

ECONOMICS

Paper 9708/11
Multiple Choice

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

General comments

Although the overall performance across all candidates and individual questions varied, candidates dealt with macroeconomic items less effectively.

Questions 1, 6, 9, 10, 13, 17 and 23 were answered most successfully. These questions covered the full range of skills and syllabus topics.

Questions 2, 15, 21, 25, 26, and 30 were answered correctly by fewer than 50 per cent of the candidates.

Comments on specific questions

Question 2 was answered correctly by 39 per cent of candidates who chose the key, **C**. This question related to an ability to recognise what constitutes a 'resource' in economics. In this case the answer was 'machinery' and hence option **C** was the correct response. A large number of candidates chose option **A**, which related to 'insufficient consumer goods'

44 per cent of candidates answered **Question 15** correctly. It was expected that the information provided in the stem would lead candidates to recognise that the government had in fact imposed a maximum price in the housing rental market. On this basis demand would exceed supply and option **C** would therefore be the key.

Many candidates (68 per cent) did not answer **Question 21** correctly. The clue was the reference to loss of purchasing power of those on 'fixed incomes'. Redistribution is something that affects income and/or wealth. This should have alerted candidate to option **D** which was the correct response.

Question 25 was the hardest on the paper and only 24 per cent answered this question correctly. Candidates needed to be able to interpret a table to explain how changes in real GDP and real GDP per head might change over time. Both concepts needed to be clearly understood. Many did not appear to understand that if real GDP remained unchanged while the population increased, then real GDP per capita would be bound to fall.

48 per cent of candidates answered **Question 26** correctly. This was primarily due to an inability to distinguish between different items on a country's balance of payments account.

Question 30 required an element of evaluation. 48 per cent candidates answered this question correctly. This was primarily because they recognised that a depreciating currency was more likely to have a combined effect on unemployment and inflation than that of higher import tariffs. Therefore the key was **A**.

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Paper 9708/12
Multiple Choice

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

General comments

Overall performance across individual questions varied significantly. Candidates were particularly successful in relation to microeconomic based questions.

Questions 1, 2, 5, 14, 10, 15, and 16 were answered most successfully. These questions covered the full range of skills but the majority assessed microeconomic syllabus topics.

Questions 3, 13, 19, 22, 23, 26, and 28, were answered correctly by fewer than 55 per cent of the candidates.

Comments on specific questions

Question 3 was answered correctly by 45 per cent of the candidates, who chose the key **A**. A significant number chose option **C** which referred to unemployed labour. It should be noted that unemployed resources will not determine the actual production possibility curve. It is the availability of resources which determine the actual boundary. It was assumed that unemployed resources were still available to be used.

Question 6 was discounted from the test since it did not draw on the AS Level section of the syllabus. We are sorry for the erroneous inclusion of this question and any concern it caused. We can assure you that no candidates were advantaged or disadvantaged as a result.

Question 13 was answered correctly by 50 per cent of candidates. The key was **A**, because the two changes would counteract each other. A decrease in consumer incomes would decrease demand and an increase in the price of a substitute good would increase demand for the existing good.

Slightly more than half of candidates answered **Question 19** correctly. Option **D** was the key. Many chose option **C** but the key distinction related to the impact of a reduction in taxation. This would help to reduce unemployment but unlikely to reduce a balance of payments deficit.

53 per cent of candidates answered **Questions 22** and **26** correctly. **Question 22** was knowledge-based and the key **D** referred to the requirement to select an appropriate exchange rate before international trade takes place. **Question 26** also tested basic knowledge of the balance of payments accounts and those choosing the key **B** clearly demonstrated an ability to distinguish between current account and capital account items.

In **Question 23**, 39 per cent of candidates were able to identify that the money supply – key **D** – has to be assumed constant when drawing an aggregate demand curve because of its impact on nominal GDP.

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Paper 9708/13
Multiple Choice

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

General comments

Overall performance across all candidates varied significantly while candidates generally dealt with macroeconomic topics less effectively.

Questions 7, 15, and 18, were answered most successfully. These questions covered a range of skills and both microeconomic and macroeconomic syllabus topics.

Questions 4, 19, 20, 23, 26, and 27, were answered correctly by fewer than 50 per cent of the candidates. Macroeconomic topics were dealt with less effectively.

Comments on specific questions

Question 4 was answered correctly by 40 per cent of candidates who chose the key, **B**. A significant number of candidates chose option **A**. This suggested a lack of understanding as to what differentiates a microeconomic and a macroeconomic policy. A tax to reduce traffic congestion in a specific city is clearly associated with microeconomic policymaking.

47 per cent of candidates answered **Question 19** correctly. This question required candidates to identify the impact of changing expectations relating to inflation, in particular the impact on lenders and borrowers. Many did not understand that a lower rate of inflation than expected would benefit lenders while harming borrowers.

Question 20 was found the hardest on the paper and was answered correctly by 34 per cent of the candidates. This was essentially a knowledge-based question and candidates were required to demonstrate that they understood the Marshall-Lerner condition necessary to ensure that devaluation would reduce a balance of payments deficit. Many incorrect responses assumed that both the price elasticity of demand for exports and the price elasticity of demand for imports would have to be greater than 1. Whereas the condition simply states that the sum of these should be greater than 1

40 per cent of candidates answered **Question 23** correctly. This question required candidates to interpret a diagrammatic representation of the impact of a quota. Candidates needed to identify both the size of the quota and its subsequent impact on domestic supply. Option **A** was the key.

Question 26 was answered correctly by 38 per cent of the candidates. Option **B** was the key. It clearly stated that the asset was a 'fixed interest' security. This should have alerted candidates to the likelihood that this type of asset would be most likely to lose its value in a period of rapid inflation.

38 per cent of candidates correctly chose the key, **A**, for **Question 27**. The remaining options would either shift the aggregate demand curve to the left (options **B** and **D**), or cause a movement along the aggregate demand curve (option **C**).

