ECONOMICS

Paper 9708/12
Multiple Choice

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

General comments.

Candidates dealt with the microeconomic section of this paper more successfully than the macroeconomic questions. **Questions 1**, **3**, **5**, **9**, **11**, **12**, and **24** were answered most successfully. These questions covered the full range of skills but six of these seven questions were based on microeconomic syllabus topics.

In contrast, **Questions 8**, **15**, **16** and **23**, were answered correctly by fewer than 50 per cent of the candidates.

Comments on specific questions

Questions 1 and **11** were found the easiest on the paper. **Question 1** required basic knowledge recall in relation to an introductory part of the syllabus. **Question 11** focused on knowledge and application in relation to factors which influence market demand and market supply.

Question 8 was answered correctly by 46 per cent of the candidates, who chose the key **D**. This question required understanding of the concepts of consumer and producer surplus, plus an ability to identify how these might change after the introduction of a maximum pricing policy. Many chose option **A** because they did not recognise that the question referred to the imposition of a maximum price **above** the market price; it was therefore an ineffective price control.

Question 15 was answered correctly by 38 per cent of candidates, who chose the key **B**. This was the correct option because all three options were straight lines through the origin. A significant number chose option **C**.

Only 22 per cent of candidates answered **Question 16** correctly. In this case, based on the given relation between demand and price, it could bse inferred that if the government purchased 400 units, it could fix the demand at $10. Therefore this would require an overall government expenditure of 400 × $10 = $4000, so option **D** was the key.

Question 23 was answered correctly by 32 per cent of candidates, who identified the key as option **C**. It was important for candidates to recognise that the table was referring to units of inputs rather than units of output, therefore the country with relatively lower number of units used had the lower opportunity cost.

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> **Paper 9708/22**
> **Data Response and Essay**

Key messages

- Candidates need a good knowledge and understanding of all areas of the syllabus.
- Candidates should be given guidance on how to assess question requirements so that their response is directly relevant to the question set.
- Candidates should practise applying the tools of economic analysis in a range of contexts and avoid writing rehearsed answers to a question that they expect to appear.
- The analysis provided must be sufficiently developed in order to move beyond a superficial explanation of the economic concept tested.
- Candidates must always reach a conclusion where this is required based upon careful evaluation of the analysis provided.

General comments

Some scripts were of a high quality showing very sound knowledge and understanding of relevant economic concepts together with the ability to apply these in context to the questions set. There were answers with good, sound and full analysis enabling evaluative judgement to be made where required.

It was disappointing to see, however, the large numbers of candidates who appear to be insufficiently equipped to produce good answers across the syllabus areas tested. Many candidates had the necessary knowledge and understanding to do well, but seemed insufficiently practised in using this to score well.

Comments on specific questions

Section A: Data Response

Question 1

(a) (i) Ethiopia's current account balance differs from its balance of trade in goods and services because the current account balance includes items that are in addition to the balance of trade in goods and services. The generally recognised terms for these categories are the primary income and secondary income balances and it was sufficient to mention the omission of these from the data to score both marks available. It is clear that these terms are not yet commonly used in all centres however so it was acceptable to use other terms that were equivalent to these categories. Candidates who made reference to at least one item from each category were awarded the mark. So candidates who referred to profits, interest and dividends gained the mark available for recognition that data on the primary income account was missing and those who referred to net transfer payments gained the mark available for the secondary income account.

Disappointingly, a large number of candidates continue to suggest that the current account includes flows of capital between economies.

(ii) Most candidates explained that the impact of the new railway line to Djibouti would be to reduce the cost of transporting Ethiopia's goods and that this would lead to rise in revenue from exports and a positive impact on Ethiopia's balance of trade. Few suggested however that the impact of the reduced cost of transporting goods might also lead to increased import expenditure so that the overall impact on the balance of trade of the reduced costs of transporting goods depended upon the change in export revenue compared to the change in import expenditure. As a result, many candidates missed out on a mark here.

(b) This question was well done by most candidates with many gaining both marks available. Disappointingly, a number lost a mark because they failed to read the question carefully and identified only one way in which China's economy might benefit.

(c) Although most candidates were familiar with the production possibility curve and the concept of opportunity cost many found it difficult to apply these in the context of the data. As a result, many provided axes that were inappropriate and many were unable to use opportunity cost to answer the question set. Without access to help from China, Ethiopia would be forced to rely upon its own production possibilities. If it chose to produce more infrastructure it would need to sacrifice consumer goods. This would mean a fall in the standard of living that, in a country described as 'one of the world's poorest', would create severe hardship. The opportunity cost of the infrastructure would be the consumer goods and hence the standard of living that would be sacrificed.

(d) Many candidates identified the characteristics of non-excludability and non-rivalry in consumption as the key characteristics of public goods but it was disappointing to see that many of these were unable to explain clearly what these terms meant. There was considerable confusion apparent in the explanations of these features. When considering whether these features applied to Ethiopia's upgraded road network to determine whether this could be considered a public good candidates often provided unconvincing explanations. A road is not a public good because free riders can be excluded – since a price could be charged through a toll road. Also, many roads suffer from congestion and so they display rivalry in consumption. It was only necessary to consider one of these features to conclude that a road network could not be classified as a public good. Some scored well because they provided sound analysis to explain that roads could be considered as quasi-public goods, but a disappointing number of candidates provided answers that failed to provide a clear answer to the question set.

