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## FOREWORD

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This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned.**

# ECONOMICS

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## GCE Advanced Level and GCE Advanced Subsidiary Level

Paper 9708/01 Multiple Choice
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<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>D</b>	16	<b>D</b>
2	<b>A</b>	17	<b>D</b>
3	<b>C</b>	18	<b>C</b>
4	<b>B</b>	19	<b>D</b>
5	<b>C</b>	20	<b>B</b>
6	<b>D</b>	21	<b>A</b>
7	<b>D</b>	22	<b>B</b>
8	<b>A</b>	23	<b>D</b>
9	<b>D</b>	24	<b>C</b>
10	<b>B</b>	25	<b>D</b>
11	<b>C</b>	26	<b>D</b>
12	<b>A</b>	27	<b>D</b>
13	<b>C</b>	28	<b>B</b>
14	<b>A</b>	29	<b>A</b>
15	<b>B</b>	30	<b>B</b>

### General comments

The mean percentage score on this Paper was 54%.

One question, **Question 17**, was answered correctly by more than 80% of the candidates, and one, **Question 11**, was answered correctly by fewer than 25% of the candidates.

### Comments on specific questions

In **Question 10**, only 25% of the candidates recognised that a change that causes a shift in the demand curve will result in a movement along the supply curve. Those candidates (41% of the total) who opted for **A** failed to distinguish between the factors that cause a shift in a supply curve and the factors that cause a movement along the curve.

Based on the evidence from past A Level Papers, candidates have no difficulty in identifying areas of consumer surplus or changes in consumer surplus. However, they have far more problems when confronted with questions, such as **Question 11**, which are designed to test their understanding of what is meant by consumer surplus and how it is calculated. Nearly half the candidates decided to identify the consumer surplus regardless of what the question asked, and put **A**.

Trade-weighted exchange rates is a new topic and this could well explain why only one third of the candidates chose the correct response in **Question 28** and why the discrimination score was also quite low. Teachers would be well advised to pay more attention in future to the definition and measurement of exchange rates, and in particular to how trade-weighted exchange rates are calculated.

Much the same applies to the distinction between floating exchange rates, fixed exchange rates and a managed float. Only 31% answered **Question 29** correctly and the statistics clearly suggest that the majority of candidates resorted to guesswork.

Candidates have always had considerable difficulty in distinguishing between the price level and the rate of inflation. Even so, it was somewhat surprising that only 25% of the candidates answered **Question 30** correctly.

**Paper 9708/02**

**Data Response and Essay**

**General comments**

Candidates' performance was in line with the previous sitting of the examination. While it is encouraging that very weak scripts are now relatively rare, it remains a disappointment that more candidates do not achieve marks above 30. While strong performances can be found in both the data response and the essay, most candidates do not manage to perform equally well in both. There seems to be increased competence in some aspects of tackling data response, particularly time management, but some candidates would benefit from more practice with this form of assessment. There was no evidence of problems with the rubric.

A number of weaknesses of exam technique emerged which cost the candidates marks:

- Answers must concentrate on the economics of the topic. When dealing with the questions on smoking as in **1 (c)** and **1 (d)** there was frequent recourse to general knowledge rather than economic analysis.
- The wording of the questions must be read accurately. If the question refers to Figure 1 or to the text as the source of the answer, responses using other information will not be accepted.
- A quick scan of all of the questions in the data response would avoid the misplacing of answers as occasionally happened with parts **1 (a)** and **1 (b)**.
- Definitions must be known precisely. There is still confusion between external and social costs and public and merit goods.
- The use of prepared answers that are not adjusted to the slant of the question can prevent the attainment of the marks that are achieved by directly relevant material.
- Candidates need to appreciate the point of questions that instruct them to discuss an issue. In this case it is not sufficient to describe facts, rather the merit of a proposal needs to be examined with a consideration of the strengths and weaknesses of the argument. This means that a two-sided process is involved that should lead to some sort of conclusion from the evidence offered. It is unlikely that any case does not have some element that can be criticised, and candidates should seek to identify this even if they believe that one side of the argument predominates.

Among the essays, **Question 2** was the most popular although each one attracted a fair proportion of the entry. Generally good marks were scored on **Section A** of the essays, with less impressive performances on **Section B**. Candidates seem to have adjusted successfully to the amended format of this exam and were generally able to demonstrate a sound grasp of the subject content.