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Paper 9708/21
Data Response and Essay

Key messages

- Candidates need to focus on the ‘command’ word used in a question, such as ‘**describe**’, ‘**explain**’ or ‘**discuss**’.
- In the second part of the ‘**discuss**’ questions in **Section B**, a certain number of marks are awarded for ‘**evaluation**’. There is often a clue in the question to guide candidates towards this, such as in **Question 2(b)** which required candidates to discuss what the **most significant** issues of transition that a country would face as it moved from a planned economy to a mixed economy or in **Question 3(b)** which required candidates to discuss whether the advantages of privatising an industry would **always** outweigh the disadvantages or in **Question 4(b)** which required candidates to discuss whether deflation was **more** of a problem in an economy than inflation. This element of the question needs to be addressed.
- Candidates need to draw diagrams correctly and clearly label them. There were, unfortunately, a number of examples of poor labelling and, in some cases, no labelling at all. A diagram was required in **Question 1(b)** in **Section A** and in **Question 2(a)**, **3(a)** and **Question 4(a)** in **Section B**, but there were other questions where diagrams could have been used to support an answer.
- It is important to read questions very carefully to avoid making an error. For example, in **Question 1(b)**, some candidates wrote about methods of protection that were not mentioned in the article, while in **Question 1(c)**, some candidates wrote about the effects of a rise in China’s current account surplus rather than a fall. In **Question 3(b)**, a few candidates wrote about the introduction of a minimum price in a market rather than a maximum price.

General comments

A diagram was explicitly required in one of the questions in **Section A**, **Question 1(b)**, and in all three of the **(a)** questions in **Section B**, but some candidates did not draw one.

It was obvious in some answers that candidates had not looked closely at the ‘command’ or ‘directive’ word being used in the question. It is important that candidates do recognise whether they are being asked to ‘**describe**’, ‘**explain**’ or ‘**discuss**’ something.

It is also important that candidates focus on whether there is any additional guidance provided in a question, such as in **Question 2(b)**, where candidates were required to discuss what the **most significant** issues of transition were that a country would face as it moved from a planned economy to a mixed economy.

Comments on individual questions

Section A: Data Response

Question 1

- (a) Most candidates were able to correctly describe, using Fig. 1.1, how the value of the yuan against the US dollar had depreciated or fallen in value between 2014 and 2017, although some candidates misunderstood what was shown in Figure 1.1 and wrote that there had been an appreciation or rise in value. The majority of candidates wrote that the depreciation was from about 6.0 yuan per US dollar at the beginning of 2014 to about 6.9 yuan per US dollar in 2017, but relatively few calculated that this involved a change in value of 15%, although answers between 14% and 16% were accepted. Some candidates described all of the various fluctuations between 2014 and 2017 without identifying the overall trend of depreciation.

- (b) The majority of candidates were able to explain how one of the methods of protection mentioned in the article could work. The two methods of protection mentioned in the article were tariffs and quotas, but unfortunately some candidates wrote about a method that was not mentioned in the article, such as an embargo. A few candidates wrote about both a tariff and a quota, despite the explicit instruction in the question to explain how **one** of the methods of protection worked. Most candidates included a diagram to support their explanation, although sometimes these were poorly labelled. Sometimes the diagram was inaccurate, such as when a shift of the demand curve was shown rather than a shift of the supply curve. Another common error was to give an AD/AS diagram. A few candidates did not include a diagram in their answer despite the explicit instruction in the question to do so. Some candidates included a diagram to show how one of the methods of protection worked and then wrote about the other method.
- (c) Many candidates were able to explain **two** effects of the fall in China's current account surplus for China's economy, such as a reduction in inflationary pressure and an increase in unemployment. Unfortunately, some candidates explained just one effect, despite the explicit instruction in the question to explain two. Some candidates identified two effects, but did not really explain them in any depth. A few candidates explained two effects of a rise in a current account surplus rather than a fall or they explained how the fall in the current account surplus may have arisen rather than its effects.
- (d) The majority of candidates were able to explain **two** likely reasons why China had opted for a managed float exchange rate system, such as the fact that the government would still have some influence on exchange rate determination and that the extent of the float would be stabilised within certain limits. Unfortunately, some candidates explained just one effect, despite the explicit instruction in the question to explain two. Some candidates identified two effects, but did not really explain them in any depth. A number of candidates simply described the characteristics of a managed float exchange rate system without really explaining why China had opted for such a system.
- (e) Many candidates made quite a reasonable attempt to discuss who would be the winners and who would be the losers from a protectionist 'trade war' between the US and China. For example, workers in infant/sunrise industries would be winners if consumers were forced to buy more products from domestic than foreign producers. Consumers would be losers if they had a more limited range of choice. One mark was reserved for a conclusion or some form of evaluative judgement, but many candidates simply described a range of advantages and disadvantages without coming to a conclusion.

Section B: Essays

Question 2

- (a) In this part of the question, candidates were required to explain, with the help of diagrams, how constant and increasing opportunity costs determined the shape of an economy's production possibility curve. Most candidates drew an appropriate PPC diagram, although a few drew a demand and supply diagram. Most candidates who correctly drew a PPC diagram correctly labelled the axes in terms of two products, such as consumer goods and capital goods, but a few incorrectly labelled the axes P and Q. Most candidates were able to explain that constant opportunity costs would lead to a straight line PPC being drawn, due to the fact that there would be an equal sacrifice of resources, whereas increasing opportunity costs would lead to a curved PPC being drawn, due to the fact that ever increasing amounts of one good would need to be sacrificed to produce more of the other. Unfortunately, a few candidates got these the wrong way round in their explanations. Most candidates included an explanation of what was meant by opportunity costs in their explanations, but a few made no attempt to define the term despite its importance in the question. A few candidates did not include a diagram, despite the explicit instruction in the question for them to do so.

- (b) In the second part of the question, candidates were required to discuss the most significant issues of transition that a country would face as it moved from a planned economy to a mixed economy. Examples of such issues could include greater price instability, higher rates of inflation, a higher level of unemployment and greater industrial unrest. Unfortunately, a number of candidates wrote all they knew about the features and characteristics of planned economies and mixed economies without really focusing on the key element of the question which were the issues of transition as a country moved from one type of economy to another. A number of candidates provided analysis but no, or very little, evaluation and did not offer a logical and reasoned conclusion.

