Example Candidate Responses

Cambridge International AS & A Level

Cambridge International AS and A Level Economics

9708

Paper 2 – Data Response and Essay

Cambridge Advanced

CAMBRIDGE International Examinations

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Contents

Introduction

The main aim of this booklet is to exemplify standards for those teaching Cambridge International AS and A Level Economics (9708), and to show how different levels of candidates' performance (high, middle and low) relate to the subject's curriculum and assessment objectives.

In this booklet candidate responses have been chosen to exemplify a range of answers. Each response is accompanied by a brief commentary explaining the strengths and weaknesses of the answers.

For each question, each response is annotated with a clear explanation of where and why marks were awarded or omitted. This, in turn, is followed by examiner comments on how the answer could have been improved. In this way it is possible for you to understand what candidates have done to gain their marks and what they will have to do to improve their answers. At the end there is a list of common mistakes candidates made in their answers for each question.

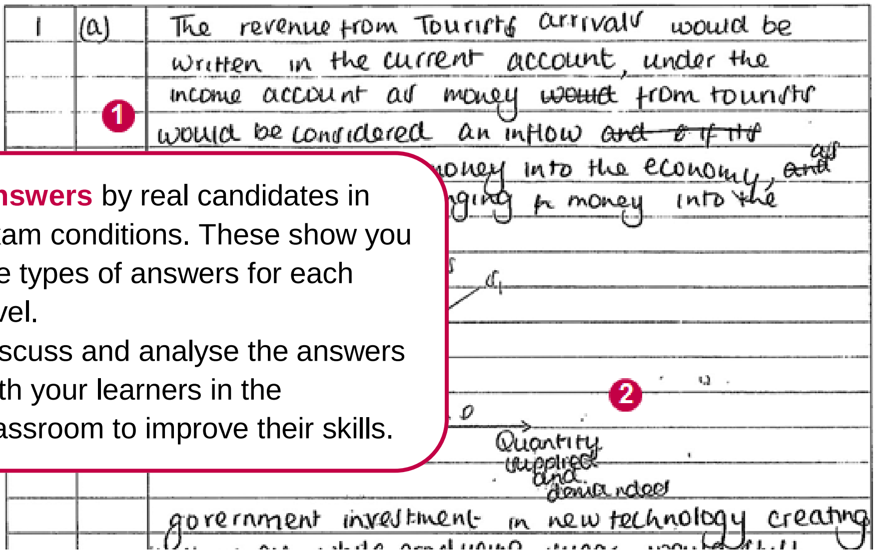
This document provides illustrative examples of candidate work. These help teachers to assess the standard required to achieve marks, beyond the guidance of the mark scheme. Some question types where the answer is clear from the mark scheme, such as short answers and multiple choice, have therefore been omitted.

The questions, mark schemes and pre-release material used here are available to download as a zip file from Teacher Support as the Example Candidate Responses Files. These files are:

Question Paper 21, June 2016	
Question paper	9708_s16_qp_21.pdf
Mark scheme	9708_s16_ms_21.pdf
Question Paper 42, June 2016	
Question paper	9708_s16_qp_42.pdf
Mark scheme	9708_s16_ms_42.pdf

Past papers, Examiner Reports and other teacher support materials are available on Teacher Support at **https://teachers.cie.org.uk**

How to use this booklet

Example candidate response – high	Examiner comments
 1 (a) The revenue from Tourists arrivals would be written in the current account, under the income account as money from tourists would be considered an inflow of money into the economy, as ... bringing in money into the ... government investment in new technology creating	**1** The candidate has referred to both where the revenue would be recorded, i.e. in the current account, and how it would be ... Mar... **2**

Answers by real candidates in exam conditions. These show you the types of answers for each level.
Discuss and analyse the answers with your learners in the classroom to improve their skills.

Examiner comments are alongside the answers, linked to specific part of the answer. These explain where and why marks were awarded. This helps you to interpret the standard of Cambridge exams and helps your learners to refine their exam technique.

How the candidate could have improved their answer

(e) This response could have been improved by the candidate explaining more clearly how new technology would lead to an increase in productivity and efficiency ... likely strength of the link between investment and an i...

(f) This response could have been improved by furthe... awarded all four marks for the discussion but there we... candidate was awarded one of these two marks for m... discussed, but this evaluation could have been develop... could also have brought in the concept of income elasticity of demand in relation to changes in income and decisions to go on holiday.

This explains how the candidate could have improved their answer and helps you to interpret the standard of Cambridge exams and helps your learners to refine exam technique.

Common mistakes candidates made in this question

In **(a)**, most candidates referred to where the revenue from tourist arrivals in Fiji would be recorded, but relatively few went on to state how it would be recorde...

In **(b)**, most candidates were able to show how the go... the price of sugar produced in Fiji, although a few can... to the right, bringing about a rise in price, rather than a...

This lists the common mistakes candidates made in answering each question. This will help your learners to avoid these mistakes at the exam and give them the best chance of achieving a high mark.

Assessment at a glance

For Cambridge International AS and A Level Economics, candidates:

- take Papers 1 and 2 only (for the Cambridge International AS Level qualification)

  or

- follow a staged assessment route by taking Papers 1 and 2 (for the Cambridge International AS Level qualification) in one series, then Papers 3 and 4 (for the Cambridge International A Level qualification) in a later series

  or

- take Papers 1, 2, 3 and 4 in the same examination series, leading to the full Cambridge International A Level.

All components are externally assessed.

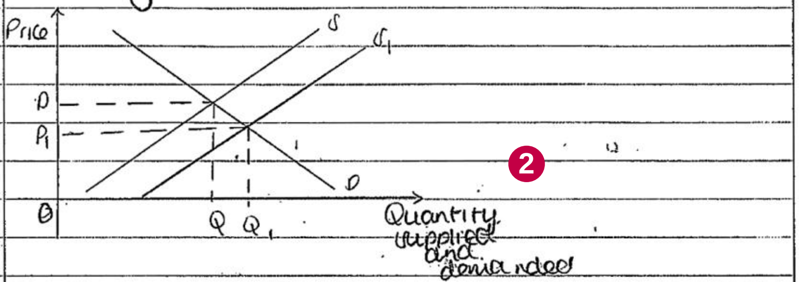
Component	Weighting	
	AS Level	A Level
Paper 1 Multiple Choice — **1 hour** 30 multiple choice questions based on the AS Level syllabus content 30 marks	40%	20%
Paper 2 Data Response and Essay — **1 hour 30 minutes** Section A: one data response question (20 marks) Section B: one structured essay from a choice of three (20 marks) Based on the AS Level syllabus content 40 marks	30% 30%	15% 15%
Paper 3 Multiple Choice — **1 hour** 30 multiple choice questions based on the Additional A Level syllabus content 30 marks		15%
Paper 4 Data Response and Essays — **2 hours 15 minutes** Section A: one data response question (20 marks) Section B: two essays from a choice of six (50 marks) Based on the additional A Level syllabus content 70 marks		10% 25%

Note: Papers 3 and 4 test the additional syllabus content for A Level, but also require a knowledge and understanding of the AS Level syllabus content.

Teachers are reminded that the latest syllabus is available on our public website at **www.cie.org.uk** and Teacher Support at **https://teachers.cie.org.uk**

Paper 2 – Data Response and Essay

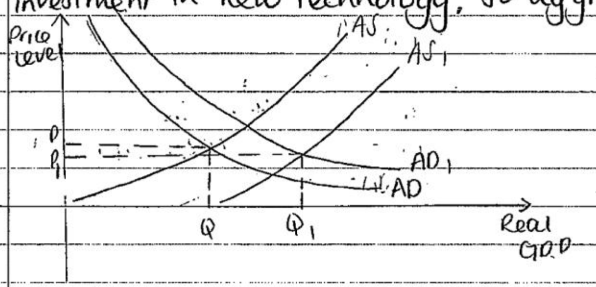
Question 1

Example candidate response – high	Examiner comments
1 (a) The revenue from Tourists arrivals would be written in the current account, under the income account as money ~~would~~ from tourists would be considered an inflow ~~and & if the gifts they as~~ of money into the economy, ~~and~~ as tourists would be bringing ~~in~~ money into the economy. **1**	**1** The candidate refers to where the revenue would be recorded, i.e. in the current account, and to how it would be recorded, i.e. as an inflow, so both marks are awarded. Mark for (a) = 2/2
(b)  **2** government investment in new technology creating efficiency while producing sugar would shift the supply curve to the right. Causing a reduction in price. from OP to OP1, as more is being supplied at a cheaper price.	**2** The candidate has drawn a clear and accurately labelled diagram which shows the supply curve shifting to the right, leading to a reduction in price from P to P_1. Both marks are awarded. Mark for (b) = 2/2
(c) The contribution of sugar in the visible export earnings were more as the price for sugar ~~were~~ decreased due to the government investment in new technology this in turn meant that more sugar is being exported as it ~~to~~ is now cheaper for foreigners. Furthermore, this increase in supply due to the ~~decrea~~ investment in new technology reduced prices. This reduction in prices, caused more to be exported suggests that the price elasticity of demand for sugar is elastic as a small change in price leads to a big change in the quantity demanded, as visible export earnings increased **3**	**3** The candidate earns all three marks for explaining the concept of price elasticity of demand. They state that the PED would be elastic and refer to the fact that there would be an increase in export earnings. Mark for (c) = 3/3

Example candidate response – high, continued	Examiner comments

from sugar

d inflationary measures remained subdued ~~as the aggr~~ because even though aggregate demand was increasing due to the increase in ~~net~~ net exports and consumption and investment. Aggregate supply was also increasing as the productive capacity increased due to the investment in new technology. ~~so aggregate~~



4

This is seen in the diagram above, the price level decreases as there is a shift in both aggregate supply and demand

(e) Increased investment means that firms are investing ~~in~~ more ~~the~~ in the form in order for the firm to generate make profits. Supply side capacity is the amount ~~of supply~~ that is being produced by the producers. Therefore, increased investment could adress supply side capacity constraints, as the investment ~~for example~~ in the case of Fiji investing in new technology would address ~~it~~ as new technology increases the ~~productive~~ capacity to produce as resources are being used more efficiently. Hence,

Examiner comments

4 The candidate has drawn a diagram which clearly shows an increase in both aggregate demand and aggregate supply. They explain that, owing to the increase in both of these, inflationary pressures remained subdued. Full marks are awarded for this answer.

