ECONOMICS

Paper 0987/12
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **2**, **3**, **7**, **13**, **14**, **16**, **20**, **29** and **30**. These questions were answered correctly by 80 per cent or more of the candidates. They covered different parts of the syllabus and were set to test different skills.

The questions that proved most challenging on the paper were **8**, **19** and **26** which were answered correctly by fewer than 40 per cent of the candidates.

Comments on specific questions

Question 8

Question 8 was answered correctly by 29 per cent of the candidates who chose option **A**. 4 per cent chose option **B**, 19 per cent chose option **C** and 48 per cent chose option **D**. Those candidates who chose option **D** recognised that the government would obtain revenue from the toll but an increase in revenue was not the reason stated for the building of the new road. The reason was to reduce traffic congestion. Traffic congestion causes externalities and is a source of market failure (Option **A**).

Question 19

Question 19 was answered correctly by 24 per cent of the candidates who chose option **C**. 18 per cent chose option **A**, 29 per cent chose option **B** and 29 per cent chose option **D**. This type of question often causes confusion. The chart shows the economic growth rate. Whenever the growth rate is positive then economic growth is increasing. It may be increasing at a slower rate than the previous year but it is still increasing. There was a reduction in the economic growth rate in year 4 but this was more than compensated for by the increases in the other years all of which were positive. So, this would lead to option **C** being the correct answer.

Question 26

Question 26 was answered correctly by 33 per cent who chose option **C**. 8 per cent chose option **A**, 28 per cent chose option **B** and 31 per cent chose option **D**. Absolute poverty is used to describe a condition where an individual does not have the financial means to obtain commodities to sustain life. Relative poverty refers to the standard of living compared to economic standards of living of others in the same surroundings. Options **A**, **B** and **D** might affect relative poverty, option **C** would affect absolute poverty.

ECONOMICS

Paper 0987/22
Structured Questions

Key messages

There appeared to be an increase in the proportion of candidates answering all four of the optional questions. Candidates' chances of gaining high marks are strengthened by them answering the three required optional questions rather than all four optional questions. This is because it enables them to spend more time considering and writing their answers.

To achieve Level 3 on the optional **(d)** questions, candidates need to examine the question in depth and to base their comments on relevant economic analysis. A number of candidates just stated points or made comments on unlikely outcomes without explaining why they may occur.

General comments

Question 2 was the most popular question. A relatively small proportion of candidates did not attempt all the required questions. The handwriting was generally good and most candidates did identify clearly which questions they were answering.

Most candidates did devote the appropriate time to the different questions, although there were some very brief answers to the **(d)** optional parts.

In relation to the **(c)** and **(d)** parts of the optional questions, the logical development of links would have been useful in many answers. For example, some of the stronger answers to **Question 3(c)** explained how lower government spending in education could reduce the skills of workers which, in turn, could reduce their future earnings.

There was some evidence of candidates needing to read the questions more clearly. For example, some candidates defined inelastic demand in their answers to **Question 4(c)**.

As in previous sessions, some candidates confused productivity with production. A number in their answers to **Question 1(h)** confused a minimum with a maximum price. There was also confusion about a budget deficit and a current account deficit. This was shown in answers to **Question 1(e)**, **Question 1(g)** and **Question 5(b)**. In addition, in their answers to **Question 5(d)**, some candidates confused savings and investment.

Comments on specific questions

Section A

Question 1

There was a spread of performance on this question, but a relatively high number of candidates did well on this compulsory question.

(a) A small proportion of candidates did not attempt this question and some multiplied 6,400 naira by 400 naira. However, most candidates did carry out the right calculation and came up with the right figure.

(b) Not all candidates followed the instruction at the start of **Question 1** to 'Refer to the source material in your answers'. Those who did follow the instruction were able to identify two of the three ways mentioned in the source material.

(c) This was generally well answered. Most candidates seemed aware of the nature of a horizontal merger. These recognised that two commercial banks are in the same sector, tertiary, and provide the same service.

(d) Some candidates made good use of the source material and explained well how the points they had identified from the source material would result in a large US commercial bank charging a high price for its services. There were some particularly good answers based on increased market power and the employment of skilled workers. A small proportion seemed to think that it was sufficient just to use the words of the question. These stated that a bank could charge high prices if it was large.

(e) Most candidates did reasonably well on this question. A number of candidates showed a good awareness of how both direct and indirect tax revenue would be affected by an increase in unemployment. A small proportion of candidates, however, wrote about how exports and imports might be affected. As mentioned above, these confused a government's budget with a current account balance. Careful reading of the source material should have avoided this as it mentions both tax revenue and government spending after reference to the government's budget.

