ECONOMICS

Paper 9708/01
Multiple Choice

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

General Comments

The mean mark rose from 16.6 to 18.0, with the standard deviation widening very slightly. Three questions proved to be easier than intended. No question was too difficult to be within the intended range.

Comments on specific questions

Candidates showed thorough understanding of **Questions 3** (price control), **15** (externalities) and **26** (trade performance). The latter involved the manipulation of a rather complicated diagram, suggesting good data handling skills.

Although **Question 8** was done well the most popular alternative choice made the error of inverting the formula.

Diagrams involving consumer surplus continue to present problems. In **Question 12** a significant proportion opted for consumer expenditure (option A) rather than consumer expenditure plus consumer surplus (option B), which is the indicator of how much consumers are willing to pay.

In **Question 14**, although the private benefit was understood, the largest group of candidates identified the charge to cross the bridge as an external cost when it is a private cost to the vehicle user.

The common confusion between external and social benefits arose in **Question 16**, where most candidates identified the increase in external benefits as the increase in social benefits. The social benefit includes the increase in private benefit ($40) and the external benefit ($14), making C the correct option.

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Question 23 had the lowest proportion of correct responses. The participation rate is calculated by referring the number employed plus the number unemployed to the potential workforce. The unemployment rate refers the number unemployed to the workforce (employed plus unemployed). Candidates were not clear on these calculations.

It was surprising that only one third of candidates were able to interpret the consumer price indices in **Question 24.** While they were able to dismiss the statements about purchasing power, they did not calculate the inflation rates correctly. In country Y the rate of inflation between 2006 and 2007 was 7.1% (10 divided by 140 x 100); in country Z it was 10%. The correct response therefore was D, not C. Some candidates may have mistakenly made the contrast to the base year rather than 2006.

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Paper 9708/02

Data Response and Essay (Core)

General comments

In this year's examination the performance on the essay section was significantly better than on the data response. This was because candidates were imprecise in clarifying the concepts in the data response and misinterpreted the intention of its final part. They might avoid the latter problem by giving full consideration to the wording of the question before answering. Only brief answers are required in the data response, but this does not preclude the use of definitions to establish that the concepts are understood and to provide a focus to the answer.

In responding to questions that require discussion candidates should consider any proposition from alternative viewpoints and try to prove rather than to assert arguments and conclusions. Responses that stop at identifying a point or simply copying ideas from the data are unlikely to gain much credit.

In writing essay-style answers candidates must strive to maintain relevance to the precise question set, rather than reverting to the safety of the repetition of their notes. Candidates should seek to be up to date with economic developments. This was more evident in the discussion of regional trade groups than in the analysis of deflation. There were some high-quality answers which combined economic understanding with examination technique but they seemed rather fewer than in some recent years.

Comments on specific questions

Section A

Question 1

The format of the data response was slightly unusual in that it concentrated on a piece of text rather than diagrams or numerical data. Unfortunately in some answers candidates tended to copy the text extensively rather than interpret or apply it. The central subject was the problems for the mining industry of a global shortage of tyres for their earth-moving trucks.

(a) Derived demand is identified in the syllabus as a concept with which candidates should be familiar. Despite this there were very few candidates who were able to define it accurately. Many scored one mark for referring to the link with trucks or mining but definitions tended to be ambiguous and equally fitted other relationships.

(b) The strongest answers clarified 'highly elastic' and explained how the factors identified in the text affected the degree of elasticity. Far too many candidates simply copied varying amounts of the text. A good answer, for example, would link the inability to switch from car tyre production to factor immobility. Weaker answers stopped at stating the particular obstacle that prevented an increase in the quantity supplied. Weak responses also wrote about demand rather than supply.

(c) Most recognised that there had been an increase in demand and correctly shifted the demand curve to the right. The reference to supply being highly inelastic was sometimes overlooked, with the supply curve drawn as a 45 degree line through the origin. A surprisingly large number of candidates interpreted the events as a decrease in supply which contradicted the impact on quantity of the change in demand. The more impressive answers recognised the quite extreme pressure at work in the market. Fewer nowadays make the mistake of transposing the demand and supply curve labels, although it does still happen.