Question 3

- (a) In this part of the question, candidates were required to explain, with the help of a diagram, the disadvantages to consumers of introducing a maximum price in a market for an essential food item. Most diagrams were accurately drawn, with the maximum price drawn below the equilibrium, but a few were inaccurately drawn with the price drawn above the equilibrium. In some cases this was just an error, but a few candidates did write about the introduction of a minimum price in a market rather than a maximum price. Most candidates were able to identify a number of possible disadvantages, such as a situation of excess demand in a market leading to a shortage, the existence of rationing and/or queuing, the establishment of seller preferences and the emergence of a secondary, informal or black market with prices well above the maximum price, but these were not always explained very fully. A few candidates did not include a diagram, despite the explicit instruction in the question for them to do so.
- (b) In the second part of the question, candidates were required to discuss whether the advantages of privatising an industry would always outweigh the disadvantages. Candidates considered a range of possible advantages, including greater efficiency of production, the benefits of greater competition in a market, the encouragement of an enterprise culture and the possibility of better quality products at lower prices for consumers. The possible disadvantages were also considered by most candidates, including the possibility of higher unemployment, the possible absence of competition, such as with a natural monopoly, and the fact that the aim of satisfying shareholders might mean that prices were not reduced. Unfortunately, the evaluation offered by many candidates was rather limited, despite the reference in the question to the issue of whether the advantages of privatising an industry would always outweigh the disadvantages.

Question 4

- (a) In this part of the question, candidates were required to explain, with the help of a diagram(s), how changes in aggregate demand and aggregate supply could cause inflation in an economy. Most candidates were able to demonstrate an understanding of the differences between demand-pull and cost-push inflation, but some of the diagrams were rather confused, either by showing changes in D and S rather than in AD and AS and/or labelling the axes as price and quantity rather than as price level and real national output or real GDP. Unfortunately, a few candidates seemed confused between demand-pull and cost-push inflation and some candidates were confused about the exact meaning of demand-pull inflation, thinking that it referred to only one product or just a few products. A few candidates did not include a diagram, despite the explicit instruction in the question for them to do so.
- (b) In the second part of the question, candidates were required to discuss whether deflation was more of a problem in an economy than inflation. Most candidates were able to consider some of the problems of deflation, such as a fall in economic activity/output and a rise in unemployment, and some of the problems of inflation, such as the redistribution of income, the difficulties for firms making investment planning decisions, the uncompetitiveness of exports and the effect on a country's current account position and the inconvenience of menu costs and shoe leather costs. In the majority of cases, inflation was better understood than deflation. A number of candidates provided analysis but no, or very little, evaluation and did not offer a logical and reasoned conclusion as to which would be likely to be more of a problem in an economy.

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| <p>Paper 9708/22 Data Response and Essay</p> |
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Key messages

- It is essential that all elements of the syllabus are covered in sufficient depth to answer all the questions set.
- In order to score well it is essential that candidates are able to apply their knowledge and understanding as required.
- Careful reading of the question requirements is essential to ensure that the answer provided is relevant and appropriate.
- Analysis must be well directed and sufficiently developed to cover all aspects of a question.
- Evaluative comment should be balanced and sufficiently detailed to lead to a reasoned conclusion.

General comments

There was considerable variation in how much of the required knowledge and understanding for this paper candidates displayed. There were clear weaknesses in the ability of some to apply the concepts in the context of the question set. In addition, many candidates did not make good use of their knowledge and understanding because they apparently did not read the question sufficiently carefully. As a result, many answers contained material that was irrelevant or poorly directed. A shortcoming which persists from previous years was insufficient evaluative comment – many scored poorly on this assessment objective.

Comments on specific questions

Section A: Data Response

Question 1

- (a) (i) Although many candidates were able to use the data in Table 1.1 to perform the necessary calculation it was disappointing that so many candidates treated this question as a test of arithmetic. The question asked *what happened* to Egypt's current account balance between 2014 and 2016. The data showed that Egypt's deficit increased and this simple statement was sufficient for the mark available. A large number did not score because they simply produced an increasingly negative figure without reference to the economic context of the data.
- (ii) This question was done much better by most candidates who were able to demonstrate knowledge and understanding of how the percentage rate of inflation was calculated given the index numbers shown in the Consumer Price Index in Table 1.1. Disappointingly, a number of candidates omitted this question. They clearly lacked the confidence to handle this data that is a key indicator in all economies.
- (b) Disappointingly, a large number of candidates omitted this question and many who did simply wrote out passages of the text that they hoped might be relevant. The canons of taxation are specified in the syllabus as required knowledge but candidates did not appear to know them.
- (c) This question was very well done by many candidates. There was clear understanding that a decline in the exchange rate would make exports more competitive and that this would lead to a rise in net exports which was likely to cause demand-pull inflation. Similarly, many candidates explained that the fall in the exchange rate would make the cost of imported raw materials rise and this could generate cost-push inflation. A number of candidates did not score on this question, however, because although they explained how demand-pull and cost-push inflation could arise,

sometimes in considerable detail, they failed to make any reference to the decline in the value of the Egyptian pound. It is essential that candidates read the question carefully and respond to the question set to ensure that they provide a relevant answer.

- (d) Two broad approaches were acceptable in response to this question and both were seen. Some candidates explained that a fall in unemployment shown in the table would result in a rise in incomes and purchasing power. They went on to explain that this would be likely to lead to a rise in import spending and also a fall in exports as goods formerly exported were diverted to the domestic market where demand was rising. This, they deduced, could lead to a rise in the current account deficit. Others adopted a different approach. They suggested that the fall in unemployment meant that there was an increase in the employed labour force and that more goods would be produced as a result. This, they reasoned, meant that there would be more goods to export and fewer goods would need to be imported. This would lead to a fall in the current account deficit. As stated either approach was acceptable and many candidates gained credit for suggesting that either outcome was possible. Six marks were available here, but some candidates did not develop their answers sufficiently.
- (e) Many candidates found it difficult to respond to the question's requirements. Many chose to write extensively around the way in which fiscal and monetary policies can be used to cure inflation without any reference to the way in which the Egyptian government was using these policies. In a data response question candidates are expected to consider the material given. They should not produce responses based upon pre-prepared answers to generic questions on the topic of inflation. Other candidates confused tools of fiscal and monetary policy. The better answers carefully examined the data to explain how the Egyptian government's fiscal policy attempted to cure inflation through a reduction in the budget deficit. Also, that monetary policy through an increase in the rate of interest by three percentage points was designed to cure the inflation problem through an increase in the cost of loans. They then went on to evaluate the policies and arrive at a conclusion over whether these policies are likely to succeed.