Mark for (d) = 3/3

Example candidate response – high, continued	Examiner comments
leading to productivity. Therefore, investments in machinery and new technology would address supply side policy constraints in the Fiji economy, as it ~~wo~~ the capacity to produce would increase due to the productivity and efficiency brought. **5** (f) Visitor arrivals from Australia ~~to t~~ to Fiji have increased year-on-year, ~~This cou~~ while it decreased in Japan. This could be do to many things. The increase from Australia could be simply due to the ~~taste and~~ fact of the preference of the people. If many people ~~want to go on va~~ prefer to go to Fiji from Australia, then arrivals will increase as demand to go to Fiji has increased. On the other hand, if the Japanese do not have prefrence to go to Fiji over other places, then arrivals from Japan will decrease as there isn't demand ~~from the~~ for it from the people. Additionally, ~~the~~ the change in arrivals for both countries could be due to the income of the people from both countries, ~~it~~ as due to the increase in economic growth in Fiji ~~the~~ people have to account for the high prices in that country so income does play a really big part. If the Australian people generally have ~~a~~ higher income, then ~~they will be able~~ there will be demand for them to visit Fiji as they will be	**5** The candidate refers to the link between new technology and an increase in efficiency and productivity, but does not really explain how this would happen. Similarly, there is no real attempt to evaluate the strength of the link between investment and an increase in capacity. The answer is awarded two out of a possible four marks. Mark for (e) = 2/4

Example candidate response – high, continued	Examiner comments
able to afford it. Furthermore, their marginal propensity to consume has increased so more of their wants could be satisfied and they could want to go to Fiji for vacation. **6** On the other hand, a case like Japans where income could be low they wouldn't demand a holiday to Fiji, as they have other needs and wants that are of a higher importance, to them so they wouldn't demand a trip to Fiji therefore arrivals from Japan would be low Therefore, the changes in visitor arrivals to Fiji from australia and Japan are dependent on the demand to visit Fiji from their own population and the factors therefore affecting the demand such as income and preference, will determine ~~it~~ a rise ~~of~~ or a fall in visitor arrivals.	**6** The candidate refers to several possible economic factors that would help to explain the changes in visitor numbers coming to Fiji from Australia and Japan, such as changes in preferences, income, economic growth and price levels. The candidate is awarded four marks for the discussion and one further mark for an attempt to offer some evaluation in the final paragraph. However, the evaluation needed to be developed more fully to earn the second evaluation mark. Mark for (f) = 5/6 **Total marks awarded = 17 out of 20**

How the candidate could have improved their answer

(e) This candidate could have improved their response by explaining more clearly how new technology would lead to an increase in productivity and efficiency and by offering some evaluation on the likely strength of the link between investment and an increase in capacity.

(f) The candidate was awarded all four marks for their discussion of this question, but there were also two marks available for evaluation. The candidate was awarded one of these marks for attempting to evaluate the factors discussed, but this evaluation could have been developed more fully. For example, they could also have brought in the concept of income elasticity of demand in relation to changes in income and decisions to go on holiday.

Marks awarded: (a) = 2/2, (b) = 2/2, (c) = 3/3, (d) = 3/3, (e) = 2/4, (f) = 5/6.

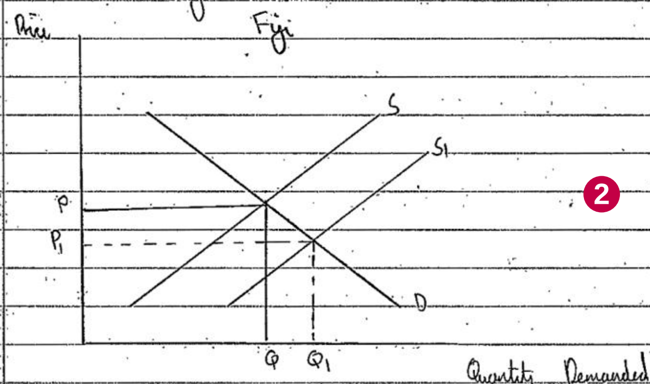
Total marks awarded = 17 out of 20

Example candidate response – middle

Section A

3 a.) The revenue of tourist arrivals would be recorded in the current account as ~~an~~ a ~~service~~ invisible balance because it is a ~~service and~~ domestic service. **1**

b.) Sugar Production in Fiji



Government investment in new technology improved efficiency of production ~~reduces~~ which increases the supply of sugar from S–S1. This in turn due to more sugar available reduces price from P–P1

c) The contribution of sugar to export earnings suggests that sugar is inelastic. This ~~is because~~ in the short run but due to an the investment in technology and improved efficiency that increased it's supply, sugar ~~for~~ becomes ~~for~~ more price elastic ~~as the demand in sugar was greater in proportion than the change in price.~~

Examiner comments

1 The candidate earns one mark for stating that the revenue from tourist arrivals would be recorded in the current account, but the second mark could not be awarded as it is not made clear that this would be a credit item.

Mark for (a) = 1/2

2 The candidate earns both marks for a diagram which clearly shows the supply curve shifting to the right and a consequent reduction in price from P to P_1.

Mark for (b) = 2/2

Example candidate response – middle, continued	Examiner comments
3 Elasticity is PED is the responsiveness of ~~qu~~ quantity demanded ~~goods~~ relative to a change in it's price of a product It is hard to tell the elasticity as the changes in price of sugar are not given in the information. d.) Higher growth in Fiji was down to increase in components of Aggregate demand. Which is the total demand in an economy. **4** Growth increase due to especially Government spending consumer spending and net exports. Aggregate Supply is the total supply in the economy. Both ~~products~~ aggregate supply and aggregate demand are rising simultaneously and this stops inflationary pressure. Aggregate supply was rising due to increased production of sugar. The rise in both aggregate supply equal to ~~agg~~ or almost the same as aggregate demand subdued inflationary pressures. e.) Increased investment by the Fiji governments will subsidise firms producing sugar and this reduces the costs of production for firms allowing them to produce more sugar at a cheaper price. This increases the supply in the market and deals with the constraints. In addition more investment allows firms to experience economies of scale and sugar producers ~~the~~ use the invested money	**3** The candidate earns one mark for explaining that PED refers to the relationship between a change in demand for a product and a change in its price. Unfortunately, the candidate writes about PED being both inelastic and elastic without making it clear which is correct. Mark for (c) = 1/3 **4** The candidate refers to an increase in both aggregate demand and aggregate supply, and explains how this has helped to subdue inflationary pressures. All three marks are awarded for this response. Mark for (d) = 3/3

Example candidate response – middle, continued

5

to buy capital and land which increases storage capacity allowing firms to stock more sugar which increases the elasticity of the product and as supply is increased.
Subsidisation to the tourism sector will allow these firms to ~~?~~ spend more on advertising and quality of things such as hotels, luxury that attract more people to Fiji increasing revenue.

f.) Economic factors that can help to explain changes in visitor arrivals are various.

6

One reason would be Foreign Direct Investment ~~from New Zealand and~~ Australia into Fiji as it would be attractive hence Fiji is a growing economy and hot money start starts to flow into the country increasing visitors from those countries.
In addition the growing tourism sector allows firms more income to advertise to the countries as well and people from ~~New Zealand~~ and Australia will visit Fiji also due to it's geographic location as it is close and cheap to travel there.
Japan's visitors may have fallen due to an increase in Fiji's strength in exchange rate making it more expensive to travel to Fiji that is very far from Japan compared to ~~New~~ Zealand and Australia. In addition Fiji may have created trade tariffs on Japanese imports

Examiner comments

5 The candidate refers to the link between investment and supply-side capacity, but the explanation of this link could have been developed more fully. There could also have been an attempt to evaluate the strength of the link. The answer is therefore given two of the four possible marks.

Mark for (e) = 2/4

6 The candidate refers to some possible economic factors, such as changes in income, exchange rates and transport costs, but there needed to be a clearer focus on these factors rather than on trade between the countries. There is no real attempt at evaluation, so two of the six available marks are awarded.

Mark for (f) = 2/6

Example candidate response – middle, continued	**Examiner comments**
causing a reactionary aspect from Japan reducing visitors. In conclusion reasons as to why Japan visitors reduced compared to Australia and is speculati but could be down to foreign investment in the country and transport costs.	**Total marks awarded = 11 out of 20**

How the candidate could have improved their answer

(a) The candidate was awarded one mark for referring to the fact that the revenue from tourist arrivals would be recorded in the country's 'current account', but the second mark was not awarded because the candidate did not refer to the fact that this was a 'credit' item.

(c) The candidate was only awarded one of the three marks for stating that price elasticity of demand refers to a change in quantity demanded relative to a change in its price. To gain the other two marks, the candidate needed to make it clear that PED in this situation would be elastic, instead of providing a confused answer that did not make it clear whether the answer was elastic or inelastic. The candidate also needed to state that there would be a rise in expenditure.

(e) The candidate was awarded two out of four marks here. To gain the additional two marks, they needed to give a clearer explanation of the link between investment and an increase in capacity, along with an evaluation of the strength of that link.

(f) The candidate was awarded two out of six marks here, as their answer needed to have a clearer focus on visitors from Japan and Australia, rather than on trade between these countries and Fiji. There were also two marks available for an evaluation of the factors explaining the changes in visitor arrivals from Australia and Japan.

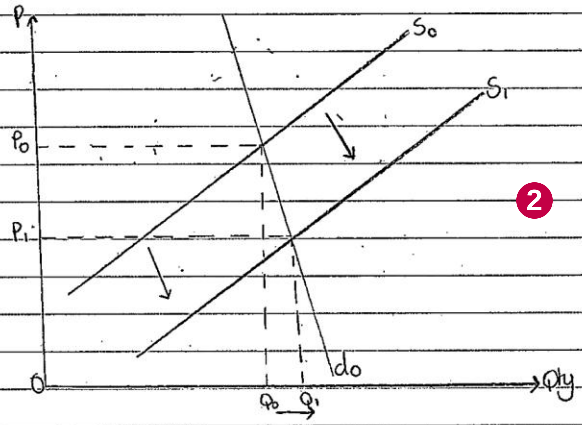
Marks awarded: (a) = 1/2, (b) = 2/2, (c) = 1/3, (d) = 3/3, (e) = 2/4, (f) = 2/6.

Total marks awarded = 11 out of 20

Example candidate response – low

1 a Revenue from tourist arrivals in Fiji would be recorded in the current account in Fiji's balance of payments as the trade in service and invisible balance.

1 b)



The investment from the government increased supply and reduced the price from P_0 to P_1.