**Comments on specific questions**

**Section A**

**Question 1**

- (a)(i) The drawing of a standard demand curve proved to be a straightforward start for most candidates. The diagram alone was sufficient: explanation was not required. Candidates sometimes mislabelled the horizontal axis and occasionally drew a production possibility curve.
- (ii) The answer needed to be taken from the graph in the data, not the text. The data showed a normal relationship up to 1994 but a contrary situation after this. Most candidates were able to state there was a normal relationship, fewer made use of the data to support this and very few went on to the exception. As a result most scored only 1 mark. Some candidates believed that 'normal' referred to the elasticity of the curve, rather than the price to quantity relationship, so did not gain credit.

- (b)(i) Most candidates were able to calculate the elasticity correctly. Common errors persisted. The formula was sometimes inverted and the proportionate or percentage element was omitted. The formula was not necessary for both marks, but some candidates gained 1 mark for it when they used the wrong data or made an error in the calculation. As is the convention, the negative sign was not essential. It was necessary to use the data in the text not in Figure 1.
- (ii) The intention of the question was to bring out the influences on elasticity e.g. the existence of substitutes. While some answers recognised this, a surprisingly large number stopped at explaining the meaning of inelastic demand or elaborating the formula. Such answers scored only 1 mark. Where candidates had made an error in (i) the 'own figure rule' was applied to prevent a double penalty operating.
- (c) There is a lack of accurate understanding of external costs. The term was often used as an alternative to social cost, while others confused private and external costs. Those candidates who had learned a precise definition scored well here, while those who appeared to be constructing their own definition usually scored 1 of the 2 marks. Examples of the negative externalities of smoking were familiar to most candidates. Weaker answers were very generalised and lacking in economic content.
- (d) Some elements were well handled. Many were able to show how the tax was meant to work and the relevance of the elasticity of demand for cigarettes. After this the tendency was to describe alternative policies rather than to evaluate their effectiveness. A more critical approach was required. The best answers incorporated a diagram and considered wider issues such as revenue effects, equity and efficiency. This lack of extended discussion meant that marks tended to be bunched at 3 to 4, with only a small number of candidates gaining the full 6 marks.

## **Section B**

### **Question 2**

- (a) Virtually all candidates showed good understanding of scarcity and opportunity cost. They were more likely to give a detailed account of opportunity cost and treat the aspects of scarcity briefly. The use of a production possibility curve to illustrate the ideas was a valid approach. In dealing with a ppc there was often a failure to relate its use to the task set rather than simply go through a prepared description. This meant that in some cases no additional marks were added to those already awarded for the written account. The strongest answers made the linkage clear and gained full marks. Marks in the region 5 - 7 were most common.
- (b) The more relevant responses started with a definition of the mixed economy and then proceeded to consider its workings and the role of government planning. A less effective approach was to offer a description of the features of first the market economy and then the command economy. This often left the task of detailing the mixed economy to the Examiner. There was good recognition of the possible role of government in correcting market failure in terms of demerit goods, public goods and monopoly. Planning was allowed in the wide sense of government intervention, although a narrower interpretation of direct government allocation of resources could gain maximum marks. A small number of candidates talked of planning in a general way as a systematic approach to economic activity by any agent. This was awarded credit but tended to score significantly less well than the standard approach. The weakness in this section was the frequent failure to examine the appropriateness or effectiveness of government planning. Those who attempted this produced impressive answers.

### **Question 3**

- (a) Candidates were able to establish the idea of a floating exchange rate, identify the factors that influenced it and show how it changed. Diagrams were usually incorporated to support the explanation. The strongest answers established a smooth linkage between these three elements. It was not necessary to detail each of the alternative types of exchange rate determination. There was some confusion between floating and managed floating systems. Generally good marks were recorded.

- (b) Some excellent answers were forthcoming in this part, which was the best done of the parts (b) of the essays. These went beyond the immediate issue of the balance of payments and considered the terms of trade, the impact upon employment and the standard of living. The organisation of a potentially complex topic was well done, with different impacts and circumstances being considered. Most candidates understood the nature and link to prices of an appreciation and were able to show how the balance of trade might be affected. The discussion of the relevance of the elasticities of demand for exports and imports also formed the basis for a strong response. Surprisingly, a few answers dealt with the case of a depreciation rather than an appreciation of the currency. Perhaps this was the question that had been expected. On the other hand, it was pleasing that many candidates showed the flexibility to adjust what they had learned on the Marshall-Lerner condition to the case of an appreciation.