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(d) Some confusion was evident in this part. Productivity was confused with production and profitability, while some wrote about storage rather than shortage. Two marks were common for linking the shortage to less effective working and a fall in productivity. Some candidates did not go beyond asserting there would be an effect, which was not clarified. Some made no specific reference to productivity, while output per unit of input was only introduced in the strongest answers.

(e) Many candidates either did not read the question sufficiently carefully or misinterpreted its intention. The point of the question was **whether** the government should intervene, not which methods it might use. There was a widespread assumption that intervention was necessary. Details were then given of how different methods of intervention work. This did not gain credit. However, marks were awarded for consideration of the shortcomings of the methods, as these amount to a case against intervention. Those who justified intervention or argued against it were often satisfied to base it on a single idea. Governments do not automatically intervene in problems with the operation of the market, and candidates were required to analyse whether this market outcome required government action. The better arguments set the need to guard against unemployment and help growth and exports against the inability to act effectively, the steps already taken by the firms within the market and the desirability of a market solution. Marks for this final section were generally lower than in recent years with very few able to offer a comprehensive argument.

Section B

Question 2

The question looked for the link between the characteristics and functions of money and the effects of a period of deflation in an economy.

(a) Most candidates were familiar with at least some of the characteristics and functions of money. It was not necessary to identify every possible one to gain full marks. Those who confused the two terms while understanding the ideas were not penalised. The better responses went beyond description of the two elements to making a link between them. An example would be the need for money to retain its worth to enable the store of value function to be fulfilled. There were a wide range of possible links and there was no need to explain every possibility.

(b) At the time of the examination there was much comment about the possibility of a widespread recession and deflation. Many candidates were clearly not familiar with these recent developments. It was disappointing that so many believed that deflation would lead to prosperity, rising employment and higher living standards. More relevant answers recognised some benefits within an economy such as greater international competitiveness and potentially desirable redistribution effects, before analysing the problems for profits, employment, confidence and investment. In some answers there was barely a mention of deflation as candidates wrote pre-prepared answers on inflation. There was no need to have a lengthy introduction about inflation before considering deflation, nor to consider policies to combat deflation.

Question 3

This question was marginally the most popular ahead of Q.2. It dealt with public goods as a case of market failure and the use of cost-benefit analysis in economic decision making.

(a) This part was done well. Candidates generally understood the concept and were able to explain how market failure results from the nature of public goods. Weaker candidates defined public goods solely in terms of government provision. There was some confusion between non-excludability and non-rivalry, and some answers confused public and merit goods. The case of the lighthouse occurred frequently as the way to explain free riders. It was not relevant to consider the other possible causes of market failure.

(b) Candidates were familiar with the stages of a cost-benefit analysis and usually dealt, at the same time, with the problems of each stage. Candidates found it easier to criticise the technique than to produce arguments in support of its use. It is still the case that some candidates misuse the terms 'external' and 'social'. A few drifted away from the set question to deal with policies to correct negative externalities.

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Question 4

This was the least popular essay choice. The focus of the question was the link between international trade and opportunity cost and the impact of the global movement towards regional trading groups.

(a) Most candidates opted for a numerical approach. There was, however, the usual muddle between absolute and comparative advantage. When using the numerical approach a consideration of the exchange rate and resulting trade was necessary to establish the pattern of trade rather than simply the pattern of production. Clear definitions of opportunity cost and comparative advantage helped candidates to set off in a relevant direction.

(b) The better answers set the ideas in the context of regional groups rather than producing a standard response on the case for and against free trade. A well-structured approach clarified the nature of different types of regional trade groups before dealing with the benefits and drawbacks of their existence. There were some impressive explanations of trade creation and trade diversion. The basis of any argument should be detailed rather than asserted – so it would be better to avoid the lists that appeared in some answers. A limited number of candidates took the opportunity to consider the operation of the group(s) to which their own country belongs.

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ECONOMICS

Paper 9708/03
Multiple Choice

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

General comments

The mean percentage score on this paper was 50.4% compared with 48.7% on the corresponding paper in 2007.

Questions 2, **15** and **28** proved to be more difficult than expected.

