ECONOMICS

Paper 9708/11

Multiple Choice (Core)

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

General comments

The number of candidates sitting the exam fell very marginally to 2006, while the performance improved. The mean score rose from 14.3 to 16.7 and there were significantly more candidates scoring above 25 and significantly fewer scoring below 8. The standard deviation narrowed very slightly. Two items (**Questions 3, 14** and **17**) proved to be particularly 'easy', while two other items (**Questions 7** and **25**) were particularly 'difficult'. Candidates, on average, performed best on questions involving numerical problems and least well on those in a diagram format. The large majority of questions worked well. Several of the issues raised in relation to individual questions are long-standing difficulties with which candidates need to come to terms.

Comments on individual questions

In **Question 2** almost as many candidates opted for option D as for the correct answer B. The latter is right as capital is man-made and can be hired in the same way as labour or land. The third of candidates who selected A in **Question 6** were wrong as costs of production influence the supply curve rather than the demand curve. It is common for candidates to confuse movements along a demand curve with shifts in the position of the curve. This was the basis of **Question 7**. 'A change in quantity demanded' is the terminology for a movement along a demand curve rather than a shift in its position (an increase or decrease in demand). Diagram 3 alone represented this, hence D was correct and A the most popular answer was incorrect. In **Question 10** the role of full petrol storage tanks was misinterpreted. A rise in the price of petrol could be met by the immediate release of these stocks onto the market making supply elastic. A majority of candidates understood the relevance of condition 1 but there was a fairly even split between conditions 2 and 4. Condition 4 would make supply inelastic as workers could not be easily increased due to training requirements. In answering questions on the operation of comparative advantage and illustrating it numerically some candidates are prone to omit the last stage of setting the exchange rate at which the extra

production can be traded. This weakness was evident in **Question 19**. The largest proportion of candidates opted for A, however while this illustrates the possibility of comparative advantage the specified exchange rate is not possible. The opportunity cost ratios of 1:2 and 1:3 do not allow an exchange rate of 1 clothes unit: 1.5 food units. This is possible with option C where the opportunity cost ratios are 1:1 and 1:2. In a period of inflation the purchasing power of money decreases. Almost half of the candidates failed to recognise this in **Question 25** when they opted for B. A lower rate of inflation nevertheless causes an increase in the cost of living, making option B the key. In **Question 30** opinions were evenly split between the 4 options. A fall in UK interest rates would reduce the demand for sterling, while a rise in US interest rates would increase the supply of sterling. This combination occurred with option C, making it the correct response.

The candidates found little difficulty in the questions that dealt with planned and market economies, costs and benefits and public and private goods.

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Paper 9708/12

Multiple Choice (Core)

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

General comments

The number of candidates sitting the exam increased by over 8% to 10 358 and the level of performance improved. The mean score rose from 18.0 to 18.9 and 62 candidates scored full marks. The number of candidates scoring below 8 marks fell significantly. The standard deviation narrowed slightly. Three items (**Questions 2**, **13** and **16**) proved to be particularly 'easy', while one item (**Question 6**) was particularly 'difficult'. Candidates, on average, performed equally well on questions involving verbal and numerical problems but less well on those in a diagram format. The large majority of questions worked well. Several of the issues raised in relation to individual questions are long-standing difficulties with which candidates need to come to terms.

Comments on individual questions

In **Question 1** almost as many candidates opted for option D as for the correct answer B. The latter is right as capital is man-made and can be hired in the same way as labour or land. The quarter of candidates who selected A in **Question 5** were incorrect as costs of production influence the supply curve rather than the demand curve. It is common for candidates to confuse movements along a demand curve with shifts in the position of the curve. This was the basis of **Question 6**. 'A change in quantity demanded' is the terminology for a movement along a demand curve rather than a shift in its position (an increase or decrease in demand). Diagram 3 alone represented this, hence D was correct and both A and B, the more popular selections, were wrong. In **Question 9** the role of full petrol storage tanks was misinterpreted. A rise in the price of petrol could be met by the immediate release of these stocks onto the market, making supply elastic. A majority of candidates understood the relevance of condition 1 but there was a fairly even split between conditions 2 and 4. Condition 4 would make supply inelastic as workers could not be easily increased due to training requirements. In answering questions on the operation of comparative advantage and illustrating it

numerically some candidates are prone to omit the last stage of setting the exchange rate at which products can be traded. This weakness was evident in **Question 18**. A significant proportion of candidates opted for A, however while this illustrates the possibility of comparative advantage the specified exchange rate is not possible. The opportunity cost ratios of 1:2 and 1:3 do not allow an exchange rate of 1 clothes unit: 1.5 food units. This is possible with option C, where the opportunity cost ratios are 1:1 and 1:2. In a period of inflation the purchasing power of money decreases. Almost one third of the candidates failed to recognise this in **Question 24** when they opted for B. A falling rate of inflation will still cause an increase in the cost of living, making option B the key.

The candidates found little difficulty in the questions that dealt with planned and market economies, costs and benefits and public and private goods.

ECONOMICS

Paper 9708/13
Multiple Choice (Core)

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

General comments

The number of candidates sitting the exam decreased from 51 to 43. The mean score fell from 20.7 to 20.1 and the highest mark was 26 gained by 2 candidates. 7 candidates gained more than 26 in the previous year. No candidate scored below 13 marks. Five items (**Questions 1, 3**, **12, 14** and **15**) proved to be particularly 'easy', while one item (**Question 5**) was particularly 'difficult'. The small size of entry contributed to some unusual statistics, particularly in terms of positive distractors where stronger performing candidates were among the relatively small number who selected a particular wrong option. Candidates, on average, performed equally well on questions involving verbal and numerical problems but less well on those in a diagram format. Several of the issues raised in relation to individual questions are long-standing difficulties with which candidates need to come to terms.