Section B: Essays

Question 2

- (a) This was a popular essay question and many candidates were able to demonstrate their understanding of the concept of income elasticity of demand and apply it to distinguish inferior goods from necessary goods. Some common confusions were apparent, however, such as between inferior and normal goods. Some also incorrectly stated that inferior goods display inelastic income elasticity rather than a negative coefficient. In addition, a disappointing number of candidates were unable to provide an accurate explanation of necessary goods. Nevertheless, many high-scoring answers were provided here.
- (b) As in previous years, many candidates wasted time explaining at considerable length the distinction between elastic and inelastic, perfectly elastic and perfectly inelastic goods and goods with unitary elasticity. Often, these were supported with formulae, diagrams and so on. However, this question was concerned with attempts to change the elasticity; many gave insufficient consideration to this. In order to do well it was necessary to understand the factors that influence the price elasticity of demand for a product, and then explain how these factors could be manipulated by businesses to change their PED. The most popular factor chosen by candidates was the number of substitutes available and some good answers were provided that examined the extent to which this could be changed by businesses. As stated, however, many answers to this question were poorly directed.

Question 3

- (a) Answers to this question were generally quite disappointing. Few were able to distinguish clearly between regressive taxes and progressive taxes. A common error was to state that in the case of progressive taxes high income earners would pay more tax than low income earners. This is of course a true comment, but it is not sufficient. The distinction between regressive and progressive taxes is that in the case of regressive taxes the percentage of income paid as tax is higher for lower income earners and lower for higher income earners. Higher income earners are still likely to pay more in absolute terms under both types of tax regime. Clearly, this lack of understanding hampered candidates' attempts to answer the second part of this question and many candidates here scored few marks.

- (b) This was quite well done with most candidates appreciating the different impact on resource allocation if both merit and demerit goods were subsidised. Some candidates also questioned whether there was any justification in subsidising public goods and some questioned the justification for subsidisation of those private goods that could not be considered as merit goods.

Question 4

- (a) Very few candidates adequately explained what is meant by 'protectionism'. Many provided a simplistic statement that protectionism occurs when governments adopt policies to protect their industries. Often this was placed within the context of import controls, but this is clearly an incomplete explanation in the context of the question. A full explanation required more and needed to consider how export subsidies provided an example of protectionism. Although many candidates scored marks for explaining how subsidies lowered the price of a product few set this in the context of exports. Most simply referred to subsidies that applied to all domestic output.
- (b) This question was generally answered well. Most candidates were able to suggest and explain a range of arguments to justify protectionism, but there was some variation in the extent to which these were examined in terms of whether they could be justified. The higher scoring scripts provided good evaluative comment and arrived at a reasoned conclusion.

ECONOMICS

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| <p>Paper 9708/23 Data Response and Essay</p> |
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General comments

Some candidates produced scripts that displayed the required knowledge and understanding of the economic concepts tested and were able to apply these concepts where necessary. They were also able to develop analysis and make evaluative judgement. A disappointing number of candidates displayed weaknesses in their grasp of economic concepts and exam technique.

Key messages

- Knowledge and understanding was clearly incomplete amongst a disappointing number of candidates. It is essential that all areas of the syllabus are understood to ensure that concepts can be applied, analyses developed and evaluative judgements made.
- Candidates must read the question carefully to ensure that their answers are appropriate and relevant to the question set.
- Analysis must be well directed and sufficiently developed to cover all aspects of a question.
- Evaluative comment should be balanced and sufficiently detailed to lead to a reasoned conclusion.

Comments on specific questions

Section A: Data Response

Question 1

- (a) Most candidates had the required data handling skills and were able to score both marks here.
- (b) This question was also done well by most candidates. There was good use of appropriate supply and demand diagrams to show that there was an increase in the world supply of oil in 2014 and a decrease in 2016 with the resulting impact upon the world price of oil in each year. A number of candidates appeared unprepared to answer this question however and provided diagrams without accurate labels and with inappropriate shifts. Some also made the error of showing diagrams with a shift in the demand curve as the supply curve shifted. It should be noted that, as a result of a supply curve shift there will be a response of demand, but this is represented by a movement along, not a shift in, the demand curve.
- (c) This question was poorly answered by many candidates. They were unable to apply the concept of price elasticity of demand as required. The data indicated that an increase in OPEC's oil production in 2014 resulted in a fall in price and a 45 per cent cut in OPEC's oil revenue. Whenever a fall in price leads to a fall in revenue this must indicate an inelastic demand for the product because the cut in price has resulted in a smaller percentage rise in sales leading to a fall in total revenue. There were few correct answers here.
- (d) Most candidates were able suggest that the data showed that the non-oil sectors in Nigeria were relatively more important than the oil sector. Most gained the two marks available. A number did not fully appreciate the requirements of the question. They gave answers that were not really directed at the question set and they did not score.
- (e) Many of the candidates seemed unaware of how to apply aggregate demand and aggregate supply analysis to assess the impact of OPEC's policies in the context of the Nigerian economy. Only a small number gained a high mark here. These candidates were able to explain the likely shifts in

the curves and the impact upon economic indicators such as the rate of inflation, national output and the number of those employed.

- (f) Some good answers were seen here with some candidates explaining the market power of OPEC and how this might be undermined by factors such as fracking which represented a new source of supply in the US and that US producers had managed to cut costs to remain competitive. Disappointingly, a number of candidates seemed unaware of how to approach the question and made only brief superficial comments that were often of limited relevance to the question. They scored poorly.

Section B: Essays

Question 2

- (a) The important point here was to recognise the importance of information failure in the market for merit and demerit goods. Information failure leads to under-consumption of merit goods and over-consumption of demerit goods. An example of each type of good was required with effective application to illustrate why information failure resulted in under- and over-consumption of these goods. Some candidates had a very clear understanding of the underlying concepts and provided good, high scoring answers. Unfortunately, a number of candidates answered this question with an insufficient grasp of these concepts and gave descriptive and vague answers that scored poorly.
- (b) Similarly, there was a range of answers to this question in terms of quality. Some candidates were able to explain clearly the benefits of subsidising merit goods and placing indirect taxes on demerit goods. They also went on to compare these methods of increasing the consumption of merit goods and decreasing the consumption of demerit goods with other measures that might be more effective. Evaluative comment often suggested that subsidies and indirect taxes should always be imposed, but that they should be supported by other measures such as public education campaigns to make them more effective. These responses answered the question very clearly and in sufficient depth to gain a good mark. Some answers were poor, overly descriptive and superficial with a lack of evaluative comment. As a result, a large number of candidates gained a low mark for this question.

