

# ECONOMICS

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Paper 9708/01  
Multiple Choice

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

## General comments

This paper was taken by 7090 candidates. The mean score was 18.1, down from 18.2 in the previous year. The standard deviation rose from 5.59 to 5.88. 39 candidates scored full marks, while almost 70% gained half marks or more. In terms of the test design **Questions 5, 6, 16 and 26** proved easier than intended for candidates, while **Question 27** proved more difficult. The types of question (verbal, numerical or diagrammatical) were equally accessible to candidates.

## Comments on specific questions

**Questions 5 and 6** were about demand and indicated thorough understanding of the basic elements, which resulted in a high facility. Two areas that 80% or more candidates answered correctly were the nature of public goods (**Question 16**) and influences on imports (**Question 26**). Some areas that have caused difficulties in the past showed improved performance this year. These included price elasticity of demand calculations requiring manipulation (**Question 7**), changes in consumer surplus (**Question 12**), the impact of a maximum price (**Question 17**) and comparative advantage (**Question 19**).

**Question 15** did not discriminate as well as intended. Some of the stronger candidates opted for B, which overlooks the maximisation element. The largest group of candidates selected A, which is not necessarily attainable. The correct response was D.

With **Question 27** a majority of candidates went for option B. This is incorrect, as increased international competition would put downward pressure on the price level, so making inflation decrease. D, which combined decreased inflation and depreciation, was the right answer. While a depreciation of the exchange rate would increase inflationary pressure, that is not a direct consequence of the worsening of the current account balance.

Candidates selected the four options in similar proportions in **Question 28**. This suggests the possibility of guessing. The question was demanding, involving as it did the interpretation of movements in exchange rates. As more \$s exchanged for £1 this meant a depreciation of the \$. As fewer €s exchanged for £1 the £ depreciated against the €. Linking the two movements meant that the \$ also depreciated against the €. 30% of candidates answered this difficult question correctly.

# ECONOMICS

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Paper 9708/02

Data Response and Essay (Core)

## General comments

Candidates scored well on those tasks which required knowledge and understanding. This was very evident in the part (a) sections of the essays. Here full marks were not uncommon. Analysis and evaluation proved more problematic and showed in the performance on the second parts of the essays and the final section of the data response. As a result there was a disappointing lack of very high-scoring papers.

Three points of weakness were particularly apparent:

- There was a tendency to use lists or identify facts without establishing their meaning and significance.
- General knowledge sometimes took over from economic reasoning, as in the cases of analysing advertising and the market for mobile phones.
- The meaning of 'discuss' was not properly understood and applied.

To counter these difficulties candidates should:

- clarify technical terms and draw out the relevance of the point being addressed,
- ensure that there is an economic basis underlying their answer,
- recognise that 'discuss' involves evaluation, judgement and the balancing of conflicting arguments.

## Comments on specific questions

### **Section A**

#### **Question 1**

The question concentrated on international trade and the abolition of obstacles to trade.

- (a) (i) This could be seen either as a deficit for Australia or a surplus for Thailand of A\$630 m. While many candidates arrived at A\$630 m, they did not always identify it as a deficit or surplus or name the country involved. Only the first line of statistics was relevant, since the other lines were part of a sub-set. One error was to try to use the data in the manner of a calculation of the terms of trade.
- (ii) This involved the task of categorising different products. The usual categories were primary or raw material and secondary or manufactured, but other terms were also acceptable. The section was done well, although weaker responses copied from the data.
- (iii) This required the recognition and application of trade theory, namely comparative advantage. A relatively small proportion of answers scored full marks. The tendency was to treat the answer as completely theoretical or completely applied, with the latter more common. This meant that most candidates scored half marks. There was some confusion about the status of the two countries in development terms but candidates were not penalised for this.
- (b) (i) This was done well. Quota and embargo were the most frequently mentioned forms of trade protection, with a range of alternatives also introduced. An error was to refer to import taxes or customs duties, which equate to tariffs. There was no need to explain the operation of the measures since 'name' was the directing word.