Comments on individual questions

It is common for candidates to confuse movements along a demand curve with shifts in the position of the curve. This was the basis of **Question 5**, for which responses were fairly evenly spread. 'A change in quantity demanded' is the terminology for a movement along a demand curve rather than a shift in its position (an increase or decrease in demand). Diagram 3 alone represented this; hence D was correct rather than the most popular B. **Question 12**, admittedly relatively straightforward, was pleasingly answered correctly by all candidates. A high proportion of candidates (40%) opted for D in **Question 13,** overlooking the fact that the position of the demand curve needed to be considered. In answering questions on the operation of comparative advantage and illustrating it numerically some candidates are prone to omit the last stage of setting the exchange rate at which the extra production can be traded. This weakness was evident in **Question 17**. A significant proportion of candidates opted for A, however while this illustrates the possibility of comparative advantage the specified exchange rate is not possible. The opportunity cost ratios

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between clothes and food of 1:2 and 1:3 do not allow an exchange rate of 1 clothes unit: 1.5 food units. This is possible with option C, where the opportunity cost ratios are 1:1 and 1:2. In a period of inflation the purchasing power of money decreases. One third of the candidates failed to recognise this in **Question 23** when they opted for B. A falling rate of inflation will still cause an increase in the cost of living, making option A the key.

The candidates found little difficulty in the questions that dealt with planned and market economies, the nature of the demand curve, costs and benefits, cost benefit analysis and public and private goods.

The questions with positive distractors, where more successful candidates preferred an alternative to the correct answer were: **Question 3** where C was wrongly preferred to A, **Question 11** where B was wrongly preferred to D, **Question 25** where A was wrongly preferred to B, **Question 29** where D was wrongly preferred to C and **Question 30** where C was wrongly preferred to B. These responses may be useful points to discuss with candidates.

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Key messages

In order to do well on this paper candidates need to:

- Produce a balanced exam paper giving equal time and importance to each question.

- In *Section A* have good data interpretation skills along with an ability to apply economic ideas.

- In *Section B* explain key concepts carefully and focus closely on the question.

- Ensure that where there is a "discuss" question they examine two or more sides of an argument.

General comments

This paper was taken by just over 2000 candidates and produced a wide range of responses.

The overall standard was modest with most candidates scoring less than half marks. However, there were very few really poor answers and they were from candidates who should not have been entered for an examination at this level. At the other end of the scale there were some outstanding answers from candidates with an excellent grasp of the subject allied to good exam technique. There were few rubric infringements and only a small minority failed to complete the paper, though many of these were candidates who had produced over-long answers to earlier questions.

In some Centres many candidates produced unbalanced answers. In some Centres candidates were often competent in *Section A* (Data Response) but the *Section B* (Essays) were weak, lacking depth and precision and, consequently, scored low marks. Candidates in these Centres need to be aware of the level of understanding and detail required for a good mark. In other Centres essay writing had been accorded a high priority and many of the responses were over-long. But this meant that the Data Response question received scant attention and, in a number of cases, was left incomplete. Candidates need to be aware that it is very difficult to get a high grade without devoting an appropriate amount of time to each answer.

In *Section A* the better candidates showed an ability to find information from the relevant source and avoided copying sections of the text in the hope that they had included something relevant to the question. These candidates also showed the ability to apply key concepts, such as supply and demand, in their answers.

In *Section B* the more able candidates scored well with appropriate definition of key concepts at the outset, and then remaining closely focused on the question. There was a significant problem of a lack of focus in the essay question with candidates digressing and writing all they knew about a particular idea, rather than applying their knowledge in the way required by the question. All of the parts **(b)** of the essay question began with the word "discuss". This implies that the Examiners are looking for two or more sides of an argument such as the advantages and disadvantages of a particular policy. The better candidates produced answers that were balanced in this way.

Comments on specific questions

Section A - Data response

Question 1

There was a wide range of responses, including a minority of excellent answers scoring 16 or more.

(a)(i)   Most scored 1 mark by identifying that milk prices had fallen. Some did not get the second mark because they did not do a calculation and others missed out because they used the wrong data, referring to Table 1 rather than Figure 1. Only the latter had the figures for August 2008 and 2009.

(ii)   Many candidates scored zero for this question. There was little or no evidence of a link between milk prices and seasons, but few candidates had the confidence to say this, and most tried, in vain, to find a correlation. A small minority saw the lack of correlation, but not all of them backed this up with precise evidence.

(b)(i)   Most candidates scored at least 1 mark, usually for pointing out the difference between the consistent fall in US prices and the rise and fall in the NZ prices but only a minority found a second comparison. Normally if there are 2 marks for a question like this, then candidates will need to give two points of comparison. A significant minority compared the levels of price, rather than the changes, as required by the question.

(ii)   There were few good answers to this question and too many candidates used the paragraph underneath Table 1 in an undiscriminating way, leading to some confusing answers. The question could be interpreted in two ways and candidates could earn equal credit for either explaining the overall fall in prices in both countries or for explaining why US prices were higher than those in NZ. The more astute candidates often used supply and demand analysis and the use of subsidies to earn high marks. There was some misunderstanding of the effects of exchange rates on prices and many candidates seemed to think that NZ was in the EU.

(c)   This was often well-answered and candidates earned full marks more often than in any other part of **Question 1**. However, some candidates need to be aware that explanations should not be over-simplified. For example many identified consumers as gainers from the fall in milk prices, but it was insufficient to say that because the price was lower they could buy more. The answer needed to be developed with points such as "increased purchasing power" or "higher consumer surplus."