Question 3

- (a) This was a popular question that was answered well by many candidates. They displayed a good understanding of the difference between the two causes of inflation. Many made good use of aggregate demand and aggregate supply analysis to explain the difference clearly and scored well. A disappointing number of candidates were unable to explain the difference and gained low marks for a few points of incidental relevance.
- (b) The range of marks awarded here was also wide. Better answers divided the effects of a high and increasing rate of inflation into two broad categories. These were the internal effects such as a haphazard redistribution of income, menu and shoe leather costs and the effects on savings and productive investment. In addition, good answers explained the external effects such as the impact upon the competitiveness of exports, the current account of the balance of payments and the exchange rate. In addition, it was necessary to consider which problems were likely to be most serious to score marks for evaluation. Those who gained a low mark made only superficial comment that lacked the depth of analysis required.

Question 4

- (a) Those candidates with a good knowledge and understanding of the principle of comparative advantage were able to explain the benefits of free trade often through the use of an appropriate economic model. A small number, however, were clearly confused between comparative and absolute advantage – but this question was generally done well by those candidates equipped with understanding of the required economic concepts to answer the question.
- (b) Most candidates were able to advance some arguments to justify protectionism and they were awarded due credit. Few, however, distinguished between developed and developing economies. As a result, arguments in favour of protectionism were very general. Nevertheless, some good marks were awarded to those who answered this question.

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Paper 9708/31
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **4, 7, 11, 14, 15, 17, 19, 20, 21,** and **29**. These questions 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 **5, 26** and **28**.

Comments on specific questions

Question 5 was answered correctly by 39 per cent of the candidates, who chose the key **A**. 25 per cent chose option **B**, 16 per cent chose option **C** and 20 per cent chose option **D**. The substitution effect on demand for a price fall is always positive whatever the type of good and it is negative for a price rise. Recognising this would eliminate options **B** and **C**. From options **A** and **D** only **A** has the correct income effect related to the price change stated.

Question 26 was answered correctly by 30 per cent of the candidates, who chose the key **C**. 35 per cent chose option **A**, 20 per cent chose option **B** and 14 per cent chose option **D**. The question asked about an economy being taken out of recession by an expansionary fiscal policy. An expansionary fiscal policy might increase the money supply and if demand for money is interest elastic it will have a minimal effect on interest rates and therefore on inflation. If money wages do not respond to potential rises in prices, and wage flexibility is low, then there will also be less pressure on inflation. Lastly, prices are likely to rise by less if any change in aggregate demand is related to a more elastic aggregate supply curve. Thus, option **C** is the correct answer.

Question 28 was answered correctly by 38 per cent of the candidates, who chose the key **B**. 28 per cent chose option **A**, 19 per cent, chose option **C** and 15 per cent chose option **D**. The liquidity ratio of the commercial banks determines the amount of money the banks can lend out. It is the ratio of liquid assets held by a bank on their balance sheet to their overall assets. If this ratio increases there will be a reduction in the amount that the bank would be able to lend (option **B**).

ECONOMICS

Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1, 2, 3, 5, 7, 8, 10, 13, 18, 23, 26** and **27**. These questions covered different parts of the syllabus and were set to test different skills.

There were only two questions that were answered correctly by 45 per cent or fewer of the candidates. These were **Questions 4** and **28**.

Comments on specific questions

Question 4 was answered correctly by 36 per cent of the candidates, who chose the key **A**. 9 per cent chose option **B**, 50 per cent chose option **C** and 5 per cent chose option **D**. Those who chose option **C** were thinking of the point where marginal utility becomes negative. The commencement of negative marginal utility causes the total utility curve to start to fall. This is at five units (option **C**). But before that point marginal utility, while still positive, begins to decline. As it does, so the slope of the total utility curve decreases. The maximum point of marginal utility, therefore, is where the slope of the total utility curve begins to decrease. This is at three units (option **A**).

Question 28 was answered correctly by 34 per cent of the candidates, who chose the key **A**. 41 per cent chose option **B**, 20 per cent chose option **C** and 5 per cent chose option **D**. Both of the changes in the table would shift the LP curve to the right. Option **A** is the only option that allows that. All the other options do not allow a shift for at least one of the changes.

ECONOMICS

Paper 9708/33
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **4, 7, 11, 12, 14, 15, 17, 20, 21, 23, 25, 29** and **30**.

The questions candidates found hardest were **5, 6, 10, 24** and **26**. These questions were answered correctly by fewer than 30 per cent of the candidates.

Comments on specific questions

Question 5 was answered correctly by 28 per cent of the candidates, who chose the key **A**. 13 per cent chose option **B**, 12 per cent chose option **C** and 47 per cent chose option **D**. The substitution effect on demand for a price fall is always positive whatever the type of good and it is negative for a price rise. Recognising this would eliminate options **B** and **C**. From options **A** and **D** only **A** has the correct income effect related to the price change stated.

Question 6 was answered correctly by 15 per cent of the candidates, who chose the key **A**. 47 per cent chose option **B**, 25 per cent chose option **C** and 13 per cent chose option **D**. The budget line shows a change in the price of good Y but the demand for good Y remained the same after the price change. The quantity demanded on the demand diagram would, therefore, be constant. There are two options where this is the case, option **A** and option **D**. Option **D**, however, relates to good X. Option **A** relates to good Y.

Question 10 was answered correctly by 28 per cent of the candidates, who chose the key **B**. 5 per cent chose option **A**, 30 per cent chose option **C** and 37 per cent chose option **D**. In perfect competition in the long run there is not a small number of buyers, there are no abnormal profits, no product differentiation and

no barriers to entry. None of the options relates to perfect competition in the long run. Only one relates to monopolistic competition in the long run and that is option **B**.

Question 24 was answered correctly by 28 per cent of the candidates, who chose the key **C**. 36 per cent chose option **A**, 20 per cent chose option **B** and 13 per cent chose option **D**. 3 per cent did not answer the question. The national income increased by \$200 m. The 'injections' that caused this were \$20 m from investment, \$10 m from exports and \$10 m from government expenditure. The total 'injections' were \$40 m. The increase in national income consequent upon these injections is thus five times the level of the injections (option **C**).

Question 26 was answered correctly by 22 per cent of the candidates, who chose the key **C**. 28 per cent chose option **A**, 15 per cent chose option **B** and 35 per cent chose option **D**. The question asked about an economy being taken out of recession by an expansionary fiscal policy.

An expansionary fiscal policy might increase the money supply and if demand for money is interest elastic it will have a minimal effect on interest rates and therefore on inflation. If money wages do not respond to potential rises in prices, and wage flexibility is low, then there will also be less pressure on inflation. Lastly, prices are likely to rise less if any change in aggregate demand is related to a more elastic aggregate supply curve. Thus, option **C** is the correct answer.