#### Question 4

- (a) Candidates were able to distinguish between public and merit goods and offer examples of each. The question required an explanation of the nature of the goods rather than simply a definition of the two terms. In general more detail was offered on public goods, where the issues of non-rivalry and non-excludability were examined. It was not intended that the two types of good be contrasted to one another. Weaker answers failed to distinguish clearly between non-rivalry and non-excludability. The approach which tried to deal with the two cases jointly was noticeably less successful.
- (b) This was possibly the least well done of any of the essay sections. Candidates were able to identify the ways in which the two types of good might be provided e.g. government provision through taxation and borrowing for public goods and subsidies to the private sector for merit goods, and also to show how the policies would work. Many answers tended to stop at this point. The result was that no attempt was made to discuss the policies. This required consideration of the appropriateness and effectiveness in each case. Great depth was not needed here. The disincentives of tax and the problems of fixing the level, the cost of subsidies and the interference with the market operation might be seen as problems, while the increase in welfare, equity and effectiveness might be offered as benefits. It was disappointing how little attempt was made at evaluation of the policies. Those who tried to argue for private provision of public goods rarely succeeded in offering practical possibilities. Weaker responses concentrated on the *benefits* of providing the goods instead of the *methods* of providing them.

**Paper 9708/03**  
**Multiple Choice**

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

**General comments**

The mean percentage score on this Paper was 54%.

Two of the items (**Questions 1 and 3**) were answered correctly by more than 80% of the candidates, and three (**Questions 2, 24 and 25**) proved to be too difficult in that fewer than 25% of the candidates answered them correctly.

**Comments on specific questions**

**Question 2**

The responses to this question indicate that candidates are unaware that in order to derive a consumer's demand schedule from his marginal utility schedule we need to know the \$ value he places on a unit of utility (or conversely, and what amounts to the same thing, his marginal utility of money).

**Question 9**

Some of the better candidates wrongly chose **C**, which is a bit surprising as one would have expected them to realise that where price is unaffected by the quantity a firm produces the profit maximising rule is to equate price and marginal cost.

**Question 12**

Many candidates seemed to rely on guesswork, which suggests that they have little understanding of the concept of a deadweight loss or how it is measured.

#### Question 14

More candidates opted for **A** (41%) than for the correct response, **C**, (31%). One way of answering this question (although not the only way) would be to rearrange the formula for the GDP deflator. Given that 1990 is the base year (1990 = 100) then:

$$\text{Price Index for 2000} = \frac{2000 \text{ National Output at 2000 Prices}}{2000 \text{ National Output at 1990 Prices}} \times 100$$

#### Question 24

Based on the evidence from past Papers, most candidates have little difficulty in identifying a deflationary gap on a diagram, but it would appear from the responses that few have much idea about what it signifies. Most candidates chose **B** or **C**.

#### Questions 25 and 30

While it would appear (from candidates' responses to **Question 30**) that it is widely known that unemployment benefits are a built-in stabiliser, their performance on **Question 25** suggests that many candidates have little understanding of how built-in stabilisers work.

**Paper 9708/04**

**Data Response and Essay**

#### General comments

The vast majority of candidates allocated their time effectively and there were very few cases of rubric error. It was encouraging to find examples of excellent answers across a wide range of questions and from a wide variety of Centres.

However, there are still three areas of concern. First, candidates should be encouraged, wherever possible, to include diagrams to help with their explanations. This was explicitly asked for in **Question 2 (a)**, but diagrams would also have been of great value in **Questions 2 (b), 3, 4 and 7**. They must, of course, be drawn clearly and accurately and discussion of them should be included in the answer; a few candidates drew the appropriate diagram but then made no reference to it in their answer.

Secondly, candidates need to demonstrate the ability to think about the particular question being asked and then to apply their knowledge and understanding to the question set rather than offer a rehearsed and carefully prepared 'model answer'. This was most noticeable in a number of answers to **Question 5**, where many candidates wrote a great deal about a government's four macroeconomic aims but did not link this with the desires of individuals to see their standard of living improved through such things as a low crime rate and a pleasant environment.

Thirdly, candidates need to try and bring their answers to a conclusion. This is especially the case where they are invited to discuss something, as in **Questions 1 (e), 2 (b), 3 (b), 4 (b), 5 and 7 (b)**. The word 'Discuss' did not appear in **Question 6**, but the wording of the question clearly invited a discussion.

#### Comments on specific questions

##### Question 1

- (a) The majority of candidates were able to identify one fiscal policy measure mentioned in the extract, such as the abolition of duties or the increased public spending, and one monetary policy measure, such as low interest rates. Where candidates did make a mistake, it was largely as a result of confusing fiscal and monetary policy and therefore giving an incorrect example.