(d)   Most candidates earned credit for an understanding of subsidies, often with the aid of a diagram. Many then dealt with the general benefits and problems of subsidies such as the benefit of lower unemployment and the favourable impact on the current balance while the financial cost and the opportunity cost were often mentioned as problems. Some candidates were able to score highly with this approach. Few looked at specific benefits and problems related to the product – milk. Arguments relating to milk as a merit good/good with positive externalities, milk as a strategic/important product were rare. It would assist candidates if they were made aware of the fact that where a particular product is mentioned, the best answers are likely to consist of both general and product-specific points i.e. putting the analysis into a specific context.

Section B - Essays

Question 2

This was probably the most popular question but in many cases the marks were disappointing due to lack of focus in the answers.

(a)   This section was the main cause of the low overall marks for this question. A minority of candidates grasped that the question was about functions and scored highly, often with succinct answers, including the breakdown of the economic problem into What? How? and For Whom? However, many read the words "economic system" and were prompted to write, often long, descriptive accounts of the three main economic systems. This approach earned few, if any, marks. Candidates need to be aware of the importance of making a cool interpretation of the question and not be tempted to re-produce a pre-learned response.

(b) Most candidates had a clear understanding of this question. The best answers looked at the question from two angles – the disadvantages of the planned economies (i.e. why they needed to be replaced) and the positive advantages of mixed economies. The moderate answers were either unbalanced, looking only at one angle, or had few points on either side. The weakest answers were marked by digression e.g. details of the market economies, the advantages of planned economies etc. Candidates need to focus on the question and avoid over-generalisation. For example, many write as if all planned economies had low growth rates, or as if all mixed economies are prosperous. It would be helpful if candidates were encouraged to be more specific e.g. the communist countries of Eastern Europe had lower growth rates and lower standards of living than the mixed economies of Western Europe in the 1980s; China has become much more prosperous since allowing some private sector participation in its economy.

Question 3

This was very unpopular and attempted by less than 10% of candidates. Many of the responses were poor, suggesting it was usually chosen by weaker candidates who did not have the knowledge to tackle the other, more straightforward optional questions.

(a) There were very few comprehensive answers. The better answers earned marks for an understanding of the terms and often had some idea of the impact of a devaluation on the level of economic activity. Few had any correct ideas on the impact of deflation, writing about lower prices leading to higher living standards, higher output and employment etc., which differs from conventional economic wisdom. This was a straightforward question but only for those candidates who had a clear grasp of devaluation and deflation. Candidates need to be aware of the importance of question selection and ensuring that they understand the whole of the question asked.

(b) There were few good answers with a significant number scoring 3 or less. Once again the problem of a lack of focus was apparent. Candidates needed to explain inflation as a <u>cause</u> of exchange rate fluctuations and inflation as a <u>result</u> of exchange rate fluctuations. Few candidates dealt with both aspects. The link between inflation and falling exchange rates was the better understood. Even so, few candidates went on to explain how the lack of competiveness, due to inflation, led to a fall in the demand for a currency and a rise in supply, leading in turn to a depreciation in the exchange value of the currency. It was expected that candidates would be aware of factors that would prevent the expected consequences; for example, inflation would not lead to a fall in exchange rates if the relative rate of inflation was low. However very few candidates mentioned or explained such points.

Question 4

This was a very popular question, about equal in popularity to **Question 2**, but the average mark obtained was higher.

(a) This was a straightforward question for candidates with a good factual knowledge of the balance of payments account with a significant number scoring 6 or more. The better candidates demonstrated a good understanding of the balance of payments and its components and went on to identify the various items in the relevant accounts. Weaker answers were often limited to goods and services under current account and investments under the financial account. Credit was given for the terms "visible" and "invisible" trade, but many candidates think that "invisible" refers only to services, whereas it includes income from foreign investment and current private and government transfers. Candidates should be made aware that this is an area where precise, accurate, factual knowledge can earn high marks.

(b) A relatively straightforward question but only a minority of candidates dealt with all aspects. The intention of the question was that candidates would look at the merits and problems of tariffs and quotas as policies to reduce the current account deficit. Most candidates had a clear understanding of tariffs and quotas. The better candidates then did what was expected but often tariffs were dealt with in more detail than quotas. Weaker candidates offered few merits and often ignored the problem altogether. This is a prime example of a question that asks them to discuss policies and candidates will need to explain two sides of the arguments i.e. the favourable and unfavourable effects of the policies.

ECONOMICS

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Paper 9708/22
Data Response and Essay (Core)
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Key Messages

In order to do well on this paper candidates need to:

- Produce a balanced exam paper giving equal time and importance to each question.

- In *Section A* have good data interpretation skills along with the ability to apply economic ideas.

- In *Section B* explain key concepts carefully and focus closely on the question.

- Ensure that where there is a 'discuss' question they examine two or more sides of an argument.

General comments

This paper was taken by just over 10 000 candidates. The standard of responses was very variable. Some candidates produced excellent papers showing the full range of skills required to gain a high mark. These candidates had a sound grasp of the necessary underlying knowledge and understanding, together with the ability to apply this in both the data response questions and also in their chosen essay. Unfortunately, many candidates appeared underprepared, especially for the demands of the data response question, which exposed a lack of the required skills in many candidates. Many scored very low marks on this section of the paper. In order to do well, candidates must produce balanced papers that give sufficient consideration to each question.

Comments on specific questions

Section A – Data response

Question 1

(a) (i) Many candidates however, gained all four marks available for this question. They were able to calculate the changes in the trade balance in Australia and the Northern Territory and to comment on the differences in the changes in each. Other candidates however gave confused responses. There were also some quite unusual calculations provided here which suggested that a grasp of the underlying knowledge and understanding was absent. Others misinterpreted the figures and confused the trade balance with the terms of trade, some ignored the reference to the term 'balance' and many did not compare the changes. They provided the calculation, but the figures were left to speak for themselves. Marks were lost as a result. Candidates are advised to read the question instruction carefully and respond appropriately and so ensure that they have every chance of gaining all marks available.

