

ECONOMICS

Paper 9708/12
Multiple Choice

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

General comments

700 candidates took this examination paper, and the mean mark was 17.47. This mark was lower than the mean AS Level mark of 19.57 for the equivalent paper in March 2020. Overall performance across all candidates varied significantly. However it was clear that candidates generally dealt with macroeconomic topics less effectively. Only 6 out of 15 macroeconomic questions were answered successfully by more than 50% of candidates, while 13 out of 15 microeconomic questions were answered successfully by more than 50% of candidates.

Questions 9, 13, and 15, were answered most successfully. Responses to these questions achieved a correct response rate of at least 81% in each case. All questions covered a range of skills and all related to microeconomic topics. **Questions 17, 18, 26, and 27**, were answered correctly by fewer than 42% of the candidates. Each of these questions was based on a macroeconomic topic.

It is clear from the above that candidates can improve their performance on questions about the macroeconomic topics.

Comments on specific questions

Question 17

36% of candidates answered **Question 17** correctly. This was the least successful overall response rate for any question on this paper. The question required candidates to identify the size of a subsidy from a supply and demand diagram. The correct answer **C** identified the vertical distance between the original supply curve

S1 and the new supply curve S2. 48% of candidates chose option **D** which simply represented the change in price. This is not equivalent to the total value of a subsidy.

Question 18

Question 18 required candidates to recognise that national defence is a public good and that would be the reason why this good would be provided by the government. Only 40% recognised this and proceeded to choose option **B**, because option **B** contained the key elements associated with a public good. 36% of candidates wrongly chose option **D** which incorrectly stated that a private sector firm would charge a high price for its use.

Question 26

Question 26 was answered correctly by 41% of candidates who chose option **C**. This was correct because the table clearly indicated a fall in the general price index which, in turn, would automatically produce an increase in the purchasing power of money. A significant number of candidates chose option **A** (38%). This option was incorrect because it was not possible to identify a change in the **rate** of inflation from the information provided in the table.

Question 27

39% of candidates correctly identified option **D** for **Question 27**. This question required an ability to interpret graphically representations of inflation, disinflation and deflation. The only time when the real value of money would rise over time, is when the inflation rate is negative over time, i.e. in a deflationary time period. This was consistent with graph **D**. 26% of responses chose option **A** where inflation was increasing most rapidly. The key to a successful response related to an ability to recognise that there is an inverse relationship between the rate of inflation and the real value of money over time.

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Paper 9708/22
Data Response and Essay

This report is not currently available. It will be accessible as soon as possible.

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Paper 9708/32
Multiple Choice

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

General comments

863 candidates took this paper, and the mean mark was 17.8 which was lower than the mean last year of 19.9.

The questions for which most candidates selected the correct answer were **5, 14, 21** and **26**. These questions were answered correctly by 75% 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 **4, 6, 8, 17** and **28**. These questions were answered correctly by fewer than 50% of the candidates.

Comments on specific questions

Question 4

Question 4 was answered correctly by 48% of the candidates who chose option **D**. 2% chose option **A**, 3% chose option **B** and 47% chose option **C**. Candidates who chose option **C** did not take account of the fact that the consumer could also have bought the combination shown at H. This would have been possible with the income that was available.

Question 6

Question 6 was answered correctly by 27% of the candidates who chose option **A**. 40% chose option **B**, 12% chose option **C** and 21% chose option **D**. Average total cost is calculated by dividing the total cost by the output. Graphically this is shown by the smallest angle at the origin created by a line from the origin to the total cost curve. On the diagram this is the line to the total cost curve at output Q_3 .

The point where the total cost curve cuts the vertical axis represents the level of fixed cost. Graphically this would be drawn as a horizontal line. The difference between that line and the total cost curve is the variable cost. To represent the minimum point of the average variable cost (option **B**) a similar angle would need to be shown but this time drawn from the point where the total cost curve meets the vertical axis.

