ECONOMICS

| Paper 9708/12 |
| Multiple Choice |

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

Key message

Candidate performance in interpreting and applying diagrams scored below the performance on verbal and numerical questions and would benefit from greater practice.

General comments

There were 460 candidates for this first March series paper. The mean score was 14.66. The standard deviation was 5.49. No question proved to be particularly easy with more than 80% correct answers. The highest facility was 73% in **Question 6**. Only **Question 12** proved to be more difficult than the test's intended facility. Two candidates achieved the highest score of 29 marks.

Seven per cent of candidates scored below the 'guessing' level of 8 marks, suggesting a weak grasp of subject content. The average mark on verbal and numerical questions was significantly higher than the average on diagram-related questions.

Comments on specific questions

The selection of an incorrect option by more candidates than opt for the correct key may be indicative of a common error in understanding. This applies to most of the questions identified below.

- In **Question 3** the largest number of candidates chose option B. This concerns a demand property of products when the production possibility relates to potential output or supply. The straight line ppc means a constant opportunity cost as given in option D.

- The significant point in **Question 8** is that the demand curve is a rectangular hyperbola. This means that revenue is constant at all prices. This is indicated in option C. One third of the candidates, who selected B, missed that the curve is exceptional and has a constant price elasticity of 1.

- The lowest facility (23%) occurred with key C in **Question 12**. The intent is to identify an unstable equilibrium from the four diagrams. At a price above the market equilibrium an excess of supply over demand will cause price to return to point E. If demand is greater than supply price will continue to rise rather than return to E as in the correct option, C.

- More than half of the candidates wrongly opted for D in **Question 13**. This is incorrect, as equilibrium is still possible although it may not be determined by price. The correct response is A as the fall in price to zero will increase consumer surplus.

- **Question 14** tests the ability to interpret an unfamiliar diagram. Those who opted for B made the common mistake of confusing absolute numbers with percentage values. Option C is correct as the upward trend leading to 1999 then stabilised.

- **Question 15** was done surprisingly poorly. A simple approach, if this was not known as a fact, would have been to sketch four different demand curves with the same shift in the supply curve. This would give B with the greatest price change as the key. Candidates might usually expect to apply the concepts of progression and regression to taxes rather than income subsidies.

- In **Question 16** the reasoning therefore needed to be adjusted to the different case. This proved to be a challenging question even for some of the higher performing candidates, who wrongly opted for D. A payment to low income earners will narrow the gap between the two income levels so has a progressive effect (option B).

- There was a very even spread of responses between the options in **Question 22**. This can be indicative of guessing. Fundamental disequilibrium indicates a long-run problem that requires exceptional policy measures. Options A and C are not long-run and B involves inaccurate recording of data that needs relatively normal adjustment. D is the key: candidates should also understand that the fact that it involves a surplus does not prevent a problem existing.

- In **Question 23** the aim of the government is to lower the international value of its currency. The largest group picked C. This would have the exactly opposite effect as buying its own currency would raise its value and selling US currency would lower the value of the $ (relatively raising the domestic currency value). The key, B, would work successfully by the opposite process.

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| Paper 9708/22 |
| Data Response and |
| Essay |

General comments

The performance of candidates varied widely. The highest scoring candidates provided answers of a very strong standard. They displayed sound knowledge and understanding that enabled them to develop good analytical frameworks to answer the questions set and to make sound evaluative judgement on the issues raised. Unfortunately, some candidates lacked the required grasp of the economic concepts tested to do well. In addition, some candidates had poor examination technique and, as a result, failed to make best use of their knowledge and understanding.

Key messages

- Knowledge and understanding of the analytical frameworks must be thorough and complete.

- The question instructions should be followed with care. In particular the command words used should be considered to ensure that the answer provided is appropriate for the question set.

- Candidates need to read the data provided in the data response question very carefully to ensure that the narrative is fully understood.

- Data handling skills need to be practised to ensure confidence when handling economic data.

Comments on specific questions

Section A

Question 1

(a)   Most candidates gained credit here. The majority followed the instruction to compare the trend in the price of crude oil between April 2014 and June 2014 with that between June 2014 and September 2014. They recognised that there was an upward trend in the first period and a downward trend in the second period. Unfortunately, some candidates simply described every price movement without focusing on the trend, while others were vague when linking the price changes to the period of time under consideration. Such approaches scored poorly.