(ii) This question was not done well. Some gained a single mark for a recognition of the significance of inflation, but only a small number gained both marks. Exports and imports are often measured at constant prices because inflation distorts the extent of changes over time. Measuring at constant prices allows for a more accurate assessment of changes in trade.

(b) Many candidates scored poorly on this question because they failed to read the instructions carefully. They either overlooked or misunderstood the requirement for 'two additional' pieces of information. Many chose information that was already provided in the data and scored no marks as a result. These included for example, the unemployment rate and the inflation rate, which is of course provided in the data in the form of the consumer price index. A further common error was

the tendency to identify additional information that was only distantly relevant to Australia's international financial position.

Some candidates gained credit for identifying relevant information that would certainly be useful in judging Australia's international financial position, but became confused when attempting to explain why this was so. There was for example considerable confusion amongst some candidates on the difference between the Capital Account and the Financial Account of the Balance of Payments. Marks were lost as a result.

On the other hand there were some excellent answers provided by those candidates who had read the question carefully, who had a sound knowledge and understanding of the necessary economic concepts and who were able to explain the relevance of these concepts as required.

(c) This was a quite difficult question so it was pleasing to see that there were some very good answers provided. Successful candidates understood the underlying concepts and were able to provide the necessary calculations to reach the correct conclusion given the data provided. Since nominal earnings have risen by 14.6% and prices have risen by 11.2%, it can be concluded that earnings have risen in real terms. Unfortunately, some candidates understood what had to be done, but were unable to perform the calculation correctly. The most common error was to miscalculate the inflation rate. This was due mainly to a misunderstanding of index numbers. Many suggested that the increase in the CPI of 18.7 represented an inflation rate of 18.7% leading them to an incorrect conclusion.

This question proved far too difficult for a large number of candidates who seemed unaware of the underlying concepts and failed to score.

(d) Responses to this question were on the whole disappointing. Many candidates gave very descriptive responses here. There was little 'discussion' provided. Many worked through the data in order, describing it and making largely unsupported assertions. It was hoped that the data would stimulate a discussion in which the candidate would apply economic concepts to the data provided to give a balanced view of the economic prospects of the Northern Territory. For example, it was hoped that the significance of a heavy reliance on tourism might have prompted a discussion of the prospects for tourism earnings in a world in which several economies are still suffering from recession. This could have led to a consideration of the prospects given certain assumptions concerning the income elasticity of demand for tourism. Similarly, reliance upon the extraction of oil and gas which in an energy hungry world are extremely valuable could lead to problems. These might include for example the generation of considerable externalities that might reduce the attractiveness of this area as a tourist destination. The concept of opportunity cost might be relevant here. In addition, problems would arise if these finite resources became exhausted. Unfortunately, as stated the responses were descriptive and unimaginative. Candidates should consider that the title of this component is 'data response' and they should respond to the data, rather than simply repeating it.

Section B - Essays

The most popular essay was essay **Question 2**. There were some very strong answers to this question and very few really weak ones. The other two essay questions were much more variable in standard.

Question 2

(a) There were few very weak answers here. Those scoring less well tended to provide a list of reasons for government intervention without considering the underlying motive for this. The stronger answers considered intervention in terms of the context of market failure and explained how intervention was designed to improve resource allocation. Usually, the stronger answers considered both micro- and macro- interventions.

(b) Most candidates who answered this question were aware that public goods had characteristics of non-excludability and non-rivalry, although there was extensive confusion between the two. Not all those who identified these features went on to explain the 'free-rider' problem however and some lost marks as a result. Nevertheless, it was clear that the features of public goods were understood more extensively than merit goods. These were usually explained in terms of positive externalities and/or imperfect information, but accompanying diagrams were often poor and it was clear they

were not fully understood. Some scored well in explaining the features of each type of good, but failed to go on to make a judgement about whether they must be provided by the government. Some did attempt to make a judgement, but showed a lack of understanding because they contradicted what they had written earlier when they identified the features of each type of good. In addition it was surprising to see how many candidates identified roads as public goods, especially given the congestion problems in some cities which hardly provides evidence of non-rivalry in consumption.

Question 3

(a)   In response to this question, candidates were expected to use the demand and supply framework to explain the reasons for an increase in sales of electronic goods. Many candidates did this, and explained the possible causes of an increase in demand or an increase in supply. Many failed however to refer to the causes of shifts in each curve and instead referred simply to a fall in price without reference to the disturbance in equilibrium that must occur for this to happen. In addition, some candidates relied upon general knowledge to answer the question, rather than economic frameworks. This is not the way to ensure a good mark.

(b)   The reasons for government action were covered more successfully by candidates than the effectiveness. Popular suggestions included the need to raise revenue, the need to reduce the consumption of a demerit good and the need to impose tariffs on imported goods to protect a domestic industry. In terms of the effectiveness, many candidates wasted time explaining the factors that determined the incidence of the tax. More relevant was the elasticity of demand of the goods and services that were subject to the tax. And the significance of this in terms of effectiveness was linked to the motive. If for example the motive was to raise revenue, then the tax was more likely to be effective if the demand was price inelastic, whereas if the motive was to deter consumption, then the tax was more likely to be effective if the demand was price elastic. Simple, but clear application of these core concepts was sufficient for a good mark.