1 c The price elasticity of sugar should be relatively inelastic as a change in price leads to a less than proportionate change in quantity demanded. The visible export earnings show that people still demand sugar despite the change in price.

1 d Inflation is the general and consistent rise in the price level of goods. Inflationary pressures remained subdued as the economy priced their goods differently from what other economies where charging.

Examiner comments

1 The candidate earns one mark for stating that the revenue from tourist arrivals would be recorded in the current account, but the second mark could not be awarded because there is no indication that this would be a credit item.

Mark for (a) = 1/2

2 The candidate gains both marks for clearly showing a shift of the supply curve to the right and a reduction in price from P_0 to P_1.

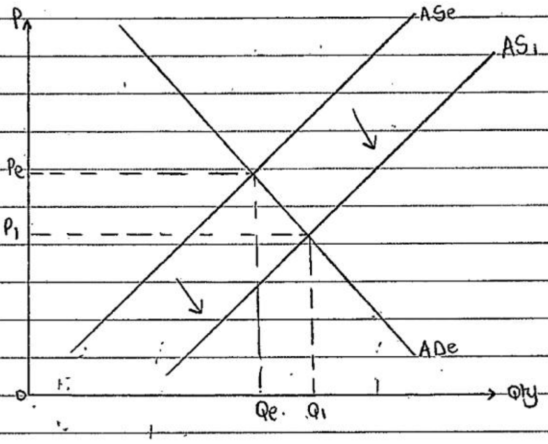
Mark for (b) = 2/2

3 The candidate does not gain any marks here, as the answer is given as ‘inelastic’ rather than elastic and the concept of PED is not clearly explained.

Mark for (c) = 0/3

Example candidate response – low, continued

4



An increase in the supply of a commodity in an economy ceteris paribus would lead to a decrease in the price of that good.

1 e Investment could address supply-side constraints in the Fiji economy as money is used to develop new infrastructure and increase the capacity of an economy. This would be done by the utilisation of new technology and resources until Fiji is producing and thereby supplying at its full capacity and capacity. The improvement of productivity would only work if there are improvements in the factors that will allow this productivity to take place such as factors of production

5

1 f There were more visitors from Australia to Fiji at 4.6% increase. This may have been because of an increase in the disposable income in the Australian economy. This means people are able to spend the extra money they have left from the deduction of expenses such as tax. A decrease in visitor arrivals from Japan could have been caused by changes in their preferences as they might have been interested in different areas or tourist places other than Fiji.

6

Examiner comments

4 The candidate gains one mark for the consideration of a shift in the AS curve to the right, but there is no consideration of AD.

Mark for (d) = 1/3

5 The candidate earns two marks for stating that new infrastructure and new technology contribute to an increase in capacity, but the explanation needed to be developed more fully and there needed to be some evaluation of the strength of the link.

Mark for (e) = 2/4

6 The candidate earns two marks for the discussion of increases in disposable income and changes in preferences, but the answer is rather limited and needed to be developed more fully. There is no attempt to offer any evaluation of the factors.

Mark for (f) = 2/6

Total marks awarded = 8 out of 20

How the candidate could have improved their answer

(a) The candidate was awarded one of the two marks for stating that the revenue from tourist arrivals would be recorded in the ‘current account’, but there was no reference to the fact that it would be recorded as a ‘credit’ item.

(c) The candidate was not awarded any marks here because they incorrectly stated that PED would be ‘inelastic’, rather than giving the correct answer of ‘elastic’. The candidate would have been awarded further marks if they had explained the concept of price elasticity of demand and that where PED is elastic, this would lead to a rise in expenditure.

(d) The candidate was awarded one mark for showing that there would be a shift to the right of aggregate supply. Further marks could have been awarded if the candidate had explained that there would also be an increase in aggregate demand and that the increase in both AD and AS would lead to inflationary pressures remaining subdued.

(e) The candidate was awarded two marks, but they could have been awarded further marks if they had explained more clearly the link between new infrastructure, new technology and the increase in capacity, and if they had evaluated the likely strength of that link.

(f) The candidate was awarded two marks for discussing the effects of changes in Australian disposable incomes and changes in Japanese preferences, but this was a rather limited response that needed to be developed more fully. There were many more factors that could have been included, and there were two marks available for evaluation, rather than just discussion, of those factors.

Marks awarded: (a) = 1/2, (b) = 2/2, (c) = 0/3, (d) = 1/3, (e) = 2/4, (f) = 2/6.

Total marks awarded = 8 out of 20

Common mistakes candidates made in this question

(a) Most candidates referred to where the revenue from tourist arrivals in Fiji would be recorded, but relatively few went on to state how it would be recorded in Fiji’s balance of payments, i.e. as a credit item.

(b) Most candidates were able to show how the government investment referred to in the article affected the price of sugar produced in Fiji, although a few candidates shifted the supply curve to the left, rather than to the right, bringing about a rise in price, rather than a fall.

(c) Some candidates did not seem to clearly understand the concept of price elasticity of demand and some thought that the PED would be inelastic rather than elastic.

(d) Despite the reference to both aggregate demand and aggregate supply in the question, many candidates referred to one or the other, rather than both.

(e) A number of candidates did not develop their answers fully enough, especially by explaining exactly how an increase in investment could address supply-side capacity constraints in the Fiji economy, and few candidates offered any evaluation of the likely strength of this link.

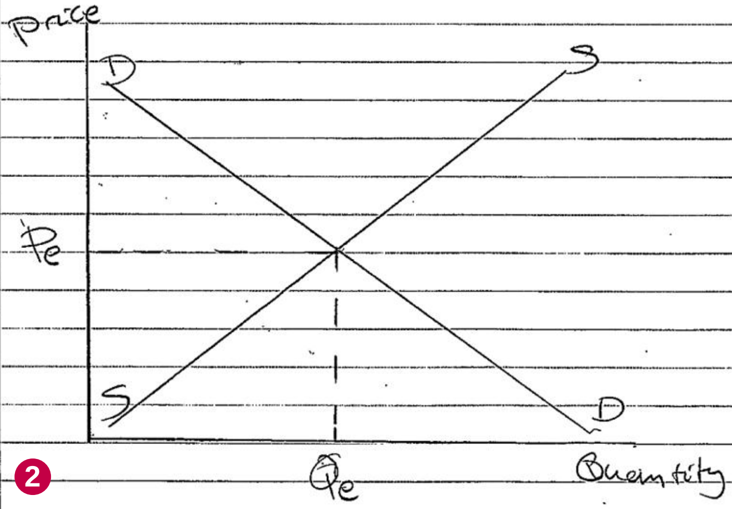
(f) Some candidates wrote in general about Japanese and Australian visitors, but thought there was an increase or decrease in both, rather than an increase in visitors from Australia and a decrease in visitors from Japan. Although there was some good discussion of the economic factors behind the changes, relatively few candidates offered an evaluation of these.

Question 2

Example candidate response – high

2 a ~~Equilibrium price and quantity refers to when there is no~~

Equilibrium refers to when there is no tendency to change either price or quantity, ~~because~~ its the point ~~where~~ where demand and supply meet and are the same ~~ ~~ ~~equal~~ ~~are~~ and equal. Equilibrium price is ~~identified~~ identified by the point where demand curve & supply curve meet. Quantity is identified at the ~~point~~ point where demand curve & supply curve meet.

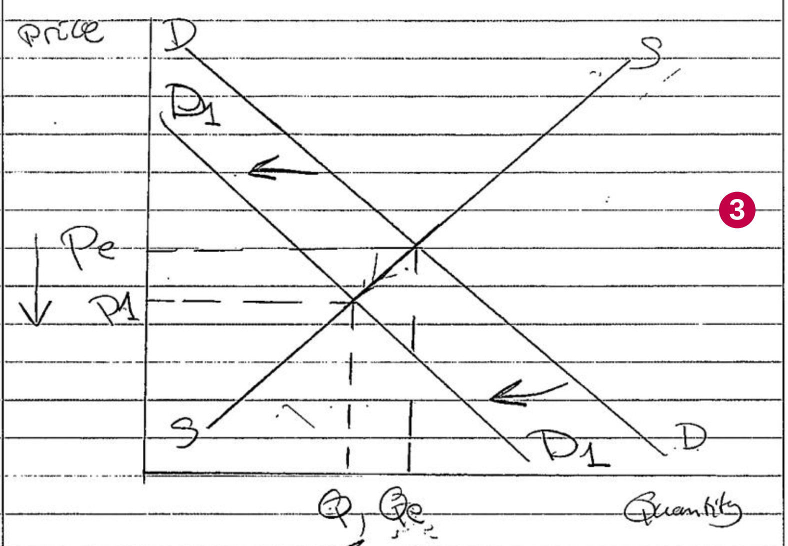


The equilibrium price and quantity can be identified as Pe and Qe respectively. Equilibrium price is where ~~the market~~ ~~clears at~~. market clearing occurs.

Examiner comments

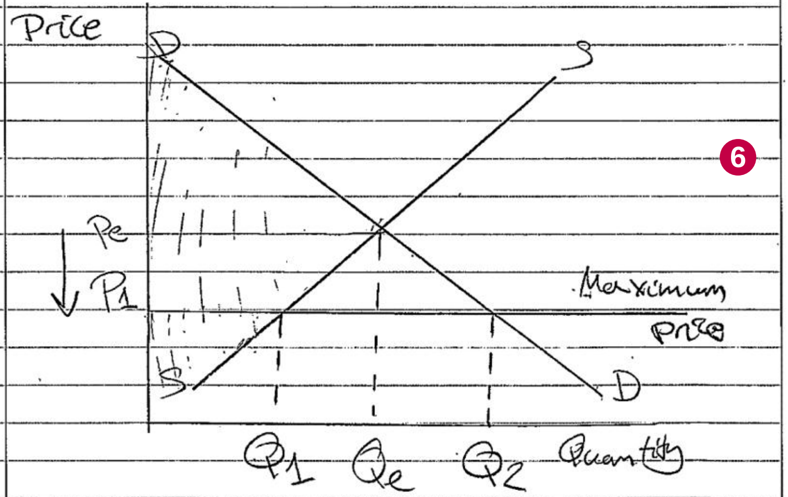
1 The candidate clearly explains that equilibrium refers to a situation where there is no tendency to change either price or quantity.

2 The candidate includes an appropriate diagram to support their explanation of the term ‘equilibrium price and quantity’. Four marks are awarded for knowledge and understanding of this term.

