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FOREWORD

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

ECONOMICS

GCE Advanced Level and GCE Advanced Subsidiary Level

Paper 9708/01
Multiple Choice (Core)

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

General comments

The mean mark rose from 13.7 in 2002 to 18.1. One question (**Question 19**) proved too difficult while five questions (**Questions 1, 15, 16, 17 and 23**) proved to be too easy with an outcome above the 80% target limit. Candidates handled verbal, numerical and diagram questions equally well.

Comments on specific questions

While it is not unexpected that candidates perform well on applications of opportunity cost (**Question 1**), it is encouraging that they can now cope well with newer topics. Cost benefit analysis (**Question 15**), public goods (**Question 16**), merit goods (**Question 17**) and labour productivity (**Question 23**) presented no problems in their relatively straightforward format. The essence of each of the questions was knowledge or definition and candidates can, in future, expect to meet questions in these areas which test higher skills.

In **Question 3** more candidates opted for option **D** rather than the correct response **B**. A small market would restrict the ability to implement division of labour, since there would be the need to sell the increased output. Division of labour can be applied to workers with different levels of productivity and should result in raising productivity. Low productivity is a justification for the introduction of division of labour rather than an obstacle to it.

In **Question 13** some of the stronger candidates opted for **D**, which highlighted the allocative function of price. The correct option, **C**, involved price acting to ration a product between competing consumers. The two functions are clearly different.

Question 19 provided candidates with the most problems. Only 17% of candidates chose the correct option **B**, with some of the stronger candidates preferring option **A**. In this there was agreement that the customs union would reduce the price of cars because X would no longer face a tariff. The problem was the effect on the cost of production. Given that X bought from V rather than the customs union when the same level of initial tariffs existed, it follows that V must have had lower production costs. It follows that joining the customs union must have meant buying from a higher-cost producer although the final selling price would be less.

Paper 9708/02

Data Response and Essay (Core)

General comments

A wide range of performance was achieved, with relatively few very weak scripts. The standard achieved appears to be rising, with better mastery of the range of skills required. The Paper discriminated well between candidates of different abilities.

- Centres could still help candidates more by greater emphasis on developing data handling and essay writing skills. There are still some candidates who adopt a 'write all you know' policy.
- Some candidates used material relevant to part **(b)** of an essay when answering part **(a)**. Careful reading of both parts of the essay questions and then some planning should avoid this.
- Essays started, crossed through and abandoned also indicated a rush to start writing: a few minutes thought about the purpose of the essay should avoid a late change of selection.
- Some candidates appeared unwilling to make a judgement about economic effects. They should realise that there is not necessarily a 'correct' answer but that it is the thinking process which is important.
- In the data response some candidates tended to describe rather than manipulate data.
- There was also vagueness about 'changes' that did not indicate the direction of change.
- Some terms gave candidates difficulty. There was confusion between value/price/wealth and real/disposable income.
- Some scripts were hard to decipher because they were written in either very pale ink or very dark ink which penetrated through the paper.

Despite these shortcomings, some candidates impressed with their thorough, well thought out and constructed answers.

Comments on specific questions

Section A

Question 1

Candidates seemed familiar with the demands of the data response format. There was less evidence of over-long answers and more use of the mark allocation as a guide.

- (a)(i)** Most candidates recognised the downward movement in the current balance. The better answers gave the amount of change and stated that there was a fall in the surplus on current account. Weaker answers suggested that the data referred to two economies.
- (ii)** The key element was the greater increase in the value of imports compared to exports. This could be approached through the individual items or through the overall balance. Again, the more impressive answers manipulated the data to make the point. Some candidates believed that the value of exports had fallen.