Question 4

(a)   Most candidates were aware of the meaning of the division of labour, but some strayed from the question set and described the advantages and disadvantages of this. Although it was clear that most knew what money was, fewer provided an explicit explanation. The most common weakness here was the difficulty most found in establishing a link between the division of labour and the use of money. A number of good candidates did however see the relevance of money in removing the need for barter and allowing trade and hence the division of labour to develop, but these were in the minority, so full marks were rarely awarded on this question.

(b)   This question provided evidence of the extent to which the topic of inflation is covered in Centres. There was extensive knowledge of the various causes of inflation such as demand-pull and cost-push inflation. Disappointingly however, the diagrams provided were often inaccurate and showed evidence of a lack of a thorough understanding. This was shown for example in the large number of diagrams that were produced showing single demand and supply curves, rather than aggregate demand and supply curves. In addition, some candidates gained lower marks than they might have expected because they failed to organise their ideas in the most effective way. Many for example, described the possible causes of inflation and then mentioned producers, consumers and governments in passing. The higher scoring candidates considered the actions of these economic agents and then explained the circumstances under which these might generate inflation within a cost-push or demand-pull framework. This approach answered the question more directly and a better mark was the usually the result.

ECONOMICS

| Paper 9708/23 |
| Data Response and Essay (Core) |

Key messages

- Candidates will only gain good marks if they read the question carefully to ensure that they are answering the question set. Particular emphasis in examination practice should be on the significance of the directive words used.

- Data handling skills should be developed to ensure that data analysis is relevant, accurate and to the point.

- The answers to all essay questions should have some conclusion that has been reached after a balanced assessment of evidence.

- Where an explanation of a concept is required, the explanation offered should have sufficient depth and development to demonstrate that the concept is fully understood. Superficial explanations will score poorly.

General comments

This paper was taken by only a small number of candidates. The level of knowledge and understanding was very satisfactory amongst most of the candidates, but there were many examples of poor exam technique that resulted in lower marks than might have been expected. Careful consideration of the requirements of each question is essential to ensure a high mark.

Comments on specific questions

Section A - Data response

Question 1

(a) This question required candidates to interpret the data in order to make an accurate comparison of the exchange rate of the S$ against the US$ over the time period specified. Most candidates stated correctly that the S$ rose or appreciated and gained the mark available. Some failed to gain the second mark available however because they failed to provide any quantification of the appreciation. This meant that the comparison was incomplete. A simple statement that for example the S$ had appreciated by approximately 50% would have been sufficient for the second mark. Candidates should be advised that a chronological approach where changes are described year on year will not score well.

(b) This question was, on the whole done well. Most candidates were aware of the demand and supply basis of exchange rate changes and were able to apply these to the data. The depreciation between 1997 and 2001 was linked to a possible fall in demand and/or a rise in supply and the appreciation between 1997 and 2007 was linked to a possible rise in demand and/or a fall in the supply of S$. It was encouraging to see that most candidates were able to see the link between theory and real world data here.

(c) Candidates also produced some good answers to this question, but some lost marks because they were only able to explain one way in which an appreciating exchange rate can help to reduce inflation. The link between a rising exchange rate and lower import prices which would reduce cost-push pressures was understood and well explained by most candidates. On the other hand,

the link between a rise in the price of exports and the impact upon demand-pull inflation seemed less well understood.

(d) Many candidates found this question difficult. They showed knowledge of the meaning of floating and fixed exchange rate systems, but were unable to apply this to the question. Many were able to identify elements of each type of system, but often in a disorganised way. They gained credit for the points made, but to score highly the candidates need to consider key aspects of each type of system.

(e) This question was well answered by most candidates. Most responded to the directive word, 'discuss' and provided an explanation of both the benefits and drawbacks of a fall in an economy's exchange rate, although some did lose marks for an insufficiently balanced approach. In terms of the approach to answering this type of question, candidates are advised to provide a concluding summary. Too many candidates provide what is effectively a briefly explained list of each side of the discussion point and fail to go on to make some kind of assessment of what they consider to be the outcome on balance. The provision of a concluding summary gives a more rounded and direct answer to the question set and is likely to score more marks.

Section B – Essays

Question 2

(a) Although most candidates were aware of the underlying concepts here, surprisingly few gained full marks. This was mainly because candidates often failed to focus upon the question requirements. Many spent too much time describing the features of a free market economy and too little on resource allocation. The free market economy relies upon demand and supply to allocate resources and an explanation of this was essential for full marks. Candidates should be advised to think carefully about specific question requirements to ensure that they gain maximum credit for their answers.

(b) This question was generally well answered. The most successful candidates approached this question from the perspective of the market underproviding public and merit goods and overproviding demerit goods. This then led to an explanation of the ways in which governments intervene in markets to ensure that the appropriate quantity of goods and services is provided. Such methods of intervention include state provision, subsidies, taxation and prohibitions. This then allowed a discussion of the problems of intervention. Some candidates provided answers without this framework. They described methods of intervention and gained credit, but discussion of the problems of intervention was often limited and the overall mark was lower as a result. A small number of candidates wrote about a full range of types of government intervention without any focus upon the policies to provide appropriate quantities of goods and services. Inevitably, this approach contained many inappropriate policies which failed to score.

Question 3

(a) This was the least popular essay question. Those few candidates who answered this question showed good understanding of the concept of price elasticity of supply. There was considerable variation however in candidates' ability to apply the concept to the two types of good identified in the question. The factors that influence the elasticity of supply include the availability of spare capacity, the length of the production period, the availability of stocks and storage costs. The influence of each will vary considerably when agricultural goods and manufactured goods are compared but not all candidates proved able to apply the influences in a real world context and there was considerable variation in the marks awarded as a result.