Example candidate response – high, continued	Examiner comments
 3	**3** The candidate includes a diagram which clearly shows the situation when there is a decrease in the demand for a product, with the demand curve shifting to the left and price falling from Pe to P_1.
4 When there is a ~~dec~~ decrease in demand the demand curve shifts to the left, this creates a downward pressure on prices, ~~and moves the equilibn~~ Prices decrease from Pe to P1 and quantity also decreases from Qe to Q1. The new equilibrium ~~point~~ price and quantity is established at ~~P1 Q~~ P1 and Q1 respectively.	**4** The candidate provides a clear explanation of what happens when there is a decrease in demand, making it clear where the new equilibrium position would be established. Four marks are awarded for application to the context of the question. Mark for (a) = 8/8

Example candidate response – high, continued

2 b Maximum price or Price Ceiling is ~~the~~ a type of government intervention that imposes a new ~~price~~ price limit under the market equilibrium price. ~~That~~ ~~It is the new price is.~~ Firms cannot exceed that price imposed by the government. In order for a maximum price to be effective it has to be imposed under the equilibrium price. **5**



~~The rationing mechanism~~ Consumers are willing to ~~be~~ consume at Q1 while Suppliers are willing to supply at Q2.

The imposition of a maximum price ~~lowers the~~ lowers the price of the product thus making it more affordable

Examiner comments

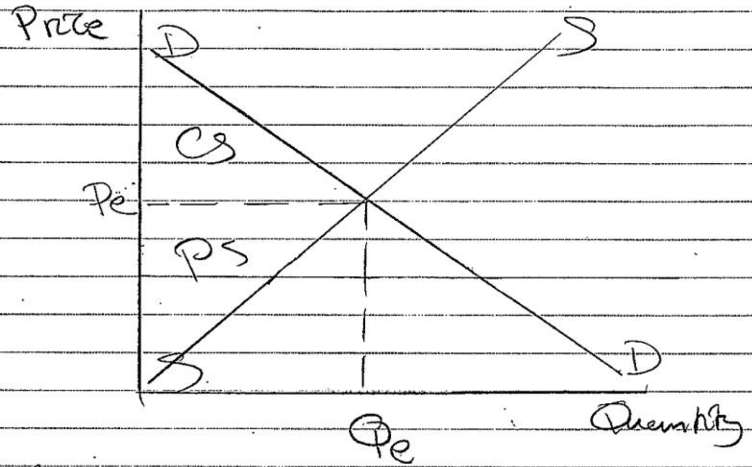
5 The candidate makes it clear what is meant by a maximum price, stressing that this will be below the market equilibrium price.

6 The candidate includes an appropriate diagram that clearly shows the maximum price below equilibrium.

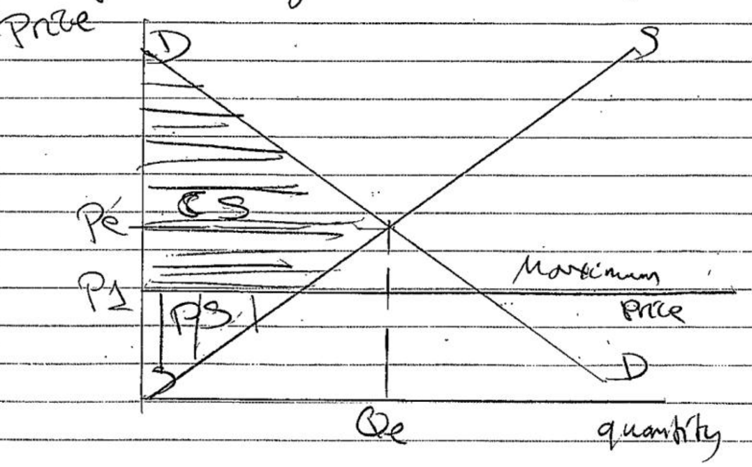
Example candidate response – high, continued	Examiner comments
which benefits poorer consumers. **7** ~~the~~ The imposition of a ~~maximum~~ maximum price ~~lower~~ increases the ~~m~~ consumer surplus ~~price~~ which is to say consumers are paying less than they are willing meaning they have more disposable incomes. Maximum prices are usually imposed on ~~need~~ vital goods such as agriculture goods, electricity and water. Poorer consumers now have access to those goods and services and so their living standards improved due to its affordability. **8** On the other hand, attempts to help the poorer consumers may backfire because maximum prices create shortages due to demand ~~out~~ outstripping supply as a result of its cheapeness and affordability, and so poorer consumers will not benefit if they are unable to find food or ~~use~~ electricity, moreover the shortages created by the ~~max~~ imposition of ~~t~~ a maximum price may give rise to blackmarkets or hidden ~~econ~~ economies where the poorer consumers will ~~be~~ pay above the ~~maximum~~ maximum price or in some cases above the market price of Pe, thus not benefitting from the price ceiling. **9**	**7** The candidate makes it clear why a maximum price can be beneficial for poorer consumers. **8** Point 7 (above) is further developed in relation to living standards, with the use of appropriate examples to support the discussion. **9** The candidate discusses possible problems, such as shortages and the rise of black markets.

Example candidate response – high, continued	Examiner comments

The maximum price may discourage producers to enter the market or become more efficient because the producer surplus has decreased



The area labeled CS shows the consumer surplus while the area labeled as PS ~~shows~~ shows the producer surplus before the maximum price



Example candidate response – high, continued	Examiner comments
The area with the horizontal lines shows the producer surplus after the maximum price while the vertical lines shows the producer surplus after ~~the~~ ~~f~~ ~~tht~~. The producers revenue also falls thus making this market even more unattractive. The imposition of a maximum price can be successful if it is properly imposed and the market be properly regulated, however ~~there is also the poss~~ this is costly to the government and they could have been ~~to~~ helping their poorer consumers through alternative means such as ~~subs~~ by imposing a subsidy or ~~providing those by goods~~ for direct provision of these goods. Maximum prices may be ~~once~~ unsuccessful due to the risk of failure and creating government failure. ~~To conclude, maximum prices can be successful but it will create additional costs for poorer consumers but~~ ~~To conclude, des~~ Despite the benefits ~~it~~ maximum prices provide to poorer consumers the drawbacks and problems **10** it creates will ~~outw~~ outways the benefits. Governments could be more successful by introducing subsidies which will make consumers better off and improve the efficiency of the market and create competition by attracting firms.	**10** The candidate makes a good attempt at some evaluation, gaining a mark of 8/8 for analysis and 3/4 for evaluation. Mark for (b) = 11/12 **Total marks awarded = 19 out of 20**

How the candidate could have improved their answer

In part **(a)**, the candidate was awarded all eight marks. They demonstrated clear knowledge and understanding of ‘equilibrium price and quantity’ and were able to apply this knowledge by showing the process through which equilibrium is established when there is a decrease in demand.

In part **(b)**, the candidate was given a mark of 11 out of 12, receiving a full eight marks for analysis of the impact of a maximum price for necessities and three out of four marks for evaluating the likely success of this. The answer could have been improved if the candidate had developed their evaluation a little more fully, for example in relation to possible shortages, the potential rise of black markets and the effects on producers.

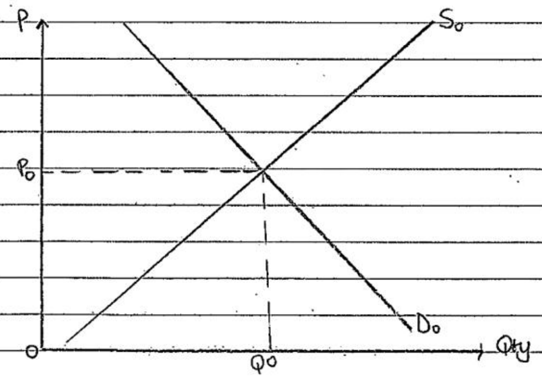
Marks awarded: (a) = 8/8, (b) = 11/12.

Total marks awarded = 19 out of 20

Example candidate response – middle

Section B.

2 a In the market for a good or service, where the demand for a product and its supply meet, there an equilibrium price and quantity is established. This means that that amount of the good at equilibrium quantity is purchased at that price. This is further illustrated in the following diagram:



Assumming that both the demand and supply of a good are relatively elastic, the equilibrium price of that good would be. P_0 and the quantity demanded or supplied at that price would be Q_0. This is called an equilibrium point as the demand exactly meets the supply ceteris paribus.

Examiner comments

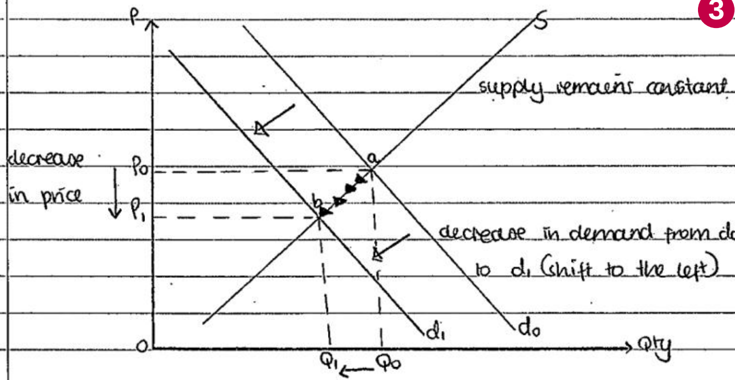
1 The candidate explains that an equilibrium position is where demand and supply meet.

2 The candidate includes a diagram to support their explanation and also considers this in relation to the price of P_0. Two marks are awarded for knowledge and understanding of the term, as there is no reference to 'no tendency to change'.

Example candidate response – middle, continued

When there is a decrease in demand, a new equilibrium position is established when producers start to bid down their prices as there is excess supply. This is illustrated in the following diagram:

3



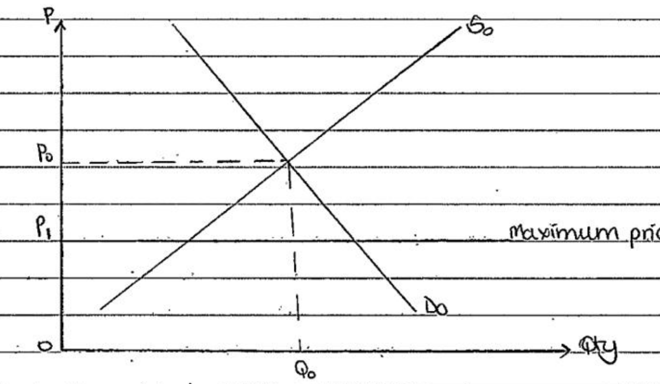
4 As demand fell from d_0 to d_1, the producers bid down the prices from a to ~~be~~ b and a new equilibrium price and quantity was established at P_1 being the new price and Q_1 being the new quantity demanded. The problem of excess supply is then resolved through the establishment of a new equilibrium point.