(f) Over time, candidates have got better at answering this type of question. A relatively high proportion of candidates recognised that there was generally an inverse relationship, provided two pieces of supporting evidence, noted there was an exception and provided evidence of the exception. There was some good explanation of the inverse relationship. However, some candidates explained the likely relationship but did not make use of the data provided. A number of others just described the data and did not interpret it.

(g) The good answers to this question explained how a government subsidy would be expected to influence output and price and then related lower price to international competitiveness and net exports. There were some particularly good comments on how the subsidy might enable farmers to invest in better equipment and so raise the quality of their exports. These answers also recognised that a subsidy might create inefficiency and might not result in more exports being sold if incomes abroad fell or there was another relevant reason why, despite the subsidy, demand for exports may not increase. Some candidates, however, because of confusion over the nature of the current account of the balance of payments, wrote about the effect on government spending and tax revenue. A small number of candidates confused the current account of the balance of payments with commercial banks' current accounts.

An example of a good answer was:

Implementation of a subsidy by the Nigerian government to farmers may help to reduce the current account deficit because subsidies reduce costs of production for famers. Since costs are low, farmers can afford tp reduce prices to increase demand. Lower prices make agricultural products more competitive in international markets, hence other countries will demand them more. This increase exports, therefore reducing a current account deficit. Subsidies reduce costs for farmers therefore they can afford to invest in the best machinery such as tractors. This improves quality of yield and make products more competitive for international markets. Giving subsidies will also mean farmers can afford to hire better and more labour, producing at a more efficient level.

However, other countries may retaliate and also provide subsidies as a protectionist measure, therefore prices of imports become cheaper and compete with exports for demand. People will prefer imports if they are of a higher quality. Farmers may also not transfer the fall in costs to reduced prices therefore exports are still expensive.

(h) Some candidates were confused about the nature of a minimum price but there was a relatively high proportion of good answers. These strong answers applied a range of relevant economics to assess whether the US government should impose a minimum price on chocolate. For example, a number recognised that external costs could arise from bad health and that the outcome of the imposition of a minimum price may be influenced by the price elasticity of demand for chocolate.

An example of a good answer:

The US government should impose a minimum price on chocolate. It may raise the price of chocolate, discourage consumption due to high price and reduce negative externality of chocolate consumption as nearly 35 per cent of children are overweight, A minimum price can move social costs closer to social benefits.

However, the demand for chocolate, an addictive product, may be inelastic. Therefore imposition of a minimum price may not impact consumers, It may raise government expenditure and reduce tax revenue which could be used to fund other schemes such as education and healthcare. It may reduce the profits of major chocolate producing firms leading to unemployment.

Section B

Question 2

The vast majority of candidates answered this question. The two question parts that candidates did best on were **Question 2(a)** and **Question 2(b)**.

(a) This was well answered. Most candidates were able to give a precise definition of opportunity cost. Some candidates gave an example of opportunity cost but this was not required.

(b) Most candidates recognised the nature of the economic problem and wrote about limited resources, unlimited wants and scarcity. Not all went on to explain why this situation will always occur. A small proportion of candidates wrote about an economic problem that an economy may be facing such as inflation. Careful reading of the stem should have avoided this problem.

(c) The key to doing well on this question was to recognise that it was asking why the wages of all teachers and not just the wages of specialised teachers may increase. There was some good analysis provided in terms of demand for and supply of teachers and trade union power.

(d) The stronger answers here were those which developed the points they made, using economic concepts and terms. For example, a number of candidates developed the point about teachers being able to concentrate on a subject they are good at teaching, into how this may influence their productivity, promotion chances and wages. There were some good comments on how specialisation may influence teachers' ability to gain another job in a different country or a different region.

An example of a Level 3 answer:

A teacher may benefit from specialisation. Specialisation means skills of teachers may increase as they specialise in one subject. This raises their educational qualifications leading to higher demand from schools. This raises their wages. Moreover, increased specialisation of teachers may raise the job opportunities of teachers as they have higher educational qualifications. Furthermore, highly qualified teachers may have higher chances of promotion by schools as the skills of the teachers may be higher compared to less qualified teachers, Moreover specialisation may enable teachers to emigrate abroad as they have greater job opportunities. This may raise their personal satisfaction and improve their standards of living.

However, a teacher may experience demotivation from teaching the same subject. This may not make them personally satisfied. Moreover, the opportunity cost of specialisation may be high as teachers' teaching capabilities are limited to a specific subject. The teacher cannot teach another subject. This may limit their job opportunities. Moreover reduced demand for a certain subject by schools may lower demand for teachers teaching that subject. This may cause teachers to be structurally unemployed, reducing their income and standard of living. This may, in turn, lead to depression as their mental health condition may worsen. Furthermore, the education level may be low in some countries. Therefore, the demand for highly qualified teachers may be low on that country. Therefore, a teacher may not benefit from specialising.

There might have been rather more on how specialisation could increase living standards but overall it was a strong, lucid answer with depth.