Question 2 was the item that candidates found most difficult. Only 9% of the candidates managed to work out the correct answer, while 73% wrongly opted for **C**. The performance of candidates on past papers would suggest that most candidates are familiar with the definition of Pareto efficiency. Far fewer, it would seem, realise that if a reallocation of resources makes at least one person better off without making anyone else worse off then this constitutes a "Pareto Improvement" (or a more efficient allocation of resources.) In addition, the 45^0 line in the diagram seems only to have distracted many of the candidates.

The poor performance of candidates on **Question 15** confirmed what has been apparent for some time, that candidates have only an imperfect understanding of the basic tenets of Keynesian and monetarist theories.

Only 14% of the candidates answered **Question 28** correctly, with 57% opting wrongly for **A.** If the EU were to impose **tariffs** on garments imported from China then **A** would indeed be the correct response, i.e. the profit margins of Chinese textile producers would be reduced. However, the opposite is true when **quotas** are imposed.

Other questions that candidates found hard were **7, 13** and **22**.

The statistics for **Question 7** indicate that the candidates on this paper were surprisingly unsure about the distinction between diminishing returns and diseconomies of scale.

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In **Question 13** it is likely that many of the candidates who were unsure of the correct answer opted for **D** because it appeared to be different from the other options, and this could explain why the item turned out to be a poor discriminator.

We apologise for the error in **Question 22** that led to two of the distractors, **A** and **C**, being identical. Fortunately, in this case, a careful analysis of the statistics indicates that the mistake almost certainly did not invalidate the question. The item had a facility score which was just above the average for the paper as a whole. Neither of the identical distractors turned out to be positive, and the discrimination score of .37 was well above the design limit of .25.

Finally, it is reassuring to find that teachers do seem to pay some attention to the reports prepared by Examiners! The report on the November 2007 paper pointed out that very few candidates seemed to recognise that if the growth of actual output falls short of the growth of potential output this is likely to result in an increase in unemployment. The .58 facility score on **Question 21** on this year's paper suggests that this relationship is now much better understood.

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ECONOMICS

Paper 9708/04

Data Response and Essay (Supplement)

Question 1

(a) Most candidates were able to score well on this question and were able to explain what was meant by economic growth.

(b) It was expected that candidates would explain a two-way link. The developed countries use the resources of developing countries but also give aid. This link is supposed to help both types of economy. Use of resources brings income to the developing nation while causing production and growth in the developed nation. Aid encourages development and as a result products may be available for developed nations to import. Sadly, many candidates described the characteristics of the two types of country but did not explain the possible link between them as required.

(c) Very few candidates tried to comment on the validity of the figures given, whereas it was hoped that candidates would consider the figures in the chart and debate whether they could lead to the conclusion quoted from the information above the chart.

It was expected that candidates might realise that it could be stated that there was no real proof from the chart to enable the conclusion in the information to be drawn. The reason for this might be that there were no absolute figures in the chart, no definition of poverty and no comparative figures to substantiate the word 'still'. However, it is possible that the statement might be true as the % distribution on the chart is quite uneven. This might have weakened the previous argument and led to the opinion that the evidence is indecisive.

(d) This question asked candidates to consider the evidence given and to discuss whether it is sufficient to support the conclusion in the text. It was hoped that candidates would state that the conclusion is not necessarily correct. Growth in a developed country may have decreased poverty in that country as well as in the developing country. Although there might still be poverty in both types of country, it might have been worse without growth. No real evidence is given for the conclusion in the text. There is only a bald statement about widening differences. The information about $2 a day does give some weight to the argument but Examiners do not know comparative costs of living. Very few candidates used the information to answer this question. Most wrote general answers about the effect of economic growth without any reference to the information.

Question 2

Not many candidates chose this question. However, it was answered well by those who did attempt it. Some candidates were side-tracked into a long discussion about resource allocation and lost the focus on consumer rationality. They proved better able to discuss the role of advertising but did not always make the link to consumer rationality. A good answer first considered whether economic analysis does presume what was stated in the question. It was suggested that the analysis usually does presume consumers are rational. The answer then discussed the role of advertising. Advertising might not mean a decrease in rationality. It might through better information make informed choices more likely. The answer was completed with an overall conclusion confirming or denying support for the argument in the question.