- (b) Most candidates were able to state that a major reason why the number of tourists visiting Malaysia increased by 10% in the year up to May 2000 was the undervalued currency, which had turned the country into a cheap holiday destination. There were, however, other factors that might have been mentioned to develop the analysis, such as the availability of “designer” brand names and the reputation for excellent service in the shops.
- (c) A number of candidates appeared confused in this part of the question over the exact meaning of the term ‘public spending’, many of them incorrectly thinking that it simply referred to spending by members of the public. The better answers, therefore, clearly identified the role of the government or public sector, gave some examples of such spending, such as spending on the country’s infrastructure, and even went on to comment on how this would affect economic growth through the multiplier effect. A number of candidates also included a diagram of the production possibility frontier or curve, showing how economic growth could be illustrated by a shifting outwards of the curve.
- (d) This part of the question was also answered rather poorly by a number of candidates who did not attempt to make the link between the risk of inflation and rising wages and instead simply wrote about inflation generally, in terms of either its causes or its possible effects. The better answers, however, made the distinction between nominal and real incomes, explaining clearly that inflation would erode the purchasing power of a given sum of money and that therefore workers, very often through their trade unions, would attempt to gain a wage rise that was greater than the actual or anticipated rate of inflation, so maintaining the real value of their earnings.
- (e) Candidates were invited to discuss whether the businessman was likely to be correct in his prediction that Kuala Lumpur would become a top Asian shopping destination for both Malaysians and foreign tourists within three years. There was clearly evidence to support this prediction in the extract, such as the undervalued currency, the excellent service in the shops and the low interest rates which would encourage borrowing, but there was also some evidence to suggest that the businessman may not be correct in his prediction, such as the risk of inflation, which might dampen the degree of confidence in the economy, and the possibility of a slump in the US economy, which could lead to a decrease in the American demand for goods and services from Malaysia. A number of candidates simply went for a positive or negative view, rather than attempting to discuss both points of view and then coming to a reasoned conclusion as to how likely the businessman was to be correct in his prediction.

## Question 2

- (a) The question invited candidates to explain why prices rise when there are shortages and fall when there are surpluses, and it explicitly requested candidates to use diagrams and appropriate examples. Most did attempt to bring in diagrams to aid the explanation, although some did not. However, the diagrams did not always clearly show either the surplus or the shortage, and some candidates failed to offer any suitable examples. Better answers, however, clearly used diagrams to good effect and included appropriate examples, especially from different types of agricultural production where seasonal factors were important.
- (b) Answers to the second part of the question varied a great deal. Examiners saw some very good answers, with a diagram to show the minimum price in a market above the equilibrium price and some clear discussion of the various factors that a group of companies might consider when deciding to fix a minimum price, such as the elasticity of demand, the elasticity of supply, the extent to which the group of companies control the market and the possible intervention from governments. A number of candidates attempted to support their discussion by referring to particular examples of cartels in various markets, with OPEC the most common example. There were, however, a number of weaker answers by candidates who did not seem to grasp what was involved. In a number of cases, the minimum price was shown below the equilibrium price rather than above it, and this made it very difficult for these candidates to offer a convincing answer.



### Question 3

- (a) The majority of candidates were able to provide a good answer to the first part of the question, which required them to explain what was meant by productive and allocative efficiency. Most answers clearly distinguished between the two, stressing that productive efficiency occurred at the minimum point on the average cost curve whereas allocative efficiency occurred where price was equal to marginal cost. There was also some good discussion of production possibility curves and of the concept of Pareto optimality. The question did not explicitly ask for diagrams, but a number of candidates did include them and used them to very good effect. The weaker answers either got productive and allocative efficiency the wrong way round or failed to define them precisely. Weaker candidates wrote only very generally about efficiency without focusing on the significance of the two concepts.
- (b) There were some very good answers to the second part of the question. Candidates were able to show, through the use of appropriate diagrams, how both productive and allocative efficiency could operate in conditions of perfect competition, whereas in imperfect markets this was not likely to be the case, with production not at the lowest point of the average cost curve and price higher than marginal cost. There were some excellent answers that discussed not just one example of imperfect markets but all of them, comparing and contrasting the situation in monopoly, oligopoly and monopolistic competition, incorporating clear and accurate diagrams. There were, however, a number of weaker answers that did not fully grasp what was involved in the efficiency concept. For example, a number of candidates incorrectly assumed that the profit maximising  $MC=MR$  position would automatically bring about efficiency in any market.