ECONOMICS

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| <p>Paper 9708/41 Data Response and Essays</p> |
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Key message

- Candidates should ensure that their answers are directed to the specific requirements of the question set.
- Thorough reading is necessary to pick out the full breadth of the question.

General comments

There were some very clear answers to the questions on this paper, particularly **Questions 2** and **7**, which were the most popular, and candidates are to be congratulated. For other questions, such as **Question 4**, the answers were not explicitly directed to the question asked but contained only a general account of the relevant analysis. It was pleasing to see that there were fewer answers illustrated with diagrams that were too small to be clearly legible as well as fewer that were not adequately explained in the text. Most of the diagrams used were legible and explained in the text.

Comments on specific questions

Section A: Data Response

Question 1

- (a) Most candidates were able to use the information to illustrate some characteristics of perfect competition. For example, loyalty cards could create barriers in the market by switching demand, or the costs of scheme would not be affordable by smaller firms, (the extract stated that there were high initial costs of \$60 million for one supermarket). It was also stated that cards could cause confusion in information on prices leading to imperfect knowledge.
- (b) It was expected that candidates would comment on the meaning of utility and price elasticity of demand. The cards could create consumer loyalty which would mean that consumers would not change suppliers. This might reduce the value of the price elasticity of demand for their products. The lower the price elasticity the more it is likely that a retailer could increase its prices without losing a large number of customers. It could thus increase revenue. This might increase profits – depending on cost changes.
- (c) Candidates were able to use the extract to give evidence about the use of the cards. They stated that the cards were beneficial because they enabled retailers to find out about consumer wants and target promotions. They also drew attention to the part of the article that said retailers recognised the importance of price and could offer discounts through cards. By contrast candidates mentioned that the article also said that price is not the most significant factor in determining choice; there may be no loyalty if buying is based on habit, or if it has low emotional involvement. The conclusion from the information was that there did seem to be some conflict.
- (d) It was expected that the answers would explain the theory of indifference curves and comment on the idea of maximising satisfaction. The indifference curve assumes that consumers know what combinations give equal satisfaction, and that this is a rational calculation which remains constant over the curve. Thus, rationality assumes that the consumer knows the satisfaction levels and which combination is preferred to another and links that to price.

Section B: Essays

Question 2

- (a) Candidates were usually able to explain the meaning of both externalities and public goods and suggested that a link could be possible as public goods give a wider benefit to society. Candidates were not as clear on the transfer payments and poverty trap. Although many did correctly define the terms and state that for some, who are in receipt of transfer payments, finding work could mean the loss of the payments and the income from work would not compensate for this. This would be the poverty trap. Sadly, a number of candidates confused transfer payments with transfer earnings and contrasted transfer earnings with economic rent.
- (b) This was a question that was chosen by many candidates who gave a clear explanation of the meaning of efficiency and of the analysis which ensures an efficient optimum may be reached. Allocative efficiency ensures that no one can be made better off without someone being worse off. Candidates were able to describe how individual actions are not always best for society as a whole and externalities or market failure occur. It was expected that candidates would then discuss the necessity/desirability of government intervention to achieve efficiency. This could be by taxes, subsidies, regulation, information provision, ownership or persuasion (nudge theory). This section of the question was not as well attempted as the explanation of efficiency and was sometimes omitted altogether.

Question 3

- (a) It was recognised that the owner of the business (principal) is not necessarily taking the decisions about its operation. This is done by managers (the agent). Candidates stated that there might, therefore, be a difference between the aims and objectives of the two. The second part of the question was not as well explained. It is unlikely that the principal-agent issue would occur in perfect competition or in monopolistic competition (firms are too small). It would occur more often in larger firms, usually with shareholders, in imperfect market structures such as oligopoly and monopoly.
- (b) This question was answered competently. It was explained that a contestable market is one with zero entry and exit costs, no barriers to entry and no barriers to exit, such as contractual agreements. The technology used in the industry would be readily available to potential entrants. This makes the market potentially competitive and aims other than profit maximising might exist. Candidates discussed some of these potential alternative aims such as sales maximising, revenue maximising, profit satisficing or limit pricing to deter the entry of new firms.

Question 4

In answering this question, candidates should have considered each part of the statement. The theory of wage determination should have been used to explain whether a rise in wages necessarily decreases profits, causes inflation and would be detrimental to the firm and worker.

In discussing whether the outcome of a rise in wages was detrimental, candidates could have commented on how the outcome may be affected by changes in productivity or changes in the demand for the product. These would have an impact on the firm and its likely profits.

The outcome might also be affected by the existence of trade union bargaining, a minimum wage affecting the supply, or by the existence of monopsonies. These could have an impact on the number of workers. In some of these situations it may have been possible to achieve both a rise in wages with no reduction in employment. Or even, in monopsony, a rise in wages with an increase in employment.

The outcome might increase the firm's costs; this might cause a rise in prices and potentially lead to inflation.

Sadly, many of the answers presented accounts of the theory of wage determination but made little attempt to conclude whether a rise in wages might be detrimental to the firm or the worker because of the increased costs, the decreased profits and the possible result of inflation. It appeared that the answers were not well-directed to the question asked.

Question 5

- (a) This was not a popular question. It was expected that answer would explain that the internal value of money will be determined by inflation and the external value would be determined by the foreign exchange value of the domestic currency. Links between the two values should have been discussed. For example, an increase in inflation might lead to a fall in the exchange rate and therefore a fall in the internal value might be associated with a fall in the external value.
- (b) Policies that attempt to control the internal value of money would include all policies used to control inflation. These might be grouped as monetarist, Keynesian demand-pull and Keynesian cost-push. Different policies would be expected to have a different impact on the external value of money. The candidate's response should have used analysis to establish the links between the policies and their impact, and made some attempt to discuss whether such policies make it difficult to control the external value of money. Few candidates answered this question.

Question 6

As with **Question 5**, this was not a popular question and few candidates answered it. It was hoped that quantitative easing (QE) would be explained and the problems generally associated with an economic recession would be clearly identified. The links between QE and the monetary transmissions mechanism could have been established and these links should be further extended to allow a discussion of the effectiveness of monetary policy on real variables such as income, output and employment. As with all evaluative questions, it was expected that a judgmental comment and a conclusion would be provided to assess the accuracy of the statement.