Examiner comments

3 The candidate makes good use of the diagram to explain what happens when there is a decrease in demand, with the demand curve shifting to the left and the decrease in price from P_0 to P_1 clearly shown.

4 The candidate provides a reasonable explanation of the establishment of a new equilibrium, although it could have been developed more fully. Two marks are awarded for application.

Mark for (a) = 4/8

Example candidate response – middle, continued	Examiner comments
2 b A maximum price is a price control that is used to benefit and protect a consumer from exploitation as the producer is not allowed to sell the product at any price above the one that would have been set by the government. **5**	**5** The candidate explains what is meant by a maximum price and includes an appropriate diagram to support the explanation.
An effective maximum price is set below the equilibrium price as shown in the following diagram :	
	
This means that every producer is only allowed to sell their product at price P_1 or below that. This is the case in Zimbabwe where bread is sold at US$1 or below and producers are not allowed to sell at a higher price because of the maximum price set by the government. **6**	**6** An appropriate example from Zimbabwe is included to support the analysis here.
The introduction of a maximum price for necessities therefore makes the product affordable and easily accessible to the poorer consumers in an economy as the government tries to protect	

Example candidate response – middle, continued	Examiner comments
its citizens from exploitation of high prices from the producers. **7** However, when setting this maximum price, the government should take into consideration the cost of producing these goods. This means that if the government sets the maximum price at below the cost of production, there will be shortages in the economy of that necessity. This is because the law of supply states that more is ~~dem~~ supplied at a higher price. Most of the businesses that supply necessities could also be profit motivated and therefore if the maximum price reduces their level of profits and producers are not able to cover their expenses, these businesses may be shut down therefore there are shortages and the government might have to intervene again by the use of subsidies as financial assistance to these companies so that cost of production decreases. **8** The government might also need to intervene directly by providing these goods for the people. This will allow them to produce these goods at a lower price to accommodate the poorer consumers and provide these necessities at a lower price. The maximum price may be successful if it is set at a price that is higher than the cost of production and still earns the producers enough profit to continue production. However, the likeliness of this may be low and therefore the government would have to look into other methods of intervening as mentioned above.	**7** The candidate considers how the introduction of a maximum price for necessities could be of benefit to poorer consumers. **8** The candidate makes an attempt to offer some evaluation here, but it really needed to be developed more fully. The response is awarded a mark of 6/8 for analysis and 1/4 for evaluation Mark for (b) = 7/12 **Total marks awarded = 11 out of 20**

How the candidate could have improved their answer

The candidate was awarded four marks in part **(a)**. They could have expanded their answer here, for example in relation to the idea that an equilibrium position is where there is ‘no tendency to change’. The candidate gained just two marks for their application of the concept to a situation where there was a decrease in demand, largely because their answer was not developed sufficiently. They could have improved their answer by considering more fully how a new equilibrium would have been established as a result of the decrease in demand, making more effective use of the diagram included in the answer.

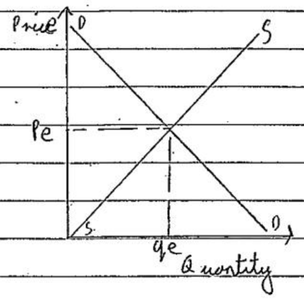
In part **(b)**, the candidate was awarded six marks for their analysis of the impact of a maximum price for necessities, but needed to include better evaluation of the potential success of this strategy (e.g. possible shortages, the effects on producers) to receive more than one of the four marks available.

Marks awarded: (a) = 4/8, (b) = 7/12.

Total marks awarded = 11 out of 20

Example candidate response – low

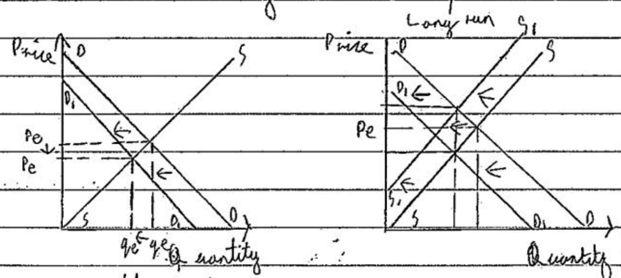
2 a



1

2 Equilibrium price and quantity arise when the supply ~~ad~~ and demand ~~are equal~~ for a good or service is equal. A ~~tn~~ the equilibrium price the market is working at the optimum level.

short run



3 ~~A decrease in the demand for~~

A change in one of the determinants of demand except price would cause the demand curve to shift. If the was a decrease in the taste or a loss of fashion of the good the demand curve would shift to the left cause a new equilibrium. In the short run supply would remain the same but in the long run the decrease in demand would cause a reduction in output causing the supply curve to shift to the ~~right~~ left.

Examiner comments

1 The candidate has included a diagram to show how Pe and Qe are established in a market.

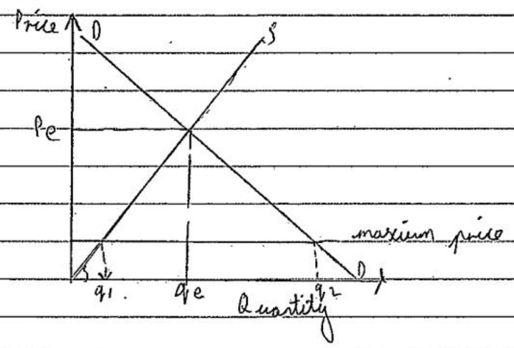
2 The candidate makes an attempt to explain the meaning of ‘equilibrium price and quantity’, but could have developed their answer more fully, e.g. by referring to the idea of ‘no tendency to change’. Two marks are awarded for knowledge and understanding here.

3 The candidate shows how a new equilibrium position is established in a market when there is a decrease in demand, using appropriate diagrams, although their explanation could have been developed more fully. Two marks are awarded for application.

Mark for (a) = 4/8

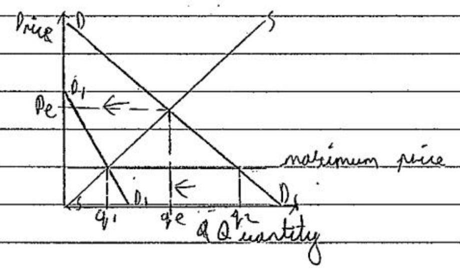
Example candidate response – low, continued

b



A maximum price is a price level set below the equilibrium price level in order to aid poorer consumers. Though the introduction of a maximum price would result in an increase in quantity demanded and at the maximum price suppliers are not willing to meet the quantity demanded. **4**

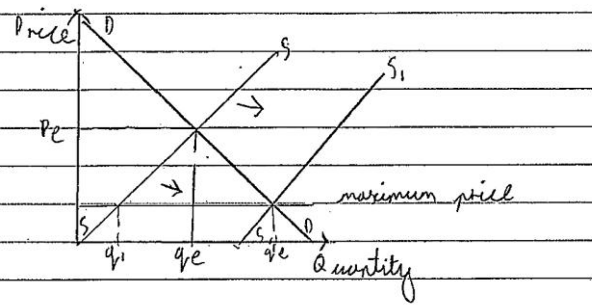
∴ ~~So governmen~~



So government can either shift the demand curve to ~~mea~~ meet the suppliers quantity supplied though this will make the use of a maximum price null and void or

Examiner comments

4 The candidate attempts to explain what is meant by a maximum price and has included a diagram to support their analysis.

Example candidate response – low, continued	Examiner comments
 Government can cause the supply curve to shift to meet demand. Government could **5** use subsides to increase ~~supp~~ supply or if government has the good in storage they themselves can supply the good. The use of subsides would come with an opportunity cost. Opportunity cost being the best alternative forgone meaning instead of government using ~~mon~~ funds on things like ~~tea~~ roads or schools they would be ~~subsidsing~~ subsidising industries to produce the good. **6**	**5** The candidate considers subsidies as a possible alternative approach. **6** The candidate attempts to offer some evaluation in relation to the concept of opportunity cost, but this really needed to be developed further, e.g. considering the possible rise of black markets. The answer earns 4/8 for analysis and 1/4 for evaluation. Mark for (b) = 5/12 **Total marks awarded = 9 out of 20**

How the candidate could have improved their answer

In part **(a)**, the candidate was awarded just two marks for knowledge and understanding of 'equilibrium price and quantity', as their explanation was rather brief. The candidate earned two marks for the application of their answer to the particular context of the question. There was some consideration of the effect of a shift of the demand curve to the left, but there needed to be a better link to the new equilibrium position that would be established in the market.

In part **(b)**, the candidate could have developed their analysis of the effects of introducing a maximum price more fully, e.g. in relation to the possible existence of shortages, in order to gain more than four marks. They were awarded only one mark for evaluation, largely for their attempt to bring in the idea of opportunity cost. There was clearly more that the candidate could have written in relation to whether a maximum price would ever be successful, such as considering the potential rise of black markets.

Marks awarded: (a) = 4/8, (b) = 5/12.

Total marks awarded = 9 out of 20

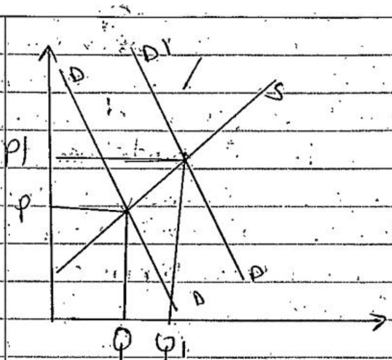
Common mistakes candidates made in this question

In part **(a)**, many candidates failed to demonstrate that they understood the term 'equilibrium price and quantity' as representing a situation where there was no tendency to change, i.e. the prevailing situation was at rest.

In part **(b)**, many candidates drew a useful diagram to support their answer, but unfortunately many of these placed the maximum price above, rather than below, the equilibrium. Many candidates wrote about the potential advantages of the introduction of a maximum price for necessities, but there was much less willingness to analyse the possible disadvantages of such a scheme. Relatively few candidates offered any meaningful evaluation of whether such a scheme could ever be successful.