### Question 4

- (a) Answers to the first part of this question were generally very good. The majority of candidates clearly explained what was meant by a four-sector open economy involving both international trade and government, and then went on to explain the conditions for equilibrium in the circular flow in such an economy. Very good use was made of diagrams in a large number of cases, showing the existence of a circular flow, the relationship between injections and withdrawals or leakages and the nature of the equilibrium position through the 45 degree line diagram. Weaker candidates did not seem to understand what was involved in terms of the conditions of equilibrium and either failed to include any diagrams or included some that were inaccurate and/or poorly drawn.
- (b) Answers to the second part of the question were also generally of a good standard. Candidates needed to discuss how an increase in injections might affect the equilibrium level of national income. The majority of them recognised the importance of the multiplier concept in this dynamic analysis. The multiplier principle had been learnt very well in the majority of Centres and most candidates were able to explain in quite a lot of detail just how a particular injection might have an effect on the economy greater than the initial spending. The multiplier formula was clearly understood in most cases and there were some very detailed accounts of how it would operate in an economy. Some of the better answers went further and discussed the possibility of an inflationary gap being created in the economy. Weaker answers failed to make any reference to the multiplier and just wrote about the effect of an increase in injections in a very basic and superficial way.

### Question 5

In many cases, this was an example of candidates offering a well-prepared answer to a question on macroeconomic aims and objectives instead of looking at the question, which was also concerned with the issue of living standards, especially in relation to well-paid jobs, low crime rates and a pleasant environment. The better candidates, however, were able to analyse and comment upon the possible conflicts involved in these two approaches. For example, a lower rate of unemployment might be expected to have a good effect on the level of crime but a higher rate of economic growth could possibly have some negative effects on the economy, such as the possibility of increased pollution, and this would clearly contradict a desire for a more pleasant environment. An individual might get a well-paid job but there could be a trade-off between unemployment and inflation, with inflation leading to the erosion of the real value of a nominal wage. There were clearly a number of links that could be developed between the different elements of the question, and the concept of opportunity cost could clearly be usefully applied. A number of candidates, however, simply wrote as much as they could in the time about the four main macroeconomic aims and the various policies to bring them about without really developing the link with the question of living standards.

## Question 6

This question was answered well by the majority of candidates, who demonstrated a good knowledge and understanding of the differences between a developing and a developed country. Most candidates recognised that there were a number of possible advantages of a country becoming more developed, such as improvements in living standards, greater efficiency and productivity of resources, a better infrastructure, lower birth and death rates and a longer life expectancy, and there was some good discussion of the possible ways in which such improvements might be brought about.

However, the focus of the question was that if such an improvement could be achieved, would it always bring benefit to the population of a country and this proved to be the more discriminating element, with a number of candidates failing to recognise that there could be some disadvantages as a result of the process they had been describing. The better candidates recognised, however, that there could be a number of problems, such as finding the money to pay for the changes, the possibility of increased pollution, the potential undermining of a traditional society and its customs and the possibility of increased stress and social problems. These better answers managed to look at both points of view and then come to a reasoned conclusion, weighing up the advantages and disadvantages of such a process of transformation.

## Question 7

- (a) Answers to the first part of the question varied a great deal. Some of them were very good, demonstrating a sound knowledge and understanding of the concept of price discrimination, especially the idea that differences in price were nothing to do with differences in cost of production. Many of the answers clearly distinguished between first, second and third degree discrimination and discussed the conditions which needed to exist if price discrimination was going to operate, such as the need to keep the markets entirely separate. There was also some good discussion of the importance of elasticity of demand, and in many cases diagrams were used to good effect. There was also a good discussion of various examples of price discrimination to illustrate how it might operate in practice. There were, however, a number of weaker answers that simply referred to the charging of different prices in different markets without fully explaining how and why this would happen.
- (b) Again, answers to the second part of the question varied quite a lot. There were some very good answers, discussing how it might be regarded as beneficial to consumers in the sense of offering some of them goods or services at a lower price than to other consumers, making them more affordable to them. Also, consumers might benefit from any increase in profits if that money was allocated to expenditure on research and development, leading to new or improved products. However, these better answers also took into account the fact that the aim of price discrimination was to favour the producers rather than the consumers and so any benefit to consumers was likely to be limited. Weaker answers, however, simply wrote about some goods or services being cheaper in some markets rather than in others, without really grasping the full significance of the concept of price discrimination.