(b)   This question was answered well by many candidates, who gained both available marks. The answer required a diagram showing a rightward shift of the supply curve and the resulting decline in the price of solar power. This change in supply was clearly indicated in Extract 1, which referred to the improvement in technology that made the price of solar power fall. Some candidates shifted the supply curve to the left, rather than to the right, while others shifted the demand curve and not the supply curve. To score full marks on this question, it was sufficient to provide a demand and supply diagram showing the average change in the price of a unit of solar power and yet many candidates wasted time in providing a long explanation of the changes drawn from the data. This was not necessary to score the marks available.

(c) (i) The majority of candidates gave the correct formula for cross elasticity of demand, i.e. the percentage change in quantity demanded of good A divided by the percentage change in the price of good B. Some candidates had some inaccuracy in the formula they provided, however. It should be noted that measures of elasticity compare percentage, not absolute changes in price and quantity. Other candidates confused cross elasticity of demand with price elasticity of demand and failed to score as a result.

(ii) Many candidates gave good answers to this question. They recognised that oil and solar power were substitutes and so, with a direct relationship, the coefficient would be positive. This means that a rise in the price of one product would lead to a rise in the demand for the other product. Similarly, a fall in the price of one would lead to a fall in the price of the other. Some candidates went further and explained that if the two products were close substitutes the value of the coefficient would be high. Unfortunately, a few candidates mistakenly thought that the two products were complementary goods and so the coefficient would be negative. They failed to demonstrate the necessary understanding and so were unable to apply the concept. They failed to score as a result.

(d) The majority of candidates tended to focus on the price of petrol, pointing out that with government intervention the price would be fixed at a maximum level below the equilibrium, but without government intervention the price would be free to rise to the market equilibrium. Some pointed out that this would increase inequality in the economy, as those on lower incomes would be less able to afford petrol. Only a few candidates however went on to consider the impact of the absence of government interference on imports into Venezuela. Those that did pointed out that with government intervention, import controls would keep price higher, whereas with the price mechanism in operation, the price of imports would fall. This was likely to lead to an improvement in consumer welfare but an increased deficit in the current account of the balance of payments. Unfortunately, many candidates did not focus upon the actual question set and wrote instead on the merits of the price mechanism in general.

(e) There were some good answers to this question. A number of candidates were able to show that they understood what was meant by devaluation and went on to explain the effect this would have on export and import prices. Successful candidates went on to focus on the possible advantages of devaluation, such as the reduction in the current account deficit, and possible disadvantages, such as inflationary pressures. Many made good use of the Marshall-Lerner condition to arrive at the conclusion that the overall effect would depend on the relative elasticity of demand for exports and for imports.

Section B

Question 2

(a) The majority of candidates showed good knowledge and understanding of merit goods and demerit goods. They made good use of appropriate examples, such as education or healthcare in the case of merit goods, or the consumption of alcohol or cigarettes in the case of demerit goods. Some candidates however, were confused about the exact nature of merit and demerit goods. A large number asserted that merit goods were the same as public goods, whereas they are actually private goods. Many candidates referred to the existence of information failure, but they did not always link this clearly enough to the prices charged for merit and demerit goods.

(b) A number of candidates provided good analysis to explain how subsidies will reduce the price of merit goods, and how indirect taxes will increase the price of demerit goods. Few candidates, however, went on to explain that these price changes resulting from government intervention were not the 'correct' prices. The correct prices would be brought about through an increase in the demand for merit goods and a reduction in the demand for demerit goods as information improved and consumers became aware of the true worth of both types of good. This would lead an increase in the price of merit goods and a decrease in the price of demerit goods as a result of the changes in demand by consumers who were better informed.

Question 3

(a) Those who attempted this question were usually able to give an accurate formula for price elasticity of supply. In addition, many went on to provide a good explanation of what was meant by supply being relatively price inelastic, i.e. a situation where the percentage change in supply was less than the percentage change in price. Most candidates were able to explain two factors that were likely to cause supply to be relatively inelastic. These included a lack of stocks, the nature of the product and the time period involved, and the lack of availability of appropriate factors of production. Unfortunately, a small number of candidates failed to read the question carefully. They confused supply with demand and wrote about inelastic demand rather than inelastic supply.

(b) There were some good answers to this question, with candidates able to analyse possible policies that governments could use to increase the price elasticity of supply. These included expenditure on education and training that would improve the supply of trained labour, measures to increase the mobility of other factors of production and schemes to store stocks. The evaluation of such policies was rather limited however, with relatively few candidates referring to the time it might take for such policies to take effect or to the opportunity cost of implementing such measures.