(b) Most candidates who attempted this question were aware of the impact of a subsidy upon the equilibrium price and quantity of a product and most had some idea of the benefits and drawbacks of subsidies. The higher scoring candidates gave sufficient detail of each benefit and drawback and they were confident enough to assess whether they thought that on balance subsidies to farmers represented a beneficial policy. The poorer scoring scripts gave rather brief and superficial explanations of the benefits and drawbacks and candidates need to provide a more evaluative edge to their answers.

Question 4

(a)   It would seem that the theory of comparative advantage is generally well understood, although there was the usual confusion amongst a small number of candidates who tried to base their answer on absolute, rather than comparative advantage. There was also a seeming lack of grasp of the limitations of the theory amongst a significant number of candidates. High scoring answers showed a firm grasp of the appropriate theory, together with a sound appreciation of its limitations.

(b)   Most candidates who attempted this question had the required knowledge and understanding of the various types of trade barriers. Most focused upon tariffs and quotas and there were some good explanations of these together with appropriate diagrams. Fewer candidates explained export subsidies and administrative restrictions and none referred to manipulated exchange rates, despite the current debate about the undervaluation of China's currency. Most candidates were able to go on to describe at least some of the benefits and drawbacks of trade barriers, but a common failing was that many gave rather one-sided answers. This meant that they were unable to reach a conclusion based upon a balanced assessment of each side. To access the full range of marks candidates need to attempt a conclusion and so fully answer the question.

ECONOMICS

Paper 9708/31

Multiple Choice (Supplement)

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

General comments

There were 1074 candidates with a mean of 15 for this paper which was higher than the somewhat disappointing mean of 13.8 achieved by candidates on the corresponding paper in June 2010. The marks ranged from 29marks to 2 marks.

27 out of the 30 items had facility and discrimination scores which were within the test design limits. Only one item, **Question 11**, proved to be too difficult for the majority of candidates. Two items, **Questions 13** and **27**, had low discrimination scores i.e. were found very easy by the majority of candidates. There were a further two items, **Questions 8** and **30**, where more candidates chose one of the distractors than chose the correct key, and two items, **Questions 16** and **29** which had positive distractors, i.e. where the candidates choosing the distractor were mainly the better candidates on the paper overall.

Comment on individual questions

Given an infinite elasticity of supply, and, hence, a horizontal supply curve, the imposition of the 10% tax in **Question 8** would have increased the price of the product by 10%, which, in turn, given a price elasticity of demand of 1.5, would lead to a 15% reduction in quantity demanded to 850 units, and, hence, produce a weekly tax revenue of $85. This item required candidates to work through more steps than it was reasonable to expect of them in the time that most would allow for this type of question, and it is likely that even some of the better candidates resorted to guessing.

Question 11 proved difficult for the majority of candidates. Only 14 % of the candidates answered the question correctly while 64% wrongly opted for C. Deadweight loss is a concept that has appeared quite frequently on past papers. The reason so many in this case chose C is almost certainly that a deadweight

loss is usually depicted as a triangular area. What these candidates failed to recognise was that the tax in this case only partially eliminated the deadweight loss.

In **Question 13**, the statistics suggest that most candidates have only a very limited understanding of what is meant by the distortionary effects of taxation, and as a result, the majority of candidates resorted to guesswork. A uniform tax which raises the same fixed amount from all individuals will <u>affect</u> the choices people make since they will have less money to spend, but unlike other taxes, it will not <u>distort</u> their behaviour since they will end up paying the same amount in tax whatever choices they make.

In **Question 16**, the 19% of candidates who wrongly chose D were mostly the better candidates on the paper overall. What these candidates failed to recognise is that while lower rates of unemployment benefit will reduce disposable income and, hence, aggregate demand, they will increase the marginal propensity to consume (MPC) out of national income, and, therefore, increase the value of the multiplier.

Candidates are expected to know that capital flows are not included in the current account of a country's balance of payments. It is a surprising, therefore, that those who chose D in **Question 27** were mostly the better candidates.

Prices and incomes policies have not been around for some time, and a lack of familiarity with these policies could possibly explain why the majority of those who wrongly opted for D in **Question 29** were once again among the better candidates on the paper overall.

One might have expected candidates to know that one of the disadvantages of imposing a tariff on imported goods is that it weakens the incentive for domestic firms to improve their competitiveness. Hence, it was surprising that more candidates opted for C in **Question 30** than those who chose the correct key.

ECONOMICS

Paper 9708/32

Multiple Choice (Supplement)

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

General comments

Once again this paper proved highly successful in testing the candidates' knowledge and understanding of economic concepts and theories, and their ability to make use of what they have learnt to work out the answers to specific economic problems and issues. There were 7137 candidates with a mean of 17.6 which was marginally higher than in the corresponding paper in June 2010, and was well within the target range. One candidate deserves special mention for answering *all* 30 questions correctly, with the marks ranged from 30 marks to 2 marks.

As was the case in the previous year, 27 out of the 30 items had facility and discrimination scores which were well within the test design limits. One item, **Question 9**, proved to be too easy for the majority of candidates, one, **Question 10**, too difficult for the majority of candidates, and one other item, **Question 12** had a low discrimination score. Apart from **Question 10** there was no other item where more candidates chose one of the distractors than chose the correct key. Option D in **Question 15** was a positive distractor (see below), and in **Question 7**, roughly equal numbers of candidates chose B, C and D, which suggests that a many candidates were resorting to guesswork.

Comment on individual questions

Given an infinite elasticity of supply, and, hence, a horizontal supply curve, the imposition of the 10% tax in **Question 7** increases the price of the product by 10%, which, in turn, given a price elasticity of demand of 1.5, leads to a 15% reduction in quantity demanded to 850 units, and, hence, produces a weekly tax revenue of $85. This item required candidates to work through more steps than it was reasonable to expect of them in the time that most would allow for this type of question, and it is likely that even some of the better candidates resorted to guessing.