Question 7

- (a) This and **Question 2** were by far the most popular. Many answers clearly identified what is meant by foreign direct investment (FDI) and demonstrated an awareness of its special importance to developing economies. Links between FDI and multinational corporations were referred to. The answer was correctly focused on the impact of FDIs on developing economies. There were clear accounts of both positive and negative impacts on key areas of a developing economy such as growth, employment, infrastructure, balance of payments, the exploitation of resources and the environment.
- (b) The answers to this part of the question gave clear explanations of the connections between low incomes, low savings, low investment and low growth rates. The responses also referred to the cycle of poverty relating to development and the links between low income, low levels of education and low productivity. Some good accounts of the effectiveness of measures introduced to break these cycles were given.

ECONOMICS

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| <p>Paper 9708/42 Data Response and Essays</p> |
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Key messages

- Several questions contained the command word 'Discuss' or 'Consider'. Both these terms require an argument or debate within the answer and the drawing of a conclusion to access the higher levels in the mark scheme.
- Candidates are reminded that a thorough reading of the question is necessary to pick out the full breadth of the question. This is especially true of the 25-mark essay questions without sub-parts.

General comments

The standard of English shown by candidates was of its usual high standard. Many answers were again of a high standard in response to the questions.

The common faults were as in previous examinations, but they are worth repetition. The use of badly drawn, or inaccurately labelled diagrams, or even more distressing perfectly presented diagrams without any reference to them in the essay re-occurred as did the use of pre-learned answers that did not match the question which had been set.

These comments, however, should not detract from the impression that the standard of response was high.

A number of candidates wrote at great length. In many examples, these responses were poorly directed towards the question set. Candidates who can produce a relevant, concise and well directed answer will always be fully rewarded.

Comments on specific questions:

Question 1

- (a) Most candidates were able to identify two ways in which kiranas compete for customers.
- (b) Candidates read the graph with differing degrees of accuracy and breadth. The more successful gave detailed statistics of the percentages involved in different types of stores and different combinations of goods bought. Some ignored the direction in the question to use Fig. 1.1 and gave an interpretation of the passage in general.
- (c) Candidates split into three main categories. The first identified elements in the text that indicated it was a monopolistic market structure by listing the relevant features of that market structure and went on to explain how equilibrium is reached via the standard marginal cost equals marginal revenue approach accompanied by a diagram(s). Some identified the market structure but did not explain how equilibrium was reached. A third group misidentified the market structure but did explain equilibrium in that market, for which they received credit.

- (d) The best candidates explained how the supermarkets might compete using economies of scale as a theoretical basis for their answer. Others merely saw the supermarkets copying the practices of the kiranas. Only a few responded to the command word 'Discuss' and presented a two sided answer.

Question 2

This was the most popular question with a little over 60 per cent choosing to answer it. The initial focus of the question was on 'market failure' and the best candidates recognised this and wrote about at least two different forms of market failure. Their answers were then explicitly linked to at least two forms of government intervention accompanied by a critique of the chosen forms of government intervention. Some candidates wrote extensively on efficiency and found the time remaining to deal with the core of the question was severely curtailed and were only able to gain a limited amount of marks. Other responses lacked analysis of either the forms of market failure chosen and/or the forms of government intervention. Another point, with regards to this question, is that externalities are the form of market failure and writing about the four alternative forms of externality only counts as one.

Question 3

- (a) This was not a popular question. Of the candidates who did attempt it the majority identified the form of behaviour as 'discriminating monopoly'. Answers varied between the highly analytical and the very descriptive. Some ignored the 'why the company ... this policy' element whilst others ignored 'conditions necessary' to produce only a partial answer.
- (b) Candidates displayed a considerable knowledge and ability to analyse the form of oligopolistic markets. The best candidates took note of the question and interpreted their analysis in terms of the benefit or otherwise to the consumer. Weaker candidates did not address this element of the question. This restricted their ability to gain high marks.

Question 4

- (a) A moderately popular question. Able candidates used either marginal utility theory or indifference curve analysis to explain the origins of the individual and hence the market demand curve. This was a question in which elements were omitted, most significantly any reference to the market demand curve. Other omissions were a fully formed explanation of how the in marginal utility theory a change in price led to a change in quantity consumed. These explanations need to go beyond stating 'and demand will fall'. Reference to how a change in quantity will change the associated marginal utility is required.
- (b) Most candidates who realised that this part of the question dealt solely with a change in income were able to earn a good level of credit. Other candidates approached their response through the income and substitution effects and a price change, which complicated the analysis often to the detriment of the answer.

Question 5

This was the second most popular question. The most successful candidates read the question and thus concentrated their analysis on cyclical and structural unemployment and analysed solutions to these forms of unemployment. They linked the causes and solutions to produce a coherently argued answer. Other candidates wrote about all types of unemployment, which was unnecessary and tended to produce answers which were largely descriptive rather than analytical. Some wrote about solutions without the link to type.

Question 6

- (a) The least popular of the questions. The best responses analysed the link between quantitative easing (QE) and changes in the money supply and interest rates this was linked through the money transmission mechanism to the level of economic activity. Weaker answers simply stated that QE increased the money supply. Some answers concentrated on the inflationary effects of QE despite there being little evidence of that in the countries where QE has been used.

- (b) Good candidates recognised the implication of the two changes on the demand for money and analysed the changes in terms of the shift in the liquidity preference curve and the consequences for interest rates. Other candidates produced much more general answers discussing the inflationary effects of higher wages and the effect on aggregate demand of lower confidence for which some credit was given.

Question 7

- (a) This question was well answered. The best candidates produced responses which analysed the terms both from the production possibility frontier and aggregate demand and supply analysis. They then explained the causes for such changes.
- (b) The question produced a wide range of answers. The best candidates answered the question which was set and commented upon the importance and interconnectedness of the three factors stated in the question before considering the relevance of other factors to long term development. Others ignore the three factors in the stem and considered only other factors. A third group reversed the question and explained how economic development affected the three factors.

ECONOMICS

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| <p>Paper 9708/43 Data Response and Essays</p> |
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Key message

- Candidates should ensure that their answers are directed to the specific requirements of the question set.
- Thorough reading is necessary to pick out the full breadth of the question.

General comments

There were some very clear answers to the questions on this paper, particularly **Questions 2** and **7**, which were the most popular, and candidates are to be congratulated. For other questions, such as **Question 4**, the answers were not explicitly directed to the question asked but contained only a general account of the relevant analysis. It was pleasing to see that there were fewer answers illustrated with diagrams that were too small to be clearly legible as well as fewer that were not adequately explained in the text. Most of the diagrams used were legible and explained in the text.