- (b) Candidates found it difficult to suggest a theory to fit the circumstances. Many resorted to defining the meaning of 'visible', which gained no credit. It was intended that comparative advantage be applied to the case. Some did this but with little detail. An alternative approach, which was acceptable, was to consider the level of development of the Malaysian economy and link this to the composition of exports.
- (c) Some elements of the position might cause concern, e.g. the rapid import growth or the dependency issue, while others such as the continuing surplus or the benefits of more capital equipment are less worrying. The two sides needed to be recognised for full marks, but many candidates reviewed only one side. Answers that made use of the data rather than considering the position theoretically were more successful. Some candidates were unwilling to make a judgement on the position.
- Some encouraging analysis of the importance of the type of import was given by some candidates. Methods to improve the balance of payments position were not relevant.
- (d) There have been changes in the presentation of balance of payments statistics. Some candidates are not yet up-to-date on this. The Examiners allowed both the latest and earlier terminology. Brief answers, such as 'the capital and financial accounts', were all that were needed. A disappointingly large number overlooked the fact that the current account statistics were given and answered about invisibles and services so were incorrect. Some guessing took place with references to the terms of trade, exchange rate, etc.
- (e) The interpretation of exchange rates can cause difficulties and it was encouraging that so many handled the issue competently. Candidates were not expected to know that the Malaysian ringgit was fixed to the US dollar, and candidates might come to different conclusions depending on how many decimal places they worked to, so both ringgit depreciation and 'unchanged' were acceptable. In both cases numerical support was required to prove the point. A few candidates did the correct calculation only to come to the wrong conclusion. This still gained one mark. Some, however, used the wrong data and illustrated their lack of understanding.
- (f) This was challenging, since it required candidates to understand that one of the targets might improve while the other worsened. The price effect of an appreciation was known and most could argue this through to the possible worsening of the current account. There were some good explanations of the significance of elasticity. The inflation issue was done less well. Many candidates could find no way into the issue and some argued that greater expenditure on imports would increase demand-pull inflation. The performance on the trade aspect usually allowed candidates to gain at least half of the marks. It was interesting to see the interpretation that removing a surplus could be seen as an improvement.

Section B

All questions attracted a fair proportion of candidates and allowed them the opportunity to demonstrate their understanding of central economic concepts. **Question 4** was the most popular and best answered question.

Question 2

- (a) Virtually all answers showed some understanding of the price mechanism and how it works. Most candidates included demand and supply diagrams as part of their response. As it has in the past, the term 'functions' caused some difficulty. Some candidates chose to ignore it and produce a purely descriptive account of the price system. These scored few marks. Better responses examined the role of price in signalling, allocating, rationing and offering an incentive. Those who explained how each function operated scored high marks. Those who turned it into an essay on market systems did not. A few thought wrongly that the question was about the functions of money.
- (b) This section required that the ideas of scarcity and a maximum price be clarified, that the operation of a maximum price be analysed and its outcome be linked back to scarcity. While some were unwilling to commit themselves wholeheartedly, most candidates concluded that scarcity cannot be cured by this policy. Weaknesses included a misinterpretation of the nature of a maximum price, believing that it raised prices, a long digression into accompanying government policies and a wish to find some logic to make the policy succeed. The terms 'scarcity' and 'shortage' were often confused.

Question 3

- (a) Most candidates successfully defined elasticity of supply and offered the formula to measure it. Some then tended to continue into description of the values of elasticity, which was more relevant to the next part. Credit was transferred for this. The major problem arose with the influences. Factors such as the time period, spare capacity and stocks were expected. While some answered well on these, far too many wrote about the influences upon the level of supply itself, some even illustrating shifts in the supply curve. This latter approach gained no credit.
- (b) This proved to be a challenging section for candidates. They were able to deal with the inelasticity of demand and its link to revenue, but made less headway with inelastic supply. The instability of prices in a situation where random shocks occur was hardly picked up. Understanding of inelasticity itself tends to be imprecise: many candidates omitted the word 'proportionate' (or 'percentage') from their definitions. The relevance of elasticity for the distribution of the tax burden was examined by some candidates and gained good credit. Those who wrote about farming problems generally did not score well.