Question 3

(a) Candidates were expected to comment on the derivation of the LRAC, on economies of scale, on the effect on costs and therefore, on the best productive output. This was a question which was answered well.

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(b) There were two stages to answering this question. First, candidates should have considered whether firms wanted to maximise profits and secondly, whether they do so by equating marginal cost and marginal revenue. The first part involved a discussion of alternative theories of the firm. The second involved a discussion of the practicality of using marginal cost and marginal revenue as a tool for maximising profit. There were some good answers to the first stage of the argument. The second stage, however, was often not answered as well or omitted from the discussion.

Question 4

(a) This was a popular question that was answered well. Candidates asserted that governments may be involved in the control of private firms to prevent high profits, to subsidise a necessary but unprofitable service, or to control practices that might be thought to be unsafe or detrimental to the consumer. The answers were structured clearly and the supporting analysis was used to good effect. It was not necessary to concentrate on the Indian postal service; the question asked a general point. The introduction to the question merely set the theory in an actual context.

(b) To answer this question the term 'efficiency' needed to be defined. There then needed to be a discussion of efficiency and whether government involvement necessarily implies that productive or allocative efficiency would be improved. Economic analysis would indicate that there is a chance that allocative efficiency might be likely to be improved but that it is difficult to calculate any change. However, if unprofitable services are provided by the government, it is quite unlikely that productive efficiency will be improved.

The weakness of the answers to this question was that candidates did not always set out the assumptions on which their answer was based. They did not define efficiency and, therefore, did not develop an answer that showed how government intervention would affect efficiency – either productive or allocative. Instead, answers tended to be general statements about the effect of government intervention.

Question 5

Although candidates were clearly well prepared on the analysis relating to this part of the syllabus (the theory of wages), their attempts to answer this specific question were not always successful. There were two elements to the question, both of which needed addressing. In the first part, most were able to argue that the theory of wage determination could be extended from the context of perfect competition to allow for market imperfection, such as that which occurs with monopsony and the presence of trade unions. Better candidates provided clear supporting diagrams and questioned the validity of the first part of the statement in question.

Very few answers attempted to deal with the second part of the question, which asked about the market equilibrium and, therefore, did not develop their answer to discuss the relevance of the theory to a situation of change and uncertainty.

Question 6

(a) Answers to this part were generally good. The question required an understanding of some mainstream macroeconomic theory. A significant number of candidates were able to identify and explain at least four different causes of unemployment. Better candidates developed their explanations with supporting examples of different types of unemployment. Weaker candidates recognised the generic terms for different types of unemployment but were able to give only a brief indication of the meaning of each and were unable to give examples.

(b) This section of the question was less well done than the first section. A large number of candidates focused almost entirely on why full employment might be the main aim of government policy and discussed the types of policies that might be used to achieve full employment. Thus, their answer concentrated on policy (for example, fiscal and monetary policy), and not on government aims. Often only cursory treatment was given to the alternative aims a government might have, and sometimes no alternative aims at all were mentioned.

Those who did present alternative aims nearly always mentioned the need to control inflation and used the Phillips curve unemployment/inflation trade-off. Occasional good answers tried also to establish a relationship between employment, economic growth and possible balance of payments

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problems. The major weakness in these answers was an inability to demonstrate the relative importance of these choices for policy makers.

Question 7

(a) Candidates dealt with this part of the question very effectively. It was apparent that they were well prepared and quite familiar with this part of the syllabus. An understanding of the importance of the rate of interest and the concept of the marginal efficiency of capital was evident. In addition, many answers were able to introduce the accelerator theory and the crucial role of business expectations. Good answers provided further detailed discussion including, for example, government taxation policy, inflation and political stability. Weaker candidates identified many of the above but tended to state points as part of a list rather than produce a detailed explanation.

(b) This section was also answered well. However, while some simply mentioned the link between investment and national income, the majority were able to comment upon the role and importance of the multiplier. Good answers analysed potential weaknesses regarding the multiplier and also recognised and discussed other elements of aggregate demand, including the importance of consumption and government expenditure. These responses thus made a good attempt to discuss the extent to which national income is determined by private investment.

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