The 0.81 facility score on **Question 9** shows that candidates are well aware that to maximise profits, a price discriminator should charge a higher price to consumers whose demand is price inelastic.

Question 10 had a facility score of 0.22, and was the only item where fewer than one third of the candidates chose the correct response. Deadweight loss is a concept that has appeared quite frequently on past papers. The problem on this occasion almost certainly was that candidates associate deadweight losses with triangular areas, and as a result, 62% of the candidates wrongly opted for C. What these candidates failed to recognise was that the tax in this case only partially eliminates the deadweight loss.

The statistics for **Question 12** suggest that candidates have very little understanding of what is meant by the distortionary effects of taxation. Although 41% answered the question correctly, a good many of the better candidates on the paper overall wrongly opted for A or D. A uniform tax which raises the same fixed amount from all individuals will <u>affect</u> the choices people make since they will have less money to spend, but since they will end up paying the same amount in tax whatever choices they make; it will not <u>distort</u> their behaviour.

In **Question 15**, the 20% of candidates who wrongly chose D were mostly the better candidates on the paper overall. While lower rates of unemployment benefit will reduce disposable income and, hence, aggregate demand, they will increase the marginal propensity to consume (MPC) out of national income, and, therefore, increase the value of the multiplier.

ECONOMICS

> **Paper 9708/33**
>
> **Multiple Choice (Supplement)**

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

General comments

As this paper was taken by only two candidates, it would not be meaningful to carry out the usual statistical analysis of the performance of candidates on the paper overall or to try to interpret the statistics for specific questions. However, since both candidates were clearly extremely able and achieved very high percentage scores (73% and 80% respectively) it may be worth commenting briefly on the three items, **Questions 9, 12** and **28**, which both candidates answered incorrectly.

Comment on individual questions

Price discrimination and differential pricing are two quite different concepts. Whereas the former involves varying the prices charged to consumers according to their willingness to pay, the latter involves charging different prices to consumers based on their ability to pay. One possible explanation as to why both candidates wrongly chose option A in **Question 9** is that these concepts got mixed up.

The failure of both candidates to answer **Question 12** correctly is not all that surprising. The distortionary effect of taxation is a concept which is not very well understood at A Level. All taxes affect behaviour but they do not necessarily distort behaviour. A uniform tax which raises the same fixed amount from all individuals will affect the choices people make since they will have less money to spend, but unlike other taxes, it will not distort their behaviour since they will end up paying the same amount in tax whatever choices they make.

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The wording of **Question 28** may have been misunderstood. A country that commits itself to maintaining a fixed parity for its currency will effectively lose control over interest rate determination. That does not mean that it will no longer be able to have its own 'independent' central bank. What it does mean is that the interest rates set by the bank will be governed by the foreign exchange markets.

ECONOMICS

> **Paper 9708/41**
>
> **Data Response and Essays (Supplement)**

Key messages

- To answer the questions well in *Section B* candidates need to ensure that they first fully understood the question, or perhaps read it more thoroughly, before they decide to begin a response.

General comments

The standard of performance overall was maintained at a similar level to that achieved by Centres in December 2010. The majority of candidates were able to gain a clear pass grade and many candidates provided responses which demonstrated both depth and breadth of understanding and which combined this with both knowledge and understanding of key economic principles.

Candidates answered the short question Data Response section particularly well. It was clear that candidates were well prepared to answer questions relating to fiscal and monetary policy and this was frequently borne out by the high quality of many of the responses.

Performance on *Section B* which required structured essay responses was more variable. This section also served as a good performance discriminator as well as giving candidates the opportunity to construct a structured response based on reasoned argument. Good candidates were also able to demonstrate an ability to explain and apply economic theory to a range of microeconomic and macroeconomic problems.

There were very few instances of rubric infringement or time management problems and the standard of written expression was maintained at a level consistent with that established in recent examination sessions.

Comments on specific questions

Section A - Data Response

Question 1

(a)   Most candidates were able to gain full marks or 2/3 marks for this question. Although many could not provide a formal definition of the term 'recession', it was clear that they understood the key elements associated with a recession such as a reduction in GDP, a decline in investment and a rising level unemployment and this frequently sufficed to enable candidates to gain full marks. Weaker responses tended to cite inflation has a typical characteristic associated with a recession, hence gained few marks.

(b) (i)   This question discriminated quite effectively between those candidates who were able to use the article to recognise that the key issue related to the failure of tax rises to increase government revenue and those who simply discussed in general why higher tax rates might not work. The former usually proceeded to gain full 3/3 marks whilst the latter often gained 1 mark only.

(ii)   There were more marks available for this part of *Section A* because candidates were expected to use the article by drawing upon the available evidence to determine whether they could support the statement in question. Essentially, this required examining evidence to consider **both** sides of the argument. Good responses identified both sides and made some attempt to provide a conclusion based on the evidence provided. It was more common to note responses which were confined to using the charts and available statistics to conclude that the policy would not work. Candidates needed to identify weaknesses associated with relying solely upon the evidence provided by the article, to gain 6/6 marks.

(c)   Candidates produced some excellent responses to this part of *Section A*. This was the main question in this section and very good answers were able to attain 8 marks. Full marks were achieved frequently and entirely well deserved. There were some excellent responses which analysed the impact of lowering interest rates and provided some very clear supporting diagrams, for example, the use of marginal efficiency of capital (MEC) curves to establish the links between changes in interest rates and the level of investment, and then using this to show why this might be expected to ease the recession. Better candidates also realised that the purchase of bonds would also increase the money supply and that this too might have a positive impact upon the recession. It was clear that candidates had been well prepared for a question of this nature.