- (ii) This was the least well done section of **Question 1**. There were long unnecessary explanations of the imposition of a tariff, whereas it was possible to go straight to its removal. Some answers spent more time on the position of imports than on the position of domestic production. The best answers made use of a diagram showing an infinitely elastic world supply. Those answers that used a standard diagram found it difficult to distinguish between the actions and positions of the domestic and foreign producers. A basic error was to confuse a shift in a curve with a movement along a curve. This resulted in diagrams showing domestic producers reducing their supply and charging a higher price. A diagram alone was not a sufficient answer; some clarification of what it was showing was essential.
- (c) Candidates knew many of the issues relevant to the question of free trade and could show some aspects of the two sides to the proposition. One-sided answers scored less well. A significant weakness was to identify or list points without clarifying them. This was often the case with the terms 'infant industry', 'sunset industry' and 'dumping'. References to the data were very restricted, although it was intended to give some hints to the issues. Arguments about inflation resulting were rarely persuasive. A common conclusion, reflecting a well-thought through judgement, was that it was better to abolish barriers slowly to allow a process of adjustment within each economy.

## Section B

### Question 2

The question started with an analysis of cross-elasticity of demand and moved on to consider the price elasticity of mobile (cell) phones.

- (a) There were thorough, accurate answers, which deserved the full marks awarded. It was also interesting to see new examples such as mobile phones and SIM cards introduced. The aspect which caused most problems was distinguishing between substitutes and complements in terms of their positive and negative values. Overall, it was encouraging to see such a clear grasp of a technical aspect of the syllabus.
- (b) This section was done less competently. It was sometimes the result of failing to establish a clear structure in tackling the question. The most successful started with a definition, established the factors which influence elasticity and then applied them to mobile phones. Weaker responses muddled the price elasticity with the level of demand for a product, despite starting with an accurate definition. Some resorted to long descriptions of the features of different models, which unsurprisingly scored few marks. It was considered a valid approach to contrast price elasticity between different consumers and different countries. As before, lists scored poorly, in this case of the possible influences on elasticity. No 'right' answer was looked for in this case, only one which showed economic reasoning.

### Question 3

The central element of the question was demerit goods, how they compared with merit goods and what policies might be employed to deal with them. This is an area in which there is some variation in economic thinking so alternative approaches were given credit. This was the most popular question.

- (a) By and large this part was done competently, again with a good proportion of full marks being awarded. The stronger answers referred to information failure as well as externalities. The aspects covered included the nature of externalities generated and their impact on resource allocation. A small number attempted the question without having any clear notion of these types of goods, while some confused them with public goods. There were no problems in supplying relevant examples.
- (b) A surprising number overlooked the instruction to discuss **two** methods and sought ways to include all methods with which they were familiar. In these cases only two methods were rewarded. There was no need to repeat the demerit good analysis already given in part (a). The most worrying weakness, which was widespread, was to overlook the significance of the directive word 'discuss'. In this case it was intended to indicate that the effectiveness of the two methods had to be considered. This interpretation has been applied in previous years. While some reference was made to the relevance of price elasticity, little other evaluation was evident. Other issues that might have been considered were evasion and cost. The candidates overlooking this evaluation stopped at describing the operation of the methods. This meant that they were restricted to four of the

twelve marks available. The most often identified methods were indirect taxes, production limits and education/advertising. In the latter case there was much description of the forms of advertising. It was not correct to suggest that merit goods might be substituted for demerit goods.

#### **Question 4**

The focus of the question was the maintenance of a fixed exchange rate and the consequences of movements in a floating exchange rate. This proved to be the least popular of the essay questions, although it was quite well done.

- (a)** Long introductions on the variety of exchange rate systems were not required. Many candidates considered an exchange rate fixed within a range rather than at a specific value; this was an acceptable approach. The full range of marks was awarded for this part. The diagrams offered were not always given labels specific to an exchange rate. The explanation of what was happening in the diagram was in some cases not sufficiently clear. For the most part the role of reserves was explained with supporting diagrams. Occasionally candidates confused the shifting of the demand and supply curves.
- (b)** Candidates were aware of the impact of an appreciation and a depreciation of a currency on exports and imports, the balance of trade, employment levels and inflationary pressure. They found it more difficult to use this understanding to show in which circumstances one direction of currency movement would be preferable to the other. It was expected they would recognise that an economy with inflationary pressure, a trade surplus or labour shortage would be helped by an appreciation rather than by a depreciation. The argument might equally be approached from the opposite direction. A reasonable conclusion was that there is no one currency change which is preferable, since it will depend upon the circumstances in which the economy finds itself. Some answers concentrated on the causes rather than the effects of a currency change.