(e) Many candidates explained that the increased expenditure on the development of infrastructure would increase aggregate demand and then went on to explain that the creation of the new infrastructure would increase aggregate supply and hence increase potential output in Ethiopia. The impact of these changes would certainly lead to an increase in output and employment, but the impact upon the price level was less certain. This depended upon the increase in aggregate demand compared to the increase in aggregate supply. Many failed to recognise this and explained the impact of an increase in aggregate demand and an increase in aggregate supply in isolation. Only by comparing the relative shifts could the impact upon the general price level be assessed.

Section B – Essay

Question 2

(a) This was the least popular essay of the three choices. Most candidates who answered this question were able to provide an accurate diagram showing equilibrium price and quantity and the shift to the right of the supply curve as technology improves. Unfortunately few provided the required accompanying explanation. The question required an explanation of the process through which the equilibrium price and quantity of a good would change when there is an improvement in the technology underlying the production of a good. As technology improves, the costs of producing a good will fall and the supply curve will shift to the right. This means that at the old equilibrium price there will be an excess supply; market forces will cause equilibrium price to fall and equilibrium quantity to adjust accordingly.

(b) Most candidates explained that supply-side policies are intended to increase aggregate supply and many were able to go on to describe measures that could be adopted to achieve this. These included increasing the training of labour to improve skills, cutting taxes to increase the motivation of labour to join the workforce and paying subsidies to encourage firms to invest in capital goods. Few candidates, however, suggested ways to increase the supply of the factor enterprise to the economy. When considering the problems associated with the policies, most candidates considered the long period of time before they would have an impact and the high costs that these policies would entail. Disappointingly, many candidates did not consider whether the problems identified could be overcome, so the full scope of the question was often not answered.

Question 3

(a)   This was the most popular essay option. Most candidates knew what price elasticity of demand measures and quoted the formula. Most also knew the link between changes in price and changes in total revenue for different values of price elasticity of demand. Some missed out on marks by not explaining how changes in the price of goods with unitary price elasticity would leave total revenue unchanged. The main weakness in responses, however, was a lack of clarity in the explanations. As in previous years, many candidates provided explanations that suggested, for example, that if demand is price inelastic a change in price will not affect demand 'very much' or that if demand is price elastic a change in price will lead to a 'great' change in demand. To score well it is necessary to provide a clear explanation based upon the formula for price elasticity. So in the case of a price inelastic good a clear explanation would be that a percentage change in price will lead to a smaller percentage change in quantity. This will mean that a rise in price in the case of these goods would result in a rise in total revenue.

(b)   Most candidates were aware of how indirect taxes on cigarettes would affect the demand for cigarettes if the demand is price inelastic and how educational campaigns could raise awareness and reduce the consumption of this demerit good. However, many provided analysis that was too descriptive, and this did not make good use of economic concepts relevant to the underlying analysis. Nevertheless some good discussion was provided and most candidates were able to arrive at a conclusion.

Question 4

(a)   Many candidates showed good understanding of the terms of trade and how changes in the terms of trade are measured. In addition, most candidates appeared to have a clear grasp of how changes in an economy's exchange rate would affect that economy's terms of trade. Unfortunately, a number of candidates confused the terms of trade with the balance of trade and explained how a change in the exchange rate would affect expenditure on imports and exports. Inevitably, they usually did not score any marks for this part of the question.

(b)   Most candidates knew in broad terms the distinction between expenditure-reducing and expenditure-switching policies although some became confused when identifying examples of each. Many for example identified exchange rate depreciation as an example of an expenditure-reducing policy. This is incorrect because a reduction in the exchange rate can boost net exports and increase aggregate demand. In addition some candidates did not consider the drawbacks of each policy and as a result this meant the assessment of which policy was most likely to be effective was not complete. This reduced the opportunities to score marks for evaluation.

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Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **2**, **3**, **4**, **5**, **11**, **14**, **16**, **17**, **19**, **20**, **21** and **30**.. 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 **7**, **23**, **26**, and **28**.

Comments on specific questions

Question 7 was answered correctly by 38 per cent of the candidates, who chose the key **A**. 14 per cent chose option **B**, 35 per cent chose option **C** and 13 per cent chose option **D**. The movement from S to Z represents the price effect. The movement from X to Y is a substitution effect and from Y to Z is an income effect. The fact that Z is to the left of Y indicates an inferior good. The most popular alternative answer was **C**. For a normal good Z would be to the right of Y.

Question 23 was answered correctly by 38 per cent of the candidates, who chose the key **A**. 11 per cent chose option **B**, 13 per cent chose option **C** and 38 per cent chose option **D**. To be recorded as unemployed (option **D**) a person must be available for work and seeking work. The dependency ratio relates those who are under or over the working age to those who are working. An increase in the numbers under or over the working age does not mean that the number of unemployed will increase.