An example of a Level 2 answer:

Specialisation means doing the task you are best at performing. Teachers will benefit from specialisation as it will increase their chances of being employed. Receiving high wages will also be very likely. They can get fringe benefits from the school authority. They will be good at work and will increase their job satisfaction. Increased living standards, less chances of the passion of teaching not being fulfilled.

They may not benefit as lower occupational mobility as only specialise in one subject. May become less satisfied with job as might become bored. Cannot do anything else. May not get job if subjects get banned in a country or if the subject gets outdated and is no longer required.

A teacher will overall benefit from this as specialised workforce is cherished by the school and they can also get high posts in the school and get promotions and earn more money when they get experienced as well.

This is a two-sided answer. There is some limited exploration of the points made.

Question 3

(a) The stronger answers here recognised that full employment may involve a very low percentage of workers being unemployed – some frictional unemployment. A number of candidates just defined unemployment.

(b) The key to answering this question was to recognise that both a progressive income tax system and a proportional income tax system would take a larger amount of tax from the rich than the poor. If that was understood, candidates could then concentrate in their answers on the difference between the two types of tax systems in terms of percentage of income taken in tax from the rich and the poor. The stronger answers did write about how the tax **rate** would rise with income, in the case of a progressive income tax system but would stay the same in terms of a proportional income tax. A small number of candidates confused a progressive and a regressive income tax system. There were also some who wrote about a regressive indirect tax system.

(c) This was well answered. There were some good links provided between, for example, lower welfare payments and ability to purchase basic necessities and between government subsidies and the prices that some poor consumers may have to pay.

(d) There was a mixed performance on this question. While a fall in unemployment may mean that workers have found jobs in low paying industries and occupations, some candidates seemed to think that the fall in unemployment would cause a fall in wages. They wrote about workers having to compete harder to get a job, without recognising that lower unemployment may result in employers competing for scarce labour. There was also some confusion shown by candidates writing that more people employed must mean each can work fewer hours. They did not seem to recognise that more workers being employed may be the result of firms increasing their output. The common confusion that there is only a fixed number of jobs was also shown in some answers, with some candidates writing that if some workers have found jobs, it must be because others have lost their jobs. There were, however, some good answers which used relevant economics to focus specifically on how workers may or may not benefit. These examined, for example, how a fall in unemployment could raise wages by strengthening trade union power while the possible resulting inflation may reduce their purchasing power.

An example of a Level 3 answer:

A fall in unemployment rate may result in more people being employed in firms which will result in higher incomes for them and they could be able to buy more goods and services and satisfy their wants. The rise in income will result in more workers having higher purchasing power. Fall in country's unemployment might be because of higher demand for labour, this would result in a rise in wages. Also, the power of trade unions may rise which will result in labour having more power and they can demand better working conditions and higher wages. Overall, benefits for workers.

However, they might have to work longer hours and have less leisure time which might make a job hectic for them and this might be more important for workers to reduce their working hours.

Moreover, they might be employed in primary sectors and they might have hard working conditions due to manual work so they might not have better working conditions and this would not be improved by a fall in a country's unemployment rate. Also, the fall in the rate of unemployment might be low but there could still be a high number of workers unemployed. More people could have joined the workforce and some may not have found a job. These people may need more skills and more training before they can get another job. Hence, a fall in unemployment rate is good but other factors should also be good to benefit workers overall.

This is a thoughtful answer with depth on both sides.

An example of a Level two answer:

Unemployment rate is the percentage of the people who are unemployed over the labour force.

A fall in unemployment rate means that employment increases, A fall in unemployment might benefit workers as this means the economy is growing. Workers are able to increase incomes and help pay for a living. When employment increases, labour increases. If there is an increase in labour, firms tend to lower the cost of their goods and services as output increases.

However, a fall in a country's unemployment rate might not benefit workers. If there is more employment, this means more people have money to spend. Demand for goods and services increase and therefore firms would tend to increase prices. This is called demand-pull inflation where general prices increase due to higher demand. This also happens when demand exceeds the supply leaving firms with no choice but to increase prices to decrease demand.

There was some limited exploration of both sides. The answer would have benefited from more depth on living standards, consideration of more points and more focus on the effects on workers.

Question 4

Some of the candidates who answered this question struggled with **Question 4(c)**.

(a) A number of answers to this question lacked precision. Such answers often wrote about how a change in price would cause a small change in supply. Inelastic supply is, of course where a **percentage** change in price cause a smaller **percentage** change in supply. A small number of candidates defined inelastic demand.

(b) Those candidates who understand public goods did well on this question. However, a number confused public goods and merit goods and others confused public goods with free goods and basic necessities. Most answers did, however, show an awareness that public goods would not generate profits.