# ECONOMICS

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Paper 9708/03  
Multiple Choice

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1	D	16	C
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8	C	23	C
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11	A	26	B
12	B	27	A
13	D	28	B
14	C	29	A
15	C	30	C

## General comments

From an examining perspective this test was highly successful. The mean percentage score of 54.6% was significantly higher than the 51.7% recorded on the corresponding paper in 2005. None of the individual items turned out to be too easy, while only one item, **Question 2**, had a facility score below the 0.25 guessing level. **Question 14** had a discrimination score marginally below the design limit of .25. All the other 28 items had facility and discrimination scores within the test design limits.

**Question 2** seems to have caused all kinds of problems. These may have been partly due to a failure on the part of candidates to pay sufficient attention to the wording in the stem. Candidates need to be particularly careful when words such as “definitely” or “must” are used, or, of course, when particular words are emboldened. The parallel outward shift in the consumer’s budget line shown in **Question 2** could be the result of an increase in money income (chosen by 54% of the candidates) or a reduction in the price of both goods (chosen by 30%). However, all we can be certain of is that there has been no change in relative prices.

**Question 11** had relatively low facility and discrimination scores, and the statistics for this item suggest that most candidates resorted to guesswork. It was hoped that better candidates would be able to work out that a firm in a contestable market needs to be careful about attracting competition from new entrants.

Of the remaining items only one had a facility score below 0.40. In **Question 15**, a majority of the candidates wrongly thought that the introduction of a minimum wage for workers over 21 would lead to a reduction in wages for those under 21. as demand for workers under 21 rises, so do their wages.

# ECONOMICS

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Paper 9708/04

Data Response and Essay (Extension)

## Question 1

- (a) Many candidates understood the meaning of GDP but failed to recognise that they had to also explain the meaning of 'per capita'. They lost a mark for this omission.
- (b) (i) the reasons for the situation in Africa mentioned in the article should have been stated - exports had fallen, foreign aid had fallen, there was increased illness and there were subsidies in other countries to support industry there. A considerable number of candidates confused the result, described in the article, with the cause. Candidates should use these extracts to become aware of argument structure. They should identify the different elements in the argument. All the information in the first sentence describes a situation. It does not give the reason for that situation. Of those who did distinguish between the result and the cause very few mentioned the subsidies referred to in the last sentence.
- (c) (i) required a comment on changes in output, prices, income, employment, investment, government revenues, imports. Most candidates answered this well and could discuss possible links.
- (d) Information given includes GDP per capita which is useful, and government support for local industries. A comment on the value of economic indicators was required and the difficulty of relying on GDP alone for a comparison of living standards. Candidates could have commented on other measures and the condition of housing, education, employment, medical care would be relevant. Some indication of this could be gained from the HDI index which is given, but only selected countries are stated, and there is no average for Europe. The index figures could be used as a guide, however. Quite a large number of candidates failed to develop the usefulness of the information even though there was plenty of evidence of sound knowledge of GDP and the HDI index.

## Question 2

The answer should have been in three parts. It should have first identified and described the necessary conditions for efficient resource allocation. It should then have considered if these conditions are able to be created by the government and whether it is true that it is not possible to do this in the private sector of the economy. Thirdly, the answer should debate whether, in the light of the findings of section two of the essay, the conclusion in the statement is correct.

Many candidates did not develop this argument structure. They repeated, and were given some credit for, information about efficient resource allocation and market failure. Candidates should be encouraged to develop arguments in their answers to this paper. It is of course relevant to describe analytical concepts, and marks will be given for this. However, the higher marks are reserved for those who use the concepts to express a well-structured argument specifically relevant to the information given.

### Question 3

- (a)(b)** Candidates should have explained marginal utility and then developed the theory of diminishing marginal utility. According to some writers, money has a diminishing marginal utility, as does any good. There are, though, exceptional goods where marginal utility increases as the quantity used/owned increases; some would argue money is in this category. Whether it is possible to add utilities for different people to calculate total welfare is debateable, as is the possibility of comparing total utilities between people. A sub-conclusion on this section is required and then the argument should be related to the second part of the statement. If money does have diminishing utility the total happiness would be increased in theory – although even in theory it is not really possible to add utilities and form a social welfare function. In practice changes in satisfaction are pure guesswork and optimum distribution through government policy is unlikely.

There were some good responses about diminishing marginal utility but quite a number failed to address the second part of the question. Those who did Centred the policies they suggested mostly around tax changes. This was followed by much undeveloped discussion and lists of other policies.

### Question 4

This question required a discussion of the link between large organisations and competition. Candidates should have discussed whether large organisations are to be found in imperfect market structures and the extent to which there is competition in imperfect markets. Many imperfect markets do have competition, and in practice, even monopoly does. A sub-conclusion on this part of the statement should have been made. A discussion should then have followed on whether small businesses are more competitive and, therefore, more in tune with consumers' needs. The conclusion to this could involve comment on consumer and producer sovereignty.