Question 26 was answered correctly by 40 per cent of the candidates, who chose the key **B**, 18 per cent chose option **A**, 22 per cent chose option **C** and 20 per cent chose option **D**. The percentage choices of the alternative options are very similar. This may indicate guessing on the part of the candidates particularly as the question is near the end of the paper.

Question 28 was answered correctly by 35 per cent, who chose the key **A**, 12 per cent chose option **B**, 43 per cent chose option **C** and 10 per cent chose option **D**. The bank would have greater ability to pursue an independent policy if it were not constrained by a system where it had to sell foreign currency at a fixed rate (option **C**).

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Key messages

- Many questions contain command words requiring evaluation, such as 'discuss' or 'consider'. This requires an argument or debate within the answer and the drawing of a conclusion to access the higher levels in the mark scheme.
- Responses must be directed towards the precise question set. A thorough reading of the question is necessary to pick out the full breadth. This is especially true of the questions without sub-divisions.

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.

Candidates generally demonstrated that they understood the relevant theory and the best scripts articulated the analytical aspects within the context of the question. Others did not fully develop the analytical aspects of the answer or to apply it to the context of the question.

However as in previous years there was use of badly drawn or inaccurately labelled diagrams, or even perfectly presented diagrams but without any reference to them in the essay. Also seen was the use of rehearsed 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 but did not direct their answer to the precise question set. Candidates who can produce a relevant, concise and well directed answer will always be fully rewarded.

Comments on specific questions:

Section A: Data Response

Question 1

(a) The vast majority of candidates were able to identify two examples from the number in the text.

(b) Candidates struggled with this element. The better answers identified the change in money supply in two different time periods and compared those changes with the change in prices in the comparable period. Some candidates recognised that the money supply was always rising even when prices were falling. This enabled them to draw the conclusion that Friedman's view is not always supported by these data.

(c) A large number of candidates had a good grasp of quantitative easing and were able to explain the consequences for the Japanese economy showing an analytical approach through the monetary transmission mechanism and its impact on aggregate demand. Some, however, concentrated on the mechanism of quantitative easing rather than its impact.

(d) The best responses tackled both elements of the question and were able to explain the consequences for the Japanese economy, showing an analytical approach through AD/AS or production possibility curve (PPC) and Keynesian AMD. Some omitted part of the analytical process or ignored the international element of the question.

Section B – Essays

Question 2

This was the most popular question and was answered well. The initial focus of the question was on economic efficiency which most candidates answered thoroughly and analytically. The second element of the question addressed the ability of free markets to achieve efficient production. Two different forms of market failure were required and again most candidates demonstrated a sound level of analysis. Some concentrated entirely on an extensive explanation of the different forms of externality which are regarded as variations on a single concept. The best candidates came to a conclusion which reflected the question set.

Question 3

(a)   Candidates who explained the three terms correctly and then went on to use the concept of marginal utility to derive the demand curve scored highly. Deriving the demand curve consideration of an increase and decrease in the price of a good, its implications for the equi-marginal rule $MU_x/P_x = MU_y/P_y$ and hence on the demand as equilibrium is restored. The better candidates did this.

(b)   Candidates drew on a wide range of policies regarding income and wealth distribution. Good responses showed a depth of analysis as they made the link to demand of normal and inferior goods. Many candidates discussed the effects in general terms rather than analytically. An approach based on indifference curve analysis would have led candidates in the right direction.

Question 4

(a)   Candidates who recognised that this question required a response that focussed on 'how a firm maximises its profit' within the context of perfect competition scored well. Many candidates stated the rule MC = MR but did not explain why this gave maximum profit, while others wrote all they knew about perfect competition without relating it to the precise question set.

(b)   The question asked for the 'best strategy' and candidates who analysed profit maximisation and an alternative objective of the firm e.g. sales revenue maximisation in the context of two different forms of market structure scored highly. Many candidates analysed only profit maximisation in the context of different market structures and thus limited their mark.

Question 5

(a)   Most candidates were able to explain the relevance of economic rent and transfer payments. The better candidates then developed their explanation in terms of differing elasticities of supply and demand in labour markets. Many candidates scored well on this question.

(b)   Many candidates produced competent analyses of two different scenarios of trade unions affecting wage levels. The best responses used well explained and often complex diagrams as the basis for their discussion, and responded to the 'always' element of the question. Others unfortunately drew the diagrams but were unable to explain them fully or reach a conclusion.

Question 6

This was the least popular question on the paper. Some candidates identified a number of government aims, and then analysed the effects of injections > leakages and/or injection < leakages on those aims. This was a logical approach to the question and such responses scored well especially if they reached the conclusion that the aims were sometimes in conflict. Often candidates only attempted part of this process stating one or two aims and one of the imbalances.

Question 7

Few candidates got to the heart of this question which concerned the appropriateness of a single measure of living standards for countries at different stages of development. Many analysed a single measure of living standards (usually gross domestic product (GDP)) but often the criticism of this measure was general rather than in the context of stages of development. Better candidates did offer an alternative measure to GDP but the stages of development aspect of the question was still not addressed.