(c) There were some strong answers to this question. These contained good diagrams which were clearly and accurately labelled and which showed the supply curve shifting to the left. They also had good written analysis, recognising that a higher price of wood would increase the cost of producing furniture and would result in a rise in the price of furniture. However, some of the answers concentrated on the market for wood and ignored furniture and a small proportion got the demand and supply curves confused.

(d) The general performance on this question was good. There were some interesting points made particularly in terms of the cost, price and quality of products produced and the effects on working conditions and employment. Some answers were, however, rather narrowly focused and a number made unsupported statements.

An example of a Level 3 answer:

Advances in technology allows firms to be more efficient and workers more productive, as the average costs of production decreases in the long run despite high initial set-up costs. These technological economies of scale enables general low prices, allowing the overall population to have more purchasing power, and goods become more accessible. Piece-rates salaries also increase as workers work faster and with less human errors with the aid of machinery and equipment. Furthermore, there may be more variety and options for consumers as well as higher quality products. Advances in medical equipment improve healthcare, and the life expectancy of a *population, reducing the retirement age and allows for a skilled labour force. Advances in technology may also grant the government more opportunities to invest in better services, public and merit goods e.g. transportation and so can improve the living standards of the population. If invested into research and developed technology, the country develops quicker as its exports become more competitive and foreign direct investment and multinational companies are attracted, creating jobs.*

However, this could put numerous workers, especially ones of the ageing population and unskilled at risk of losing their jobs due to a lack of knowledge on how to utilise the technology, and the employment opportunities may be taken by immigrants. Firms may also switch to capital-intensive production, creating job losses. This may also be stressful on the elderly who may be faced with new products they find difficult to use. For the government to afford these advanced technologies, there would be an opportunity cost incurred as this money could have been spent on education or state pensions etc., and this burden may then be placed on the population in terms of taxation. This may also lead to pollution and resource depletion as land may need to be constructed on for new firms and natural resources used in the production process e.g. aluminium for car bodies.

This is a strong answer, which makes good use of economics to explore the question in depth.

An example of a Level 1 answer:

Advantages in technology benefit a country's population because the processes of production become quicker and more goods and services can be provided. Instead, they do not benefit the population because there would be less jobs for the less specialised population.

This stated an advantage and a disadvantage of advantages in technology for a country's population but did not explain or develop them.

Question 5

This was the least popular question. There were some strong answers to the question but also a number of answers which showed some confusion over a number of the concepts covered by the questions

(a) Most candidates were able to identify two methods of protection, with the two most common examples given being tariffs and quota. A number of candidates gave vague answers. For example, some wrote 'taxes' without making clear what was being taxed.

(b) There was a mixed performance on this question. Some candidates produced good answers linked to, for example improving the current account balance and increasing domestic output. Others did not beyond stating it would reduce the amount spent on imports or confused the government budget balance with the current account balance.

(c) There were some excellent answers to this question with candidates showing a strong understanding of the links between a lower foreign exchange rate and cost-push inflation and demand-pull inflation. Other candidates, however, wrote that it would cause imported inflation without analysing why this may occur and some confused the effects of a lower foreign exchange rate on the prices of exports and the price of imports.

(d) A small proportion of candidates wrote about an increase rather than a decrease in the rate of interest. Of those who did answer the actual question set, most recognised that it would be likely to reduce saving and increase borrowing and spending. The stronger answers went on to examine the possible impact on a country's GDP.

An example of a Level 4 answer:

A decrease in the rate of interest reduces the cost of borrowing as there are lower interest payments. This could be taken advantage of by firms which could borrow more to fund investment expenditure, increasing the investment component of GDP. Entrepreneurs may also be encouraged to borrow to start up new firms, further increasing the investment component. Additionally, consumers may alo take out loans to fund their expenditure due to the cheaper cost of borrowing, increasing the consumer spending component of GDP. Moreover, those with existing variable interest loans will have more money available to spend and increase GDP. Furthermore, *an increase in the rate of interest discourages saving as there is a lower return, When savings are lower, more is available to spend, potentially increasing GDP even further.*

However, decreasing the rate of interest may also not increase GDP. For example, households and firms may borrow due to the cheaper cost of borrowing but spend on imports, increasing import expenditure, and thereby reducing the net exports component of GDP. Moreover, as savings are discouraged due to lower interest rates, there may be less money in banks to borrow. Furthermore, if there is low confidence in the economy (e.g. a recession), people may not act on the fall in interest rates.

However, overall, I believe that a reduction in interest rates will increase a country's GDP will increase a country's GDP as this expansionary monetary policy is likely to increase economic activity.

This is a very strong answer, revealing strong understanding and the ability to apply their knowledge to examine the question.

An example of Level 0 answer:

No, because when rate of interest decrease, business in the country would also decrease which means the GDP would also decrease which means the GDP would not be increased at all.

Unfortunately, there is nothing creditworthy here.