Many candidates attempted this question. Unfortunately many failed to read the question carefully. They, therefore, failed to focus on the specific statement in the question. Good links to the argument in the question were essential to gain high marks. Many candidates made imprecise links to the question and instead provided text-book descriptions of pure monopoly and perfect competition. References to small firms were often limited and rarely integrated into the specific argument expressed in the question.

Weak answers simply described everything they knew about imperfect market structures, Better responses did attempt some comparative analysis. The most effective attempts at the question made strong comparisons and combined them with evaluative comments on the argument in the question with commendable attempts to reach a conclusion.

### Question 5

- (a)** This question required an explanation of the benefits of rural development. Candidates might have mentioned the effect on employment, income generation, the prevention of the decline of the area, regional cohesion or community ties, Most candidates who attempted this question were able to provide such explanations. The answers were descriptive but accurate. Comment was competent but little economic analysis was used. The main weakness of the answers was that little attempt was made to suggest whether any benefit was to be preferred over others or what the overall aim of rural investment might be.

- (b)** This part of the question involved a discussion of the extent to which exploitation would destroy existing environments, cause overcrowding, congestion, pollution or other negative externalities. A consideration of the short-run/long-run position and a comment on the possible differences between rural and urban areas or between the situation in developed/developing countries could have been given.

A weakness of the answers related to the preference for vague unsubstantiated comments rather than clear analysis underpinned by theoretical economics. There were some exceptions that discussed both the options in the question in detail including short-term/long-term considerations. Better answers also demonstrated an awareness of possible differences in developing/developed countries.

## Question 6

- (a) The purpose of the first part of the question was to explain how changes in interest rates might influence investment. There were some very good answers to this part of the question, with many candidates demonstrating a good level of knowledge and understanding. They were clearly able to explain the nature of the inverse relationship between interest rates and investment using the concept of the marginal efficiency of capital. It was pleasing to see a high proportion of candidates used diagrams to aid their explanation and these were drawn, in the majority of cases, very well. A common feature, however, was for candidates to spend far too much time explaining the determination of interest rates using liquidity preference and/or loanable funds theory rather than focusing on the effects of interest rate changes. Some candidates tended to confuse savings and investment, arguing that an increase in interest rates would increase investment; there are still some for whom investment means the purchase of stocks and shares and/or other forms of saving.
- (b) In the second part of the question, the candidates were required to go beyond their explanation of the link between interest rates and investment in part (a) to a discussion of the link between changes in output and changes in investment. The first part of the quotation was related to the concept of the multiplier and the second part to the accelerator and so candidates were expected to discuss these two concepts and the links between them. There were some very good answers, with candidates showing that they understood these two concepts and the relationship between them and candidates were able to explain how these two concepts operated. There were several weaknesses evident. Some candidates confused the two concepts, for example they gave the explanation for the multiplier but named it the accelerator. Some were able to explain one concept but not the other - in most cases it was the multiplier that was better understood than the accelerator. Lastly, some of the answers attempted to discuss the quotation without any reference at all to either concept.

## Question 7

- (a) In the first part of the question, candidates were expected to explain whether there was a link between the marginal revenue product of labour and the wage rate in an occupation. The majority of candidates demonstrated a sound knowledge and understanding of the MRP concept and were able to use diagrams to good effect. Again, it was pleasing to see that, in the majority of answers, these diagrams were clearly drawn and labelled. However, many candidates limited their explanation to perfect markets only and did not consider the situation in imperfect markets. Those candidates who did explain imperfect competition were able to produce some very good answers, bringing in useful and relevant comment on such elements as the role of trade unions and the existence of a minimum wage.
- (b) In the second part of the question, the candidates were told that the price of a firm's product was above the average total cost and they were then required to discuss whether the firm should stop production if its price fell. Many candidates evidently understood this part of the syllabus very well. They started their answer with a situation of supernormal profits, then explained normal profits and followed this by the short-run loss minimising and shut-down positions when average revenue was unable to cover average variable cost. The majority of candidates were again able to use diagrams expeditiously to aid their discussion. One common mistake, however, was the idea that firms would be able to continue production in a short-run loss minimising equilibrium position without the realisation that those firms would have to close eventually in the long run. Another weakness was that a number of candidates concentrated on the significance of average total costs and did not pay sufficient attention to the importance of average variable costs.