Comments on specific questions

Section A: Data Response

Question 1

- (a) Most candidates were able to use the information to illustrate some characteristics of perfect competition. For example, loyalty cards could create barriers in the market by switching demand, or the costs of scheme would not be affordable by smaller firms, (the extract stated that there were high initial costs of \$60 million for one supermarket). It was also stated that cards could cause confusion in information on prices leading to imperfect knowledge.
- (b) It was expected that candidates would comment on the meaning of utility and price elasticity of demand. The cards could create consumer loyalty which would mean that consumers would not change suppliers. This might reduce the value of the price elasticity of demand for their products. The lower the price elasticity the more it is likely that a retailer could increase its prices without losing a large number of customers. It could thus increase revenue. This might increase profits – depending on cost changes.
- (c) Candidates were able to use the extract to give evidence about the use of the cards. They stated that the cards were beneficial because they enabled retailers to find out about consumer wants and target promotions. They also drew attention to the part of the article that said retailers recognised the importance of price and could offer discounts through cards. By contrast candidates mentioned that the article also said that price is not the most significant factor in determining choice; there may be no loyalty if buying is based on habit, or if it has low emotional involvement. The conclusion from the information was that there did seem to be some conflict.
- (d) It was expected that the answers would explain the theory of indifference curves and comment on the idea of maximising satisfaction. The indifference curve assumes that consumers know what combinations give equal satisfaction, and that this is a rational calculation which remains constant over the curve. Thus, rationality assumes that the consumer knows the satisfaction levels and which combination is preferred to another and links that to price.

Section B: Essays

Question 2

- (a) Candidates were usually able to explain the meaning of both externalities and public goods and suggested that a link could be possible as public goods give a wider benefit to society. Candidates were not as clear on the transfer payments and poverty trap. Although many did correctly define the terms and state that for some, who are in receipt of transfer payments, finding work could mean the loss of the payments and the income from work would not compensate for this. This would be the poverty trap. Sadly, a number of candidates confused transfer payments with transfer earnings and contrasted transfer earnings with economic rent.
- (b) This was a question that was chosen by many candidates who gave a clear explanation of the meaning of efficiency and of the analysis which ensures an efficient optimum may be reached. Allocative efficiency ensures that no one can be made better off without someone being worse off. Candidates were able to describe how individual actions are not always best for society as a whole and externalities or market failure occur. It was expected that candidates would then discuss the necessity/desirability of government intervention to achieve efficiency. This could be by taxes, subsidies, regulation, information provision, ownership or persuasion (nudge theory). This section of the question was not as well attempted as the explanation of efficiency and was sometimes omitted altogether.

Question 3

- (a) It was recognised that the owner of the business (principal) is not necessarily taking the decisions about its operation. This is done by managers (the agent). Candidates stated that there might, therefore, be a difference between the aims and objectives of the two. The second part of the question was not as well explained. It is unlikely that the principal-agent issue would occur in perfect competition or in monopolistic competition (firms are too small). It would occur more often in larger firms, usually with shareholders, in imperfect market structures such as oligopoly and monopoly.
- (b) This question was answered competently. It was explained that a contestable market is one with zero entry and exit costs, no barriers to entry and no barriers to exit, such as contractual agreements. The technology used in the industry would be readily available to potential entrants. This makes the market potentially competitive and aims other than profit maximising might exist. Candidates discussed some of these potential alternative aims such as sales maximising, revenue maximising, profit satisficing or limit pricing to deter the entry of new firms.

Question 4

In answering this question, candidates should have considered each part of the statement. The theory of wage determination should have been used to explain whether a rise in wages necessarily decreases profits, causes inflation and would be detrimental to the firm and worker.

In discussing whether the outcome of a rise in wages was detrimental, candidates could have commented on how the outcome may be affected by changes in productivity or changes in the demand for the product. These would have an impact on the firm and its likely profits.

The outcome might also be affected by the existence of trade union bargaining, a minimum wage affecting the supply, or by the existence of monopsonies. These could have an impact on the number of workers. In some of these situations it may have been possible to achieve both a rise in wages with no reduction in employment. Or even, in monopsony, a rise in wages with an increase in employment.

The outcome might increase the firm's costs; this might cause a rise in prices and potentially lead to inflation.

Sadly, many of the answers presented accounts of the theory of wage determination but made little attempt to conclude whether a rise in wages might be detrimental to the firm or the worker because of the increased costs, the decreased profits and the possible result of inflation. It appeared that the answers were not well-directed to the question asked.

Question 5

- (a) This was not a popular question. It was expected that answer would explain that the internal value of money will be determined by inflation and the external value would be determined by the foreign exchange value of the domestic currency. Links between the two values should have been discussed. For example, an increase in inflation might lead to a fall in the exchange rate and therefore a fall in the internal value might be associated with a fall in the external value.
- (b) Policies that attempt to control the internal value of money would include all policies used to control inflation. These might be grouped as monetarist, Keynesian demand-pull and Keynesian cost-push. Different policies would be expected to have a different impact on the external value of money. The candidate's response should have used analysis to establish the links between the policies and their impact, and made some attempt to discuss whether such policies make it difficult to control the external value of money. Few candidates answered this question.

Question 6

As with **Question 5**, this was not a popular question and few candidates answered it. It was hoped that quantitative easing (QE) would be explained and the problems generally associated with an economic recession would be clearly identified. The links between QE and the monetary transmissions mechanism could have been established and these links should be further extended to allow a discussion of the effectiveness of monetary policy on real variables such as income, output and employment. As with all evaluative questions, it was expected that a judgmental comment and a conclusion would be provided to assess the accuracy of the statement.

Question 7

- (a) This and **Question 2** were by far the most popular. Many answers clearly identified what is meant by foreign direct investment (FDI) and demonstrated an awareness of its special importance to developing economies. Links between FDI and multinational corporations were referred to. The answer was correctly focused on the impact of FDIs on developing economies. There were clear accounts of both positive and negative impacts on key areas of a developing economy such as growth, employment, infrastructure, balance of payments, the exploitation of resources and the environment.
- (b) The answers to this part of the question gave clear explanations of the connections between low incomes, low savings, low investment and low growth rates. The responses also referred to the cycle of poverty relating to development and the links between low income, low levels of education and low productivity. Some good accounts of the effectiveness of measures introduced to break these cycles were given.