Question 4

(a) The majority of candidates were able to state that aggregate demand referred to C+I+G+(X–M), but knowledge and understanding of each of these four components of aggregate demand was often quite limited. They often listed the components but failed to provide an outline of these components as instructed. Most candidates, however, were successful in explaining one possible cause of an increase in aggregate demand, such as a reduction in tax rates, and one possible cause of a decrease in aggregate demand, such as a rise in interest rates.

(b) There were a number of good answers to this part of the question, with the majority of candidates able to compare two policies that could be used to try to solve the problem of demand-pull inflation. Many suggested that this could be achieved either by reducing aggregate demand or by increasing aggregate supply. Sound analysis meant that candidates were able to evaluate the likely effectiveness of the policies chosen, showing that they understood the benefits and drawbacks of fiscal, monetary and supply-side policies. Unfortunately, some candidates spent far too much time writing about the causes of demand-pull inflation before they got on to writing about how to solve the problem. This was a waste of their valuable time and often they failed to focus upon the actual requirements of the question.

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

General comments

316 candidates took this paper and the mean mark was 16.4.

The questions for which most candidates selected the correct answer were **2**, **3**, **4**, **16**, **20**, **22**, and **30**. These questions were answered correctly by 65% or more of the candidates. 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 **6**, **19**, and **27**. These questions were answered correctly by fewer than 33% of the candidates.

Comments on specific questions

- **Question 6** was answered correctly by 13% of the candidates, who chose option A, while 43% chose option D. The initial position is given as P and, therefore, the initial budget line must have been MM_1. For the budget line to move to MM_2 there must have been a fall in price of good X. The final quantity of X purchased is shown as being less than the initial quantity purchased, despite the fall in price, so the good must be a Giffen good. For the good to be an inferior good but not a Giffen good (option D) the final position of S would have to show a quantity on the X-axis that lies between the quantity below point P and the quantity below point R.
- **Question 19** was answered correctly by 15% of the candidates who chose option A. 33% chose option B, 38% chose option C and 14% chose option D. The figures relate to changes caused by a train strike. The loss of tax revenue to the train operators would mean that they would not pay as much tax. There would be no need to count the loss of tax revenue again.

- **Question 27** was answered correctly by 32% of the candidates who chose option A. 39% of the candidates chose option B, 14% chose option C and 14% chose option D. Increasing expenditure, option A, is likely to increase demand and put pressure on prices. Candidates need to be careful of the difference between aims that conflict, and those which do not.

The rest of the questions gave results which were well within the levels expected.

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General comments

There were some good answers to this paper and those candidates are to be congratulated on the use of their studies to achieve such marks. They presented well-balanced and clearly structured answers, accurately directed to the question and enhanced by relevant examples and applications where appropriate.

Regrettably, candidates did not always achieve as high a mark as their knowledge could have allowed them because they did not read the question carefully and did not direct their knowledge to the particular phrase and question asked. No further knowledge would have been required to achieve a higher mark in these circumstances; a re-organisation and a better presentation of the material is what was necessary. This omission was particularly evident in **Questions 2**, **3(b)**, **4(b)** and **7**. Comments on these questions are given below. Also, candidates sometimes merely presented material and left the reader to decide what the candidate believed. Examples of this omission occurred in **Questions 1(d)**, **2**, **3(b)** and **4(b)**.

Key messages

- Evaluative and discussion questions always need a 'conclusion' or a statement indicating what the candidate believes – such a statement can be a preface to the answer rather than an addendum but it needs to be made somewhere.

- When using diagrams or examples to support an answer, candidates need to explain the significance of this in terms of the question being asked.

Comments on specific questions

Section A

Question 1

(a)   Most candidates mentioned that youth unemployment was stated as being 13.1% which was almost 3 times adult rate. Some mentioned that young people Not in Employment Education or Training (NEETs) continued to rise as a proportion of total world workforce. Not many candidates used the chart given in Fig.1. to illustrate their answer, and thus gain extra marks.

(b)   Most candidates wrote that there was a lack of investment by companies using their profits because the companies preferred to increase payments to shareholders. Candidates could also have mentioned that advanced economies have failed to get the right balance between employment and other macroeconomic goals, or that there has been falling economic growth in emerging economies such as China, or the effect of European financial crisis.

(c)   Better candidates explained that if long-term unemployment persists it will have adverse effects on economic growth. It could also cause increased poverty and social unrest arising from increasing inequalities in incomes. Some candidates wrote that both developed and emerging economies will be affected and the economies would need to revise macro-economic policies to boost employment and economic growth.