Question 8

Question 8 was answered correctly by 26% of the candidates who chose option **C**. 15% chose option **A**, 46% chose option **B** and 13% chose option **D**. Diminishing returns relates to a change in the marginal output or the marginal cost. In a standard cost diagram marginal cost at first falls and then rises. Diminishing returns occur at the point where the marginal cost rises. It rises before it reaches the minimum point of the average variable cost curve (option **B**).

Question 17

Question 17 was answered correctly by 47% of the candidates who chose option **A**. 15% chose option **B**, 24% chose option **C** and 14% chose option **D**. If the cost of labour is a small percentage of total cost, then any change in the cost of labour would not affect the demand in any significant way. This is like saying that when the price of a product that forms a small percentage of a household budget rises, then the demand for that product would not change significantly.

Question 28

Question 28 was answered correctly by 49% of the candidates who chose option **D**. 18% chose option **A**, 6% chose option **B** and 27% chose option **C**. Those who chose option **C** may have confused the direction of the migration. If restrictions on leaving the developing country are removed for skilled labour, then the chance of skilled labour leaving the country will increase and this would not be beneficial for the developing country.

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<p>Paper 9708/42 Data Response and Essays</p>

General comments

Many candidates produced some very good answers to this paper and are to be congratulated. The most common concern was that candidates did not direct their answer to the particular question asked but instead wrote a general answer on the topic. This was especially evident in **Questions 1(b), 1(d), 2, and 4(b)**.

Comments on specific questions

Section A

Question 1

- (a) In economics, a free market is one in which the decisions regarding the distribution of resources are guided by the price mechanism which responds to the forces of demand and supply. There is no government intervention. Most candidates were able to answer this question accurately, but some confused the economic term of a free market with a market where all the goods were given away without a need to pay for them.
- (b) The question required a response that was specifically related to the article where there are comments that refer to imperfect markets. They include price control; price discrimination; exploitation of consumers; concentration of market power and control; growth of very large firms; high profits; inequality of rewards and detrimental effects on local economies. A considerable number of candidates wrote generally about imperfect markets and dealt with the theory of oligopoly and monopoly.
- (c) Most candidates were able to explain what equality means and were able to give two policy measures from the article that could promote equality. The understanding of equity was not as precise. The idea of 'fairness' was not explained. Instead, the idea of an equal distribution was repeated.
- (d) As with **Question 1(b)** some candidates wrote general theory answers about large firms, dwelling, for example, on the advantages of economies of scale. These are not mentioned in the article. The article does give some evidence for both the advantage and disadvantage of large firms. Beneficially, it states that the merits of large firms are that they pay higher wages, are more productive, are better in international markets and add disproportionately to a country's economic growth. The article gives GDP comparisons to illustrate this latter point.

Some critique of the GDP comparisons could have been made. For example, only three countries are cited, and the evidence is not conclusive. Spain, with smaller number of larger companies than Germany has higher GDP rate. Italy, which also has a smaller number of larger companies, does not.

The article also presents points that are not beneficial. For example, firms practice price discrimination (this can lead to the exploitation of consumers); the concentration of power adversely affects local economies; local businesses must work longer hours to compete, and large companies can cause inequalities.

Section B

Question 2.

This type of question requires the candidate to consider the proposition given and to comment upon its validity. Negative externality is cited as cause of market failure. First, it was necessary to consider what is meant by a negative externality and explore its link to efficiency and market failure. In this case market failure would be identified as an allocatively inefficient use of resources. Further analysis of the link between government intervention and possible solutions to this type of market failure was then necessary with a comment as to whether government intervention was the only possible means of overcoming the market failure. There were many excellent answers to this question. The weakness of other answers was mainly that the response was weighted too heavily towards positive externalities and government intervention to deal with positive externalities.

Question 3.