Question 4

- (a) There were some excellent answers to this part. Candidates knew how inflation was measured and the difficulties that this entailed. Some candidates were familiar with the GDP deflator. There was good consideration of the problems of base year selection, the content and weighting of the basket of goods and the impact of change. Some answers were excessively detailed and went into the whole process of constructing a price index. This was unnecessary. A small number did not recognise that the question was about a consumer price index, while others wrote on the causes of inflation.
- (b) Candidates wrote knowledgeably about the harm done by inflation. They were less convincing in suggesting its possible benefits. Few considered it as an alternative to deflation. The Phillips curve was introduced but there was widespread misunderstanding of the cause and effect involved in the relationship. The strongest answers considered the different conditions which influence the impact of inflation. Aggregate demand and aggregate supply analysis was quite common. Those who addressed the various elements, rather than just the harm done, scored well.

Paper 9708/03
Multiple Choice (Extension)

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

General comments

The mean percentage score on this Paper was 52.8%. This compares with 51.2% on the 2002 Paper and 47.9% on the corresponding 40-item Paper in 2001.

Three items, **Questions 3, 11 and 27** were answered correctly by more than 80% of the candidates. None of the items had facility scores below the 25% guessing level.

Comments on specific questions

As in the previous year's Paper, candidates had difficulty in identifying the area on a diagram that measures deadweight loss. On this year's Paper, 45% of candidates incorrectly opted for option **D** in **Question 15** compared with only 34% who chose the correct answer. Clearly, this is a concept to which Teachers will need to give more attention.

Option **D** proved to be a popular distractor, particularly for some of the better candidates, in **Question 16**. This is perhaps hardly surprising, since a reduction in the overall fish stock is *likely* to result in a net loss in social welfare. However, only **C** would *necessarily* result in a net loss in welfare.

Question 18 illustrates yet again that candidates have difficulty in distinguishing between levels of production and *increases in* production. Candidates have encountered similar problems in the past, e.g. in distinguishing between the price level and inflation, and it is clear that this whole area is one that deserves more attention.

Question 20 reaffirmed what was apparent from last year's Paper that most candidates are very unclear about the basic differences between Keynesian and monetarist views of the workings of the macroeconomy.

One could argue with some justification that the wording of the key in **Question 21** was not entirely satisfactory. According to the accelerator theory, if output is 'rising at an increasing rate', then net investment would be increasing (rather than just 'positive'). While this may possibly have misled some candidates, the distractors in **Question 21**, especially the most popular distractor, **D**, are clearly incorrect.

Question 27 proved to be too easy, and in retrospect one would have to concede that the economics needed to answer this question is quite minimal.

<p>Paper 9708/04</p>

<p>Data Response and Essay (Extension)</p>

General comments

Some candidates for this Paper had meticulously prepared for examination and this was borne out by the consistently high quality of their responses. Many demonstrated a clear grasp of fundamental economic principles and possessed the skills to communicate them in an effective manner. Weaker answers were characterised by poor expression and a predisposition towards irrelevant or highly generalised responses.

Comments on specific questions**Question 1**

- (a)(i) This question required a standard definition but, surprisingly, was often dealt with less than satisfactorily. Many recognised that it was necessary to refer to costs but far too many failed to refer to average or unit costs. Others simply stated examples of the types of economies of scale.
- (ii) Again, what should have been a relatively easy question often failed to be answered in a manner that allowed the full marks to be given. Candidates often gave only one example.
- (iii) Candidates were able on this question to make effective use of the associated text and successfully extracted the appropriate references.

- (b) Most candidates were able to state that the merged bank would have a monopolistic position, which might result in the exploitation of the customers, particularly those on lower incomes.
- (c)(i) A significant number of candidates gained only one mark because they referred to the number of banks and did not refer to their size.
- (ii) There were many good answers that explained price fixing, price rigidity, brand loyalty, and product differentiation.
- (d) Candidates needed first to identify the evidence which consists of statements on the number of banks in other countries and the size of those countries. Size was sometimes stated in terms of population and GDP, sometimes in terms of geographical area. There was also a statement about the number of customers of other banks.