Question 3

Example candidate response – high	Examiner comments
3 a **1** Factor enterprise is responsible for organising resouces and taken the financial risk in the production proces inother to produce good and services with the main aim ~~af~~ profit. Demand is the ~~In this morden economy~~ willingness and ability to purchase the goods at a particular price over a period of time. In the morden economy, enterprise are responsible for indentifying the needs or wants of consumers and organising the factors of production land, labour and capital by investing finance into the purchase or hire of these factors of production inotherer to satisfy the wants of consumers and gain profit. **2** Enterprise innovate methods to promote effeciency in the use of scare resources inother to increase productivity and hence increase revenue. They intoduce cost effective methods of production inother to improve their revenue. They conduct research and development ~~methods~~ ~~Service~~ serveys and they are therefore able to indentify the needs of consumers and find means of solving them effectively. **3** A rise in the demand for their goods would set as an incentive to increase their ~~Re~~ price inother to gain more revenue. However this will depend on the elasticity of demand of their product. If demand for their product is inelastic, the increase in price of good and services would help increase the revenue of there producers. This can be illustrated below.	**1** The candidate starts by stating that the functions of enterprise include organising and risk taking. **2** The candidate gives a useful outline of the functions of enterprise in a modern economy here, although more could have been written on the risk-taking function. Three marks are awarded for knowledge and understanding. **3** The candidate recognises that a rise in the demand for a good would consequently lead to a rise in price.

Example candidate response – high, continued	**Examiner comments**
 **4** When demand is inelastic, a ~~small~~ large rise in price would lead to a greater rise in quantity demande. When demand is elastic however it would be advisible to reduce price when demand rise.	**4** The candidate has produced a good answer in terms of how enterprise responds to an increase in price, so gains all four marks for application. Mark for (a) = 7/8

Example candidate response – high, continued	Examiner comments
3 b. Mixed economy is an economic system that ~~com~~ combines ~~bot~~ both public and private sector in the allocation of resources. The mixed economic system combines centrally planned and market economies. Market economy is the economic system with no government intervention and resources are owned and controlled by the private sector – individuals and firms. The centrally planned economic system on the other hand, allows resources to be controlled, owned and accountable to the state. In the mixed economic system the market are left to allocate resources because its a more efficient economic system due to competition. Producers are innovative and there is a wider range of goods and services for consumer to choose from. The ~~pta~~ government intervine when the market fail to produce ~~harmful~~ ~~or~~ public goods, merit goods and when the produce harmful goods and services. **5** The private enterprise opperate the price machinasm – resourses are allocated by force of demand and supply. These producers are profit-minded and the reward for their effort is profit hence they will only produce goods that are profitable. The goods and services produced by these individual and firms are rivary in consumption which means that their consumption by one person reduce the amount available for others to consume.	**5** The candidate focuses on the provision of public goods and merit goods.

Example candidate response – high, continued	Examiner comments
They are excludable since it is possible to regulate the amount of people that can consume the goods by charging a price. These goods are also rejectable hence an individual can decide weather or not to consume the goods. Typical examples of goods provided by the private enterprise include ~~Ar~~ Hotels, transport, food stuff etc. **6**	**6** The candidate provides a useful summary of the key features of private goods.
The Government on the other hand turn to produce goods that are non-excludable since the free rider problem makes its difficult to exclude someone from consuming the good. They are also non rival because the consumption by one person does not limit the amount of the good available for others to consume. They are non rejectable because, you can not reject the consumption. **7** Street light and national defence are typical examples of the public goods provided by government. Street light is non excludable due to the free rider problem. People will be able to consume the goods without having to pay for the light. They are also non rivalry and non rejectable.	**7** The candidate outlines the main features of public goods, including appropriate examples.
There is no gain saying the fact that **8** there is a clear distention between goods provided by private enterprise and the government. However, there are some instances when social enterprise which are private business with the main aim of benefiting society may invest in contration of roads, streets lights etc and these institutions are not publically owned. Also, private individuals and firms may supply eg: weapons, ~~etc~~ etc to the public sector and they are not public or government firms but they produce goods and services to the government while the government finance the project.	**8** The candidate makes an attempt at evaluation here, but this really needed to be developed more fully. Analysis is awarded a mark of 7/8 and evaluation a mark of 2/4. Mark for (b) = 9/12 **Total marks awarded = 16 out of 20**

How the candidate could have improved their answer

In part **(a)**, the candidate was awarded seven of the available eight marks. Three marks were awarded for knowledge and understanding of the functions of enterprise in a modern economy; to gain the fourth mark, the candidate needed to go into a little more detail on the risk-taking aspect of enterprise. The candidate was awarded all four marks for application to the context of the question.

In part **(b)**, the candidate was awarded a mark of nine out of twelve. Seven of the eight marks were for the analysis of how private, merit, demerit and public goods were provided, and, while this was a good mark, the candidate could have been awarded the additional mark by developing their analysis of the different kinds of goods more fully, including more examples to illustrate the differences between them. In terms of evaluation, the candidate was awarded two of the possible four marks, but their answer would have been improved by further evaluation, such as in relation to why it is the case that some goods are provided by government and some by private enterprise in a mixed economy.

Marks awarded: (a) = 7/8, (b) = 9/12.

Total marks awarded = 16 out of 20

Example candidate response – middle	Examiner comments
3a A The factor of production 'Enterprise' is the risk-taking factor that organises all the other factors of production, being land, labour and capital. Enterprise is reponsible for the production of consumer goods and services, for example mobile phones watches and restauration or tourism services. It is the factor of production that has to do with the entrepreneur who is the person who risks his or her personal finances into a new business venture hoping that it will be successful.	**1** The candidate refers to the organising and risk-taking functions of enterprise. **2** The candidate earns two marks for knowledge and understanding here. However, they could have explained the two main functions of enterprise more fully.
Enterprise will respond positively to a rise in the demand for a good. Enterprise will make sure to produce the highest amount of output with the given amount of resources in order to maximise its ~~product~~ profit as the reward for this factor of production is profit. Enterprise would also want to ensure producing quality goods and services for consumer satisfaction and good reputation in order for consumers to repeat sales. Another important function will be that it provides high tax revenue for the government as it makes alot of profit which can be taxed.	**3** The candidate attempts to explain how enterprise responds to a rise in the demand for a good, although there is no explicit reference to a rise in price. Two marks are awarded for application. Mark for (a) = 4/8
3b B A mixed economy is an economy that consists of both the private and public sectors. This therefore means that there are some goods produced by private firms and individuals and others by the State or government.	**4** The candidate provides a brief explanation of what is meant by a mixed economy.
The private sector usually provides goods for which it can make a profit. These are usually consumer goods such as televisions, mobile	**5** The candidate outlines some of the key features of private goods here.

Example candidate response – middle, continued	Examiner comments
3 (cont) B phones and computers and consumer services such as banking services, tourism services and teaching. The private sector are also responsible for the production of good quality products. **6** They are however the producers of demerit goods such as alcohol and cigarettes which usually have inelastic demand for some consumers which raises the profit for private sector firms.	**6** The candidate goes on to consider demerit goods, including suitable examples.
7 The government is however responsible for the provision of merit goods such as education and health care which most private firms do not produce. These are essential goods that benefit consumers more than themselves know, they are underconsumed and under produced, the government therefore provides these goods free of charge or at very affordable prices.	**7** The candidate discusses merit goods here, using appropriate examples.
The **8** government also provides public goods such as streetlights and public toilets and these are goods that are non-excludable and non-rivalry meaning that a price cannot be charged on it and everyone has the right to use it. The government is therefore responsible for producing goods that benefit more to consumers than they themselves know.	**8** The candidate provides a useful discussion of public goods here.
9 The above are the reasons why some goods are produced by the private sector and others by the government in a mixed economy.	**9** The candidate includes some evaluation in their answer, but this could have been developed much more fully. Analysis earns a mark of 6/8 and evaluation 1/4. Mark for (b) = 7/12 **Total marks awarded = 11 out of 20**

How the candidate could have improved their answer

In part **(a)**, the candidate was awarded four of the available eight marks. To improve their mark for knowledge and understanding, the candidate needed to develop their answer more fully on both the risk-taking and the organisation aspects. Two marks were awarded for application to the context of the question, and further marks could have been awarded if the candidate had included more about a rise in the demand for a good. Although candidates were not explicitly required to include a diagram in their answer, the use of a diagram might have helped the candidate to write more convincingly on the rise in price brought about by the increase in demand.

In part **(b)**, the candidate was awarded six marks for their analysis of the provision of different goods by the public and private sectors in a mixed economy, but this could have been developed further, for example by explaining what is meant by the terms ‘non-excludable’ and ‘non-rivalry’. The candidate was awarded just one of the four possible evaluation marks and this was therefore a key area where the answer could have been improved. For example, a comparison could have been made of the likely effectiveness of public sector and private sector provision.

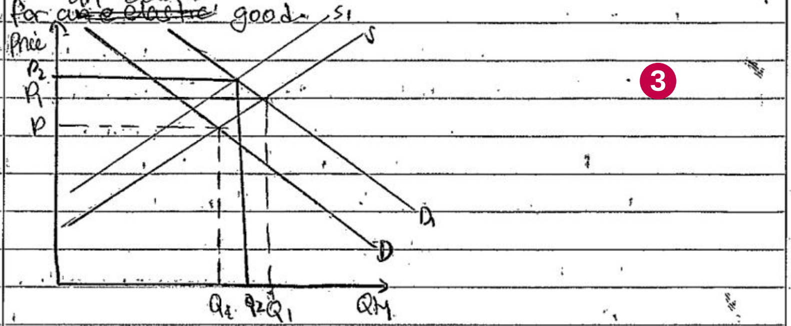
Marks awarded: (a) = 4/8, (b) = 7/12.

