease. This is at three units (option **A**).

Question 28 was answered correctly by 34 per cent of the candidates, who chose the key **A**. 41 per cent chose option **B**, 20 per cent chose option **C** and 5 per cent chose option **D**. Both of the changes in the table would shift the LP curve to the right. Option **A** is the only option that allows that. All the other options do not allow a shift for at least one of the changes.

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Key messages

- Several questions contained the command word 'Discuss' or 'Consider'. Both these terms require an argument or debate within the answer and the drawing of a conclusion to access the higher levels in the mark scheme.
- Candidates are reminded that a thorough reading of the question is necessary to pick out the full breadth of the question. This is especially true of the 25-mark essay questions without sub-parts.

General comments

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

The common faults were as in previous examinations, but they are worth repetition. The use of badly drawn, or inaccurately labelled diagrams, or even more distressing perfectly presented diagrams without any reference to them in the essay re-occurred as did the use of pre-learned answers that did not match the question which had been set.

These comments, however, should not detract from the impression that the standard of response was high.

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

Comments on specific questions:

Question 1

(a)   Most candidates were able to identify two ways in which kiranas compete for customers.

(b)   Candidates read the graph with differing degrees of accuracy and breadth. The more successful gave detailed statistics of the percentages involved in different types of stores and different combinations of goods bought. Some ignored the direction in the question to use Fig. 1.1 and gave an interpretation of the passage in general.

(c)   Candidates split into three main categories. The first identified elements in the text that indicated it was a monopolistic market structure by listing the relevant features of that market structure and went on to explain how equilibrium is reach via the standard marginal cost equals marginal revenue approach accompanied by a diagram(s). Some identified the market structure but did not explain how equilibrium was reached. A third group misidentified the market structure but did explain equilibrium in that market, for which they received credit.

(d)   The best candidates explained how the supermarkets might compete using economies of scale as a theoretical basis for their answer. Others merely saw the supermarkets copying the practices of the kiranas. Only a few responded to the command word 'Discuss' and presented a two sided answer.

Question 2

This was the most popular question with a little over 60 per cent choosing to answer it. The initial focus of the question was on 'market failure' and the best candidates recognised this and wrote about at least two different forms of market failure. Their answers were then explicitly linked to at least two forms of government intervention accompanied by a critique of the chosen forms of government intervention. Some candidates wrote extensively on efficiency and found the time remaining to deal with the core of the question was severely curtailed and were only able to gain a limited amount of marks. Other responses lacked analysis of either the forms of market failure chosen and/or the forms of government intervention. Another point, with regards to this question, is that externalities are the form of market failure and writing about the four alternative forms of externality only counts as one.

Question 3

(a)   This was not a popular question. Of the candidates who did attempt it the majority identified the form of behaviour as 'discriminating monopoly'. Answers the varied between the highly analytical and the very descriptive. Some ignored the 'why the company … this policy' element whilst others ignored 'conditions necessary' to produce only a partial answer.

(b)   Candidates displayed a considerable knowledge and ability to analyse the form of oligopolistic markets. The best candidates took note of the question and interpreted their analysis in terms of the benefit or otherwise to the consumer. Weaker candidates did not address this element of the question. This restricted their ability to gain high marks.

Question 4

(a)   A moderately popular question. Able candidates used either marginal utility theory or indifference curve analysis to explain the origins of the individual and hence the market demand curve. This was a question in which elements were omitted, most significantly any reference to the market demand curve. Other omissions were a fully formed explanation of how the in marginal utility theory a change in price led to a change in quantity consumed. These explanations need to go beyond stating 'and demand will fall'. Reference to how a change in quantity will change the associated marginal utility is required.

(b)   Most candidates who realised that this part of the question dealt solely with a change in income were able to earn a good level of credit. Other candidates approached their response through the income and substitution effects and a price change, which complicated the analysis often to the detriment of the answer.

Question 5

This was the second most popular question. The most successful candidates read the question and thus concentrated their analysis on cyclical and structural unemployment and analysed solutions to these forms of unemployment. They linked the causes and solutions to produce a coherently argued answer. Other candidates wrote about all types of unemployment, which was unnecessary and tended to produce answers which were largely descriptive rather than analytical. Some wrote about solutions without the link to type.

Question 6

(a)   The least popular of the questions. The best responses analysed the link between quantitative easing (QE) and changes in the money supply and interest rates this was linked through the money transmission mechanism to the level of economic activity. Weaker answers simply stated that QE increased the money supply. Some answers concentrated on the inflationary effects of QE despite there being little evidence of that in the countries where QE has been used.

(b)   Good candidates recognised the implication of the two changes on the demand for money and analysed the changes in terms of the shift in the liquidity preference curve and the consequences for interest rates. Other candidates produced much more general answers discussing the inflationary effects of higher wages and the effect on aggregate demand of lower confidence for which some credit was given.

Question 7

(a)   This question was well answered. The best candidates produced responses which analysed the terms both from the production possibility frontier and aggregate demand and supply analysis. They then explained the causes for such changes.

(b)   The question produced a wide range of answers. The best candidates answered the question which was set and commented upon the importance and interconnectedness of the three factors stated in the question before considering the relevance of other factors to long term development. Others ignore the three factors in the stem and considered only other factors. A third group reversed the question and explained how economic development affected the three factors.