Candidates could then have discussed the validity of using the number of banks with reference to population and/or geographical area. GDP and/or population might be thought a stronger measure of comparison than geographical area but this might be questioned. Countries with low GDP and high population may still need banking services. Nothing was said about the distribution of the population. A comparison by geographical area was not useful. The issue is the number of banking companies, not the number of local branches. The latter was never mentioned. Some candidates commented on the validity of using the number of customers as a measure.

Better answers stated that the advantages were that there will be economies of scale, and a better ability to compete with foreign competition. However, nothing is stated in the article about the performance of the other larger banks to which reference is made and there is no substantiation of the idea of economies of scale. The underlying presumption was that the banking system is a strong part of the economy, but this is not elaborated. The better candidates used all this information to make an overall judgement.

Question 2

- (a) In the first part of the question, candidates were required to explain the sources of market failure. There were some very good answers and candidates generally demonstrated a sound knowledge and understanding of both the meaning of market failure and the possible sources of it. These included merit and demerit goods, public goods, positive and negative externalities, monopoly and other types of imperfect competition, and the uneven distribution of income and wealth. Many candidates included appropriate diagrams to aid their explanations, especially in relation to externalities and imperfect competition. Some candidates, however, did not focus on the question asked and wrote instead about the characteristics of a market economy, with only a brief paragraph at the end about market failure. Others wrote briefly about market failure and then commented on the advantages of the planned or command economy. Candidates need to concentrate on the particular question asked and not offer a well-prepared answer to a different question.
- (b) Answers to the second part of the question varied considerably. There were some good answers that recognised that museums might be considered as a good example of a merit good that, like education, could encourage an interest in a country's cultural heritage but which might be under-consumed if it was provided in the private sector with a price charged that was sufficiently high to enable a profit to be made. Other candidates suggested that there might be advantages in having a museum operate in the private sector, such as increased efficiency, but that there needed to be a strict form of regulatory control by the government to ensure that as many as possible were able to benefit from visiting the museums. To achieve this, some stated that a private sector business could be assisted by state subsidies which would enable the business to keep down prices and thus assist accessibility. There were those answers, however, which failed to focus on museums and simply wrote extensively about the arguments for and against privatisation with very little reference to museums.

Question 3

The purpose of the question was to invite candidates to demonstrate an understanding of the economic theory of wages and then to apply this knowledge to the particular examples of an agricultural labourer and a hotel manager. Some of the answers were extremely good and included discussion of the economic theory, mentioning demand and supply, the significance of MRP, the effect of different elasticities of supply, the possible influence of trade unions and the role of governments, for example through the establishment of a minimum wage. There was also useful discussion on how wages can be determined in different market conditions, which allowed a contrast between perfect and imperfect competition. The majority of candidates included appropriate diagrams to aid their explanations. The main problem with some of the answers to this question, however, was that they wrote about the theory in general but did not apply it to the particular examples of an agricultural labourer and a hotel manager. It would appear that some candidates had simply memorised an answer to a very broad question on wages. Candidates must be able to demonstrate that they can apply their knowledge and understanding to particular examples and situations. Another failing was that although some answers did make comments on the two occupations, they did so in a very vague and superficial way, without relating these comments to the underlying economic theory.