Section B - Essays

Question 2

Many candidates attempted this question and a wide range of marks was produced. This question required a carefully structured response which addressed the key concepts of efficiency, the nature of market failure and finally the role of governments in attempting to overcome market failure. Good answers incorporated all three of the above elements. Less successful approaches examined one or two of these elements.

Concepts of efficiency were generally dealt with satisfactorily. Productive efficiency was usually explained clearly using clearly labelled supporting diagrams. Allocative efficiency seemed to cause more problems and was often confused with productive efficiency or simply ignored.

Issues relating to market failure were also dealt with effectively and produced a wider range of quality of response. Some candidates produced some excellent, detailed consideration of a wide range of factors which might contribute to market failure whilst others tended to list types of failure rather than discuss how they came about.

Government attempts to solve the problem were not always fully developed and marks were lost for failure to expand and develop responses incorporating these aspects. Weaker responses tended to focus almost entirely upon one aspect and this would often be alternative types of efficiency.

Question 3

(a)   Few candidates attempted this question and few gained more than a Level 2 mark. The main requirement related to the use of a diagram to establish a link between diminishing marginal returns and economies of scale. The majority of responses were able to explain both concepts referred to above but were not able to establish the link between the two concepts. Basically, this required an envelope diagram which incorporated both short run cost curves associated with plant level and long run economies/diseconomies of scale associated with the ability to change all factors of production. Those candidates, who produced this diagram and explained its significance, invariably gained a Level 3/4 mark.

(b)   This part also was not answered well. Candidates needed to establish objectives associated with firms in perfect competition and imperfect competition and focus upon their differences throughout the response. Many candidates did not proceed beyond recognising the objective of profit maximisation for firms in both types of market structure. It was expected that candidates would refer to additional objectives relating to the imperfect market which might have included: sales maximisation; revenue maximisation; profit satisficing and limit pricing to promote a larger market share in the long term. Better candidates recognised these differences, discussed them and were rewarded accordingly. A significant number of candidates simply described the alternative market structures of perfect competition, monopolistic competition, oligopoly and monopoly. In these cases few marks were allocated.

Question 4

Questions relating to the operation of the labour market are frequently asked on this paper and it is generally the case that candidates are usually well prepared to answer a question on this topic. Candidates were expected to demonstrate an understanding of the theory of how wages might be determined in the market. Some very good answers used the theory of marginal revenue product (MRP) in combination with the supply of labour to explain how wages might be determined in both perfect and imperfect labour markets. Marks

were gained for producing some accurate, clearly labelled supporting diagrams and for relevant analysis. Those who confined their answers to analysis based upon supply and demand only gained fewer marks.

High marks were awarded to those candidates that explained how market forces might work and then proceeded to address the main part of the question which required some explanation of the role of trade unions and governments in the market and the way in which their respective operations might distort the normal workings of the free market. A concluding statement would also have gained additional marks.

Question 5

(a)   This part of the question required basic knowledge recall relating to a mainstream part of the syllabus and the question was generally answered well. Most candidates were able to explain the meaning of GDP and then proceed to describe each of the three alternative methods of calculation GDP. Responses did vary in relation to the amount of detail supplied within each explanation of each method and good, well informed candidates provided reasons as to why such calculations might not always be entirely accurate. Occasionally candidates were not entirely sure of the differences between the income and the expenditure method and some of the weaker responses simply stated that the income approach meant adding all the incomes received in an economy and achieving a grand total. Better responses identified the sources of different kinds of income such as wages, rent, profits and interest payments. Very good responses pointed out the importance of not counting income received through transfer payments.

(b)   Candidates were frequently able to produce some very wide ranging, detailed responses to this part of the question. Again, this part of the syllabus is often tested and candidates were clearly well prepared. Many relevant points were raised and good responses were distinguished by the number of points raised and the extent to which each point was discussed and evaluated in the light of the statement in question. Level 4 responses recognised the need to contrast the quantitative nature of measures such as GDP and GDP per capita with the more subjective, less tangible measures relating to health and education. Also marks were gained for examining critically the value of numerical measures and for being aware of other measures such as Human Development Index (HDI) and Measure of Economic Welfare (MEW) which make some attempt to evaluate the contribution of education and health to overall well being. Less effective responses only provided a very limited critique of the use of GDP figures and only a cursory treatment of alternative measures.

Question 6

(a)   This question required candidates to provide an accurate explanation of the national income multiplier, how it might affect the overall balance of income and expenditure in an economy and how its value will be affected by changes in the level of leakages/withdrawals. In addition it was expected that good responses would take care to explain how the multiplier process might operate in theory. To achieve a high mark, candidates would have to identify each of the three types of withdrawals and be aware of why these withdrawals would be more or less in evidence in a free-market closed economy compared with mixed economy with foreign trade. Some understanding of the role of leakages in calculating multiplier values would be an essential requirement to answer this question effectively.

Few candidates attempted this question and few gained high marks for this part. A surprisingly large number of responses failed to use the multiplier formulae to illustrate how the process might be affected when taxation and imports are introduced to the circular flow of income. Those responses that did build these changes into the formula, then found relatively easy to gain a Level 3/4 mark. Some failed to proceed beyond providing some basic or general comment explaining how the multiplier might affect the level of national income and its links to fiscal policy.

(b)   Candidates tended to score higher marks on this part of the question. There were some good attempts to explain what is meant by a deflationary or inflationary gap, and supporting diagrams were often in evidence. It was important to examine the role of injections and how, combined with the multiplier, changes in such injections might ultimately impact upon aggregate monetary demand. Then it would be possible to discuss how changes in aggregate demand might lead to changes in employment or inflation, depending upon the initial position of the aggregate demand curve in relation to the aggregate supply curve. There were many candidates who could provide such analysis and who were capable of providing a reasoned clear discussion in the process. Very