(d)   Candidates could have used the information to illustrate the uneven effects. Emerging economies have the lowest combined unemployment rates compared with developed countries. Some

European countries have high youth unemployment rates – although this was not uniform as there was a decline in youth unemployment in Germany and Turkey. Other points were that growth rates in emerging economies were slowing down, which could have an effect on other trading nations – less demand for commodities and manufactured goods has global effects on trade and aggregate demand. This "weak" recovery was not the case for some groups. For example, companies still made profits and shareholders benefited. The question asked whether candidates agreed with a statement and, therefore, a conclusion to the answer was expected. Many omitted to draw the threads of their answer together.

Section B

Question 2

This question gave a statement which the candidates were asked to consider. Their answer was expected to deal with the initial proposition and comment on its validity. Economic theory explains the idea of a market system and competition. It uses the concept of efficiency to achieve maximum welfare. Better candidates identified and described the necessary conditions for an increase in economic welfare and related that possibility to the market system. They also discussed reasons why the market might fail to achieve an increase in welfare and then came to a conclusion. Many candidates dealt with the market system but gave little development of the link between the market and welfare and did not present a conclusion.

Question 3

(a) This question involved an explanation of the Law of Diminishing Returns and of diseconomies of scale and a conclusion about whether each occurs with decreasing output. There was a surprising number of candidates who found this question challenging. Both concepts are standard economic terms. One, diminishing returns, occurs in the short run and the other, diseconomies of scale, in the long run. Both occur as output increases. Many candidates did not mention the time period; they also confused the increase in total cost with the change in average costs. A significant number stated that both concepts occur as output decreases.

(b) Answers to this section of the question were better than those to part **(a)**. The question was an assertion that required candidates to discuss. Many did just that. They considered the statement and concluded that while it may be true that maximum profit output occurs where marginal cost equals marginal revenue, it is not necessarily true that firms seek to achieve this output. They then debated alternative aims that a firm might have and alternative outputs that these aims would produce. There were answers, however, that described maximum profit output and described alternative aims a firm might have. They did not put the two parts together to form a conclusion to the question as there was not really a discussion.

Question 4

(a) Candidates produced good answers to this question which required an explanation of the theory of wages dealing with both supply and demand factors in perfect competition.

(b) What may apply in perfect competition in part **(a)** is not the case in imperfect competition. Candidates needed to discuss what happens in an imperfectly competitive market and then conclude whether wage determination is still better left to that market system. Wages could be lower than the perfectly competitive situation because of monopolistic elements in the product market or monopsonistic elements in the factor market. Monoposonistic 'exploitation' may possibly be removed by trade union bargaining. However, negotiating a higher wage may lead to unemployment depending on the wage level compared with the original wage and the extent of the 'exploitation' in the fixing of the original wage. Wages could also be changed by government involvement in fixing minimum wages. Many candidates explained the imperfections. Some used diagrams but these were not always accurate or clear. Some, unfortunately, having explained the imperfections did not use their information to answer the question by forming a conclusion.

Question 5

(a) This question produced a wide range of answers. It required an explanation of economic growth in terms of increases in output per head over a time period, and a comment on the causes of growth. Increases in the factor labour might be a cause, but so would other factor increases especially advances in technology – which might actually make the reliance on labour less necessary. Some

answers concentrated on the differences in population growth between developing and developed countries, and/or on the causes of changes in population but did not consider other causes of an increase in economic growth.

(b) Most candidates who attempted this question presented a balanced answer. They considered what benefits economic growth might bring in terms of employment, incomes, standards of living, trade and wealth. They then commented on possible drawbacks in terms of environmental change, resource use and distribution of income.

Question 6

(a) This question produced as many surprising answers as **Question 3(a)**. Many candidates confused saving and investment and wrote at length about the effect of changes in interest rates on the incentive for consumers to save. There was little consideration of the decisions of firms, of a comparison of changes in interest rates against prospective yields of investment, of short-term v long-term considerations or of expectations.

(b) This part of the question was also not well attempted. It was expected that candidates would discuss the link between investment and output/national income via the multiplier and the subsequent effect on further investment via the accelerator. Very few explained either how national income was linked to changes in aggregate demand or to changes in injections.

Question 7

To answer this question candidates could have written about the use of GDP, GDP per capita, HDI, MEW or other indicators but they should have commented on the reason why they chose the indicator(s) they used and its effectiveness. It was expected that candidates would also give reasons why they have chosen the policies they mentioned and how those policies related to the standard of living. While there were some excellent answers to this question, a considerable number of candidates gave a standard answer about the weakness of using GDP as an indicator of the standard of living but did not suggest alternative indicators. Many also omitted the second part of the question and did not deal with policies at all. These answers appeared to be a learned response to a similar question but did not deal with the particular question asked.