Total marks awarded = 11 out of 20

Example candidate response – low	Examiner comments
3 a Economics is the study of human behaviour in respons to the limited resources and how they are allocated. These scarce resources are the Factors of production; Land, labour, capital and Enterprise. **1** Enterprise is a factor of production which involves managerial skills to produce goods and services in an allocatively efficient way. Firstly, The enterprise in a ~~morde~~ modern economy organises the other three factors of production. By recognising that land is a natural resource which can be used to maximise production. Labour, a human resource which is employed ~~to~~ in the economy and capital a man made aid used to increase productivity. Secondly, The enterprise generates ideas which is used to produce a good that is demanded by the consumer, while allocating its resources efficiently to lower cost of production and make profits. Lastly, the enterprise's ~~is a risk to~~ entrepreneur ~~of~~ takes risks which would lower costs and maximise the profit made by the firm. An **2** enterprise responds to a rise in demand for a good by producing more of the good to the consumer. This is because, the consumer has the purchasing power. So, the enterprise increases quantity supply of the good, at a ~~lower~~ higher price so that is bought ~~would be increased~~ ~~So that prices fall and more~~ people buy the good. This is because for an elastic good consumers respond positively to a decrease in price. However, the enterprise might not respond to an ~~change~~ ~~an~~ increase in demand when the good is in elastic. The diagram below shows the response of an enterprise to a rise in the demand	**1** The candidate considers the main functions of the factor of enterprise in a modern economy, although more could have been written in relation to the risk-taking aspect. Three marks are awarded for knowledge and understanding. **2** The candidate recognises that an enterprise will respond to a rise in the demand for a good through a consequent rise in price.

Example candidate response – low, continued

For ~~ane elastic~~ an elastic good



3

The demand for the good increases ~~how~~ so the quantity supplied would be more. so the enterprise would produce Q2 to be sold for P2.

4

b. A mixed economy is an economy with both a free market system and a centralised system.

5 A free market system is operated by demand and supply of goods and services. ~~The aim of a free market~~ The free market system is privatised so the aim of the ~~free~~ economy is to make maximum profit. There is limited government intervention.

In a free market system, the economic questions of what to produce, whom to produce for and how to produce is run solely by market forces and prices are determined by demand and supply.

6 In the centrally planned economy however, the economy is run by ~~beur~~ beaurocracies. which plan what would be produced, how it would be produced? and who it would be produced for?

In a mixed economy the advantages of the free

Examiner comments

3 The candidate has included a diagram which shows the effect of a shift in the demand curve to the right on price, although the diagram could have been used more effectively to support the answer.

4 The candidate earns three marks for application.

Mark for (a) = 6/8

5 The candidate summarises some of the main features of a free market system, but not in relation to the provision of different types of goods.

6 The candidate outlines what is meant by a planned economy, but this is in very general terms and is not related to the provision of different types of goods.

Example candidate response – low, continued

market economy and that of the centralised economy is gained so that goods are ~~allocatively~~ produced efficiently. In a ~~free market~~ mixed economy, the question of what to produce is determined by both the ~~p~~ forces of demand and supply and that of a centralised government.

How goods are produced, are the preferences of the free market economy and the government and for whom to produce is determined by ~~both~~ whoever has the greatest purchasing power and who the government wants to consume the good.

7 The mixed economy enjoys the advantages of ~~having a fee mix~~ variety which is provided by the free market economy which seeks to satisfy those with the greatest purchasing power.

8 Also, Public goods that yeild no profit to private enterprises are produced so that people are not excluded from the consumption of ~~these~~ goods and services such as national defence and ~~At~~ goods are not rival. It is avalable for the consumption ~~of~~ by many- eg. streetlight provision.

The mixed economy however has its disadvantages in the production of ~~pro~~ goods because ~~goods may be produced~~ government might fail in ~~co~~ reducing market failure because of the lack of perfect information of good that should be or shouldn't be produced.

Also, if private firms are Producing necessities such as water, fixed income earners would suffer ~~from~~ because they would not have access to the water. so The government would have to set minimum and maximum prices that could cause government failure if the value of the good or service is under or over valued.

9 In Conclusion ~~man~~ mixed economies could be a suitable system for governance because of the advantages gained from both ~~fixed~~ free markets and ~~g~~ central governments however, it has its disadvantages that could lead to government failure and confuse ~~co~~ workers because it takes time to adjust to a mixed economy. ~~and~~

Examiner comments

7 The candidate summarises the key features of a mixed economy, but again fails to focus on particular types of goods.

8 There is some consideration of public goods, but there is no reference to merit or demerit goods.

9 The candidate offers a conclusion here, but there is no clear evaluation in relation to why some goods and services are provided by private enterprise and others by public enterprise. Analysis earns a mark of 2/8 and evaluation a mark of 0/4.

Mark for (b) = 2/12

Total marks awarded = 8 out of 20

How the candidate could have improved their answer

In part **(a)**, the candidate was awarded six of the eight marks. Three knowledge and understanding marks were allocated, and this aspect of the answer could have been developed by considering the risk-taking aspect of enterprise. The candidate was awarded three marks for application to the context of the question, but could have improved by focusing more on the consequent increase in price as a result of an increase in demand. A diagram was included, but the candidate could have made more effective use of it to support their answer.

In part **(b)**, the candidate focused more on the features and characteristics of a mixed economy, rather than on the actual question, which was concerned with an analysis of why different types of goods are provided by the public and private sectors in a mixed economy. Unfortunately, this was an example of a candidate not answering the question asked. They could have improved by focusing more on the different types of goods, such as private, public, merit and demerit goods, and analysing why some of these are better provided through the private sector and others through the public sector. No marks were awarded for evaluation, so the answer could have been improved by considering the effectiveness of provision through the public and private sectors.

Marks awarded: (a) = 6/8, (b) = 2/12.

Total marks awarded = 8 out of 20

Common mistakes candidates made in this question

In part **(a)**, a common weakness was to focus almost exclusively on either the risk-taking function of enterprise or the organising function of enterprise, with relatively few candidates offering a balanced answer which considered both roles of enterprise in a modern economy. Although some candidates included a diagram to support their answers in relation to the response of enterprise to a rise in the demand for a good, many didn’t and this made it more difficult for them to provide a logical and coherent answer.

In part **(b)**, there was some confusion over the different types of goods, so that some candidates offered what appeared to be a prepared answer on the relative merits of the private and public sectors or of free market and planned economies. Relatively few candidates provided any meaningful evaluation in terms of the effectiveness of public sector and private sector provision.

Question 4

Example candidate response – high	Examiner comments
Section B 4 a. Terms of trade refers to the weighted index of a country's exports over that of its imports. This is the terms to which countries agree to trade with each other. **1** A favourable terms of trade occurs when the price of exports exceeds that of imports which means that a small amount of exports can buy a significantly larger amount of imports. The demand and supply of exports and imports may result in a move to a favourable terms of ~~chan~~ trade. For example, if the supply of exports of a country reduces due to changing weather conditions and there are no substitutes for the product the exporters of that commodity will increase the price in order to make a satisfactory profit ~~while~~ and the demand for imports stay the same, the terms of trade has become more favourable because the exports can now buy more imports due to the higher price of the exports. Also, changes in exchange rate leads to favourable terms of trade. Exchange rate refers to the value of one currency in terms of another. When the exchange rate of an exporting country increases it leads to ~~an~~ an increase in export prices and decrease in import prices which is a favourable terms of trade. The exchange rate could appreciate if the	**1** The candidate begins by explaining the meaning of 'the terms of trade', but unfortunately this is in relation to the trading of exports and imports. There is no reference at the beginning to the fact that the terms of trade are concerned with the relative prices of exports and imports, so no marks could be awarded for knowledge and understanding.

Example candidate response – high, continued	Examiner comments
reduce ~~increase~~ ~~government and central bank reduce interest rates which will encourage investment from other countries to the exporting country which in turn increased increases demand for the local currency. If the demand surpasses exceeds the supply of the local currency, the price will go up causing an appreciation. An appreciation leads to imports becoming cheaper and export prices rising~~. economy is operating a fixed exchange rate system the government or planning committees can manipulate the currency inorder to revalue it, making it more expensive; therefore imports become cheaper and exports become more expensive which makes the terms of trade more favourable. Furthermore, the relative inflation rates in the economies can influence the terms of trade. ~~If inf~~ Inflation is the persistent rise in the general price level of goods and services. If the exporting country has a higher inflation as compared to its trading partners the cost of production will increase which leads to higher export prices and lower imports as ~~cost of produ~~ inflation and cost of production is ~~hi~~ lower in the other countries; therefore there would be a ~~fewer~~ favourable terms of ~~the~~ trade as less exports can buy more imports.	

Example candidate response – high, continued	Examiner comments
In conclusion the exports of a country must increase in price and not necessarily in volume over that of imports to have a favourable terms of trade. ~~All of the above are short term e~~ 2 b A favourable movement in the terms of trade can have positive effects on the economy. However, it can ~~generate~~ bring about negative effects on the economy. Firstly, a favourable terms of trade can be positive in an economy if the demand for the exports ~~in in~~ is ~~inelastic~~ price inelastic. Price inelastic demand means that a change in price brings about little or no change in quantity demanded; therefore an increase in export prices will lead to increased export revenue which could be used to correct Balance of Payment disequilibriums. Balance of Payment is the ~~financial~~ recording of all transactions of government, firms and individuals into and out of a country. The revenue generated from the exports can also be used to improve infrastructure such as roads which then leads to development. Also, if the favourable ~~exchange rate is as a result of appreciation of~~ terms of trade is a long run ~~effect~~ cause such as improvement in	2 The candidate gives a good explanation of what might cause a favourable movement in an economy's terms of trade, making reference to changes in exchange rates and inflation rates. The application to the context of the question earns four marks. Mark for (a) = 4/8

Example candidate response – high, continued

technology which leads to higher value being added to exports, the overall production of the country will increase, goods and services may be relatively cheaper in the export country as technology leads to efficiency and economies of scale; therefore there is room for economic growth and development. 3

On the other hand, a favourable terms of trade is negative for the economy if the ~~goods is~~ exports are price elastic. This means that a change in price leads to a greater change in demand; therefore the increased export prices will lead to reduced demand and export revenue. This will worsen the current account and may even cause a deficit which may have to be financed by borrowing from other countries.

Also, if the favourable terms of trade is being caused by appreciation of the currency it may cause imported inflation. This is due to the fact that imports will become cheaper and if its demand is price elastic it will rise; therefore aggregate demand for imports will rise pushing the price up in the long run which leads to imported inflation which is bad as a macro-economic policy is low levels of inflation.