Question 4

- (a) The first part of the question required candidates to explain what a company might do if it wished to try to increase its level of profits. Good answers to this part of the question recognised that there were really two elements on which to focus: the increasing of revenue and the reduction of costs. With regard to the first part, candidates discussed a range of factors which might increase revenue, such as an advertising campaign, the possible impact of invention and innovation and the diversification into new markets. There were some useful diagrams included here, such as a shift of the demand curve to the right as a result of a successful advertising campaign. Good answers also discussed the importance of price elasticity of demand and distinguished between the need to reduce price if demand was elastic or increase price if demand was inelastic. One common error, however, was a confusion between the effect on revenue and the effect on profit. In the second part, good answers discussed various examples of economies of scale which would be likely to bring about a reduction in costs. The main problem, however, was that candidates believed that the question was about profit maximisation rather than an increase in profits and so spent far too long explaining profit maximisation in different market conditions. They also wrote very lengthy answers on distinguishing between normal, supernormal and subnormal profits.
- (b) The second part of the question was, on the whole, answered less successfully than the first. There were some good answers and it was clear that many candidates understood that a company might have alternative objectives apart from profit maximisation. They explained that these included the need to try and increase market share through sales revenue maximisation, the maximisation of the volume of sales, satisficing profits to accommodate a range of stakeholders, various behavioural and managerial theories and a variety of pricing strategies. It was clear that many candidates, however, did not understand that there were different possible company objectives and answers were rather limited and superficial. There was also a further problem with the work of some candidates who wrote about the possible objectives of a sole trader and did not explicitly refer to the objectives of a company.

Question 5

- (a) In this question, candidates were expected to give a sound explanation of indicators with good illustration and understanding with a reasoned comparison. These other indicators were factors such as the use of GDP, the proportion of employment in primary, secondary and tertiary industry, population structures, the distribution of income, the trading position and the provision of infrastructure, health, education and housing.

Most candidates were able to explain several other indicators in some detail but some time was wasted on dealing with the indicators given in the question. A number of candidates ignored the word "indicators" but there were also some good answers that gave detailed and well-explained answers referring to such measures as the Human Development Index.

- (b) There were two aspects to this part. Candidates needed to describe policies for economic development and then to assess how easy it would be to implement such policies. Possible policies included health, education and infrastructure programmes and income re-distribution through government spending, borrowing, taxation, multi-national development and foreign aid.

Answers to this part were not as good as part (a) and few candidates addressed the issues raised in part (a) of the question. Most discussed general macro-economic policies and few addressed how easy it would be to implement such policies.

Question 6

- (a) It was expected that candidates would explain the effect of a change in investment, via the multiplier process, on national income and hence on output and on prices. Candidates needed to give a reasoned and clear explanation with a logical analysis and presentation.

In general this question was answered well, and good use was made of diagrams and tables together with the concepts of injections and withdrawals to explain the effect of an increase in investment by firms on the output and prices in an economy. While most candidates were able to give a correct explanation of the effects on output, they were less sure of the effect on prices.

- (b) Candidates were expected to discuss the ways in which a government might influence private investment to ensure sufficient economic growth. Such a discussion might include the use of fiscal and monetary incentives together with particular subsidies or regulative controls.

The answers to this part were often too descriptive and they did not give a considered discussion of the ways by which a government might influence private investment. Some answers understood the role of interest changes in the process but did not always explain the significance of the marginal efficiency of capital. Only the best answers developed an evaluation of a range of measures involving both fiscal and monetary policy with clear analysis and correct use of diagrams.

Question 7

As this question was not sub-divided, candidates needed to structure an answer in logical stages. First they needed to give a thorough explanation of the two policy aims of full employment and stable prices. Then they needed to give a reasoned account and discussion of how the chosen aim would link to and affect the alternative aim. This could involve a discussion of the possible outcome of government policy with a balance of alternative views and a reasoned conclusion.

A number of candidates wrote correct explanations that showed a good understanding of the policy aims of full employment and stable prices. Better answers were also able to discuss the possible conflict between the two aims.

Too many candidates did not read the question carefully enough, and simply wrote about inflation and/or employment. Often they chose one aim in preference to the other and wrote about that aim in the context of their national economy but did not fully justify why they had chosen that aim and did not discuss the relationship between their chosen aim and the alternative.