- (a) It was expected that the key characteristics of a firm operating in perfect competition would be identified. Each of the potential short run outcomes mentioned in the question, supernormal profit, loss and normal profit should have been explained. Similarly, the long run position indicating normal profit should have been analysed with an assessment of the link between the market and the firm. The connection between the market price and the output of the firm was expected to be established. This question was chosen by many candidates with resulting commendable responses.
- (b) A good response, it was expected, would explain three types of efficiency: allocative efficiency; productive efficiency and dynamic efficiency. A comparison could then be made between efficiency outcomes associated with both perfect competition and monopoly. Most candidates were able to show that productive and allocative efficiency were achieved by a perfectly competitive firm in the long run and were able to compare this with the potentially less efficient outcomes relating to monopoly. The more developed answers referred to opportunities to benefit from dynamic efficiency as being restricted to monopoly, although it was possible that a monopoly could suffer from X-inefficiency.

Question 4

- (a) The answers to this question were, overall, clear and precise. They defined the concepts of transfer earning and economic rent and established the key difference between the two. This question required the use of diagrams and it is to be noted that, with very few exceptions, the diagrams that were presented were accurate and clearly labelled. It was by using diagrams that most of the answers were able to illustrate the link between transfer earnings, economic rent and how the elasticity of supply could be important in determining the wage rate.
- (b) The answers to this part of the question were not as precise as those for **part (a)**. Candidates could have analysed traditional labour markets where wage rates are determined by the supply of and the demand for labour. It is possible to argue that trade unions can raise wages, without loss of jobs, by increasing training and ultimately increasing marginal revenue productivity. Unions might be able to achieve this also in a bilateral bargaining situation where unions negotiate with a monopsony buyer.

A significant number of answers spent a disproportionate amount of time analysing minimum wage policy by the government rather than attempts by a trade union to increase wages.

Question 5

- (a) The most common weakness in the definitions was that there was no mention of a time period. Production describes the level of output of goods and services in a particular time period while productivity describes the efficiency obtained when producing this level of output. Efficiency would be measured by the unit of output produced per unit of input in a given time period. Candidates were able to comment on why productivity in a developing economy is likely to be lower than in a developed economy, citing, for example, inadequate infrastructure, insufficient capital investment, a focus on primary production, a lack of skills/education or the unavailability of skilled managers.

- (b) It was important that candidates recognised there were two aspects to this question. Some answers addressed only one of them. There were, though, some good answers that suggested that the problems from a rising population in a developing economy could relate to the high dependency ratio based primarily on a high birth rate. The answers discussed the links between population growth, dependency and economic growth. Those who recognised there were two aspects to the question then dealt with the developed economy. In this case, however, they commented on an ageing population with a falling birth rate. Many commented on the long term need to provide a work force in the future to support a growing number of individuals who are no longer able to work.

Question 6

Few candidates answered this question and those that did gave answers that were directed to the question. They, for example, used a circular income flow model to explain the concept of equilibrium and then analysed Keynesian demand side policies to explain how increasing injections based on government spending might achieve a full employment equilibrium. Others commented on a monetarist explanation that identifies equilibrium unemployment which can occur due to frictions in the market and is described as the natural rate of unemployment. Measures in this case concentrated on the supply side and included both direct government intervention and market intervention using taxation and subsidies.

Question 7.

- (a) This question was answered by many candidates. Most gave a clear definition of the term economic growth. They then mentioned each of the other key macroeconomic goals. There were a considerable number of well-reasoned answers that compared the ability to achieve economic growth with the ability to achieve the other aims, suggesting, for example, that economic growth might sometimes be the catalyst for achieving aims such as full employment. Contrary to this, it was suggested that the achievement of economic growth might prevent other goals such as low inflation being achieved. Thus, it was recognised that the goals are linked and achieving/not achieving one goal might have a significant impact on the potential to achieve other goals.
- (b) This section of the question was also well answered. There were clear explanations of the meaning of a persistent balance of payments deficit. Alternative ways of solving a balance of payments deficit were discussed. Expenditure reducing, expenditure switching and direct intervention were assessed in the light of how these policies might have an impact on other macroeconomic aims. For example, an expenditure reducing policy based on raising interest rates, might have a negative effect on investment, economic growth and employment but a positive effect on inflation.