Furthermore, favourable terms of

Examiner comments

3 The candidate considers a number of possible positive effects of a favourable movement in an economy's terms of trade.

Example candidate response – high, continued

trade may be harmful if the demand is elastic, and it reduces due to the high prices, firms producing exports will have to cut costs in order to survive because profits are unlikely to be made if revenue falls. In the process of cutting cost firms may make workers redundant which increases the unemployment rate and reduces the standard of living which is a measure of development. Unemployment must be kept low ~~at~~ in an economy as it is one of the macro-economic objectives **4**

In conclusion, the favourable terms of trade can be positive if it is being caused by appreciation which causes imports to be cheaper, which reduces cost of production and higher ~~inputs~~ outputs if imports constitute majority of inputs. However, it can be harmful as it can worsen the ~~BoP~~ current account position which can create deficits and balance of payment disequilibrium and unemployment; therefore favourable terms of trade ~~does not~~ brings about great negative effects on the economy as it goes against three of the macro-economic objectives which are low unemployment, Balance of Payment equilibrium and low inflation. **5**

Examiner comments

4 The candidate considers a number of possible negative effects of a favourable movement in an economy's terms of trade.

5 The candidate provides a useful conclusion and attempts to offer some evaluation, although this could have been developed more fully, e.g. in relation to the Marshall–Lerner condition. Analysis earns a mark of 6/8 and evaluation a mark of 2/4.

Mark for (b) = 8/12

Total marks awarded = 12 out of 20

How the candidate could have improved their answer

In part **(a)**, the candidate was awarded four of the available eight marks. Unfortunately, no marks were awarded for knowledge and understanding because at no point did the candidate refer to the fact that the terms of trade are concerned with relative prices, stating instead that it is simply an expression of a country's exports and imports. To improve the answer, the candidate needed to be much clearer on the meaning of 'the terms of trade' in relation to changes in the relative prices of exports and imports. However, when the candidate attempted to provide application to the question, the answer improved and became clearly linked to prices, thereby earning the four marks.

In part **(b)**, the candidate was awarded a mark of eight out of the available twelve marks. There was a good attempt at analysis, but to improve, the candidate needed to develop their analysis of both the positive and negative effects a little more fully, expanding on some points, such as those related to elasticity. The candidate was awarded two marks for evaluation and could have improved this mark by bringing in such ideas as the Marshall–Lerner condition.

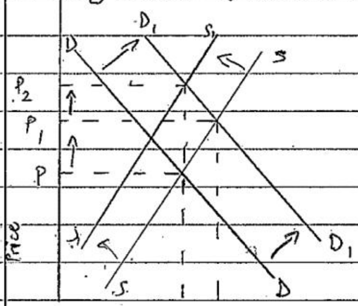
Marks awarded: (a) = 4/8, (b) = 8/12.

Total marks awarded = 12 out of 20

Example candidate response – middle

4 a An economy's terms of trade is the ratio of export prices

1 to import prices. ~~export prices / import prices~~ (x100) This is ~~ef~~ affected by the changes in export and import prices, with a favourable change or movement involving increasing export prices or decreasing import prices. For this to happen, the ~~ex~~ exchange rate (appreciation) of a country may need to increase, to make export prices higher, and to make import prices relatively ~~to~~ lower, ~~by~~ This can be done by using reserves to buy more of ~~ex~~ the country's currency (increased demand from D to D1), which would increase (P to P1) the exchange rate. The country may also (S to S1) decrease its money supply, which would (P1 to P2) increase the price.



Quantity (Fig 1)

A country may also choose to increase the price of its exports (Fig 1) by limiting ~~demand~~ supply of the exports, which would increase price, or create more demand for exports by offering a higher quality product.

Another way to cause a favourable movement ~~a~~ with the terms of trade would be to decrease any tarrifs on imports, to decrease their price. Or you may try to buy imports from another country with cheaper prices, ~~You could increase export prices by den~~ reducing import

2 prices, such as a country that had previously had a ban ~~bet~~ because of dumping, or to protect sunset or infant industries.

~~by decreasing interest rates, businesses can~~

Examiner comments

1 The candidate attempts to explain the meaning of 'the terms of trade' in the first couple of lines, and there is a clear reference to export prices and import prices, but this needed to be developed more fully. One mark was given for knowledge and understanding.

2 The candidate demonstrates a reasonable level of application to the context of the question here, referring to changes in exchange rates and to possible protectionist policies. Three marks are earned for application.

Mark for (a) = 4/8

Example candidate response – middle, continued

4 b The terms of trade is a ratio of ~~the a~~ country's export prices to its import prices. If (favourable movement) the ratio increases, this means that for each export sold, ~~more~~ relatively more imports can be bought using that sold export. This can be seen as having a positive effect on the economy, since now relatively more goods and services can be bought with exports, which increases the standard of living in an economy. If import prices decrease, then more imports can be bought, which allows there to be more money for ~~c~~ consumers to use after buying imports than before, which can be used to buy other goods and services to gain utility, or more of the same import. **3**

On the other hand, the ratio is only of the two prices, not the ~~re~~ money gained from exports and spent on imports. If an export's price increases and the ~~produce~~ product is elastic, then the country may end up losing revenue since the % change in quantity demanded will be more than the % price change. This will ~~decrease~~ create negative effects on an economy, because it will lose revenue which may have been used to buy other goods and services, decreasing the standard of living. ~~If the imports are elastic in elastic, then a large price drop drop, may not affect the money spent on imports, since the drop in price~~ If the import price drops, and more people go and buy exports, this may reduce domestic demand for the same product, which may increase unemployment and cause industries to decline if they can't reduce their prices, putting them out of business, which would create a negative effect on the economy, since there are less goods and services produced, and standard of living would decrease. Economic growth would ~~a~~ also fall, since

Examiner comments

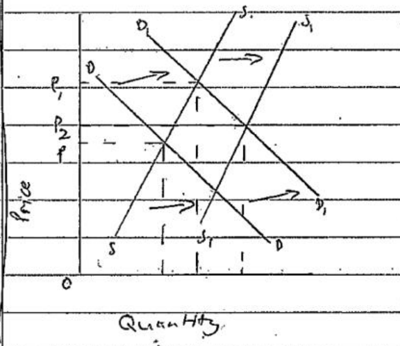
3 The candidate considers some of the potential positive effects of a favourable change in an economy's terms of trade.

Example candidate response – middle, continued

less goods and services are being produced. 4

This shows that although a favourable movement in the terms of ~~trade affecting~~ can generally ~~#cause~~ positive effects on an economy it may also create negative effects depending on the price elasticity of exports, how many substitutes it has and whether imports can be bought domestically or not. If these conditions are satisfied then a favourable movement in the terms of trade will cause a positive overall effect on the economy.

1 c continued



This shows that even though demand for imports ~~goods~~ in Fig1 increased the supply may have been what reduced their price, decreasing deflation with imports. (Reduce imported inflation) (Price rises from P -> P_1, and then drops to P_2)

If an export ~~is cross elastic~~ has many substitutes, then rising export prices may cause consumers to find other products, which will decrease demand for the export, and cause revenue to fall if the % change in quantity (substitute) (export) ~~sup~~ demanded is more than the % change in price.

The fall in revenue may ~~do~~ cause a current account deficit since ~~the ban~~ the ~~economy~~ country may have to borrow and pay interest on borrowing instead of using that money to buy goods and services, decreasing the standard of living. 5

Examiner comments

4 The candidate considers some of the potential negative effects of a favourable change in an economy's terms of trade.

5 The candidate attempts to provide a conclusion, but the evaluation is rather limited. For example, although there is a reference to the importance of elasticity of demand, there is no reference to the Marshall–Lerner condition. Analysis is awarded a mark of 5/8 and evaluation a mark of 1/4.

Mark for (b) = 6/12

Total marks awarded = 10 out of 20

How the candidate could have improved their answer

In part **(a)**, the candidate was awarded four of the eight marks. One mark was awarded for knowledge and understanding of 'the terms of trade' and the candidate could have improved their answer by developing the explanation much more fully. Application was given a mark of three out of four and this was a better effort, although it could have been improved by developing some of the points referred to more fully.

In part **(b)**, the candidate was awarded five out of a possible eight marks for analysis. Their answer could have been improved with better balance, as it contained much more about the negative than the positive effects. Only one mark was awarded for evaluation, as the candidate could have included more consideration of the potential positive and negative effects, for example by referring to the Marshall–Lerner condition.

Marks awarded: (a) = 4/8, (b) = 6/12.

Total marks awarded = 10 out of 20

Example candidate response – low	Examiner comments
Section B 4 (a) Terms of trade is the index price of exports over index price of imports, and then multiplying the result by 100. It shows **1** the relative competitiveness of an economy. If exports are higher than imports, this ~~mea~~ shows more capital inflow relatively and vice versa. Inflation in an economy will increase the prices of goods and services, and therefore exports' price will ~~ft~~ increase and imports' price will decrease, leading to favourable terms of trade. Apart from that, when the exchange rate appreciates, it can buy more of foreign currency. So, ~~D~~ exports will become relatively expensive and imports cheaper. Again, leading to favourable terms of trade. ~~Ano~~ In addition, ~~there could~~ deflation in the other economy will decrease the price of imports, thus leading to favourable terms of trade. Also, depreciation ~~of th~~ of ~~exh~~ exchange rate in the other economy will lead to a fall in the price of its exports and rise in the price of imports. This may again lead to favourable terms of trade. **2**	**1** The candidate gives a brief explanation of what is meant by 'the terms of trade', but it is rather limited and really needed to be developed more fully. One mark is therefore awarded for knowledge and understanding. **2** The candidate explains a number of factors that might cause a favourable movement in an economy's terms of trade, including changes in exchange rates and inflation rates. Two marks are awarded for application in terms of the context of the question. Mark for (a) = 3/8

Example candidate response – low, continued	Examiner comments
4 (b) Favourable terms of trade is when price of exports are higher than price of imports. Inflation makes the terms of trade favourable, and economic growth is achieved. ~~As there is an~~ ~~This~~ Therefore, unemployment may fall. However, high inflation is ~~very dangerous~~ not beneficial for the economy, especially if it is reached to two digits. Therefore, central bank will try to reduce the inflation rate through deflationary monetary policy, as it is ~~centra~~ the duty of central bank to set targetted inflation and control it if it goes beyond the target. ~~As~~ Deflationary Monetary policy will come into force by ~~the~~ increasing the interest rate, ~~to~~ and therefore cost of borrowing will be higher. So, aggregate demand will fall as consumers or people ~~find it~~ ~~more~~ have to pay more now. In this situation, people tend to save to earn higher return on their investments. In addition, ~~it~~ high interest rates attract 'hot money' inflows as the return is relatively high. Hot money inflows will lead to an appreciation in the exchange rate, as the demand for local currency is increased. Appreciated exchange rate will make exports expensive and imports cheaper. Therefore, exporting firms will lose competitiveness and ~~so~~ in return may have to cut down on cost to remain competitive. Therefore, workers may made redundant, and therefore unemployment increase. **3** On the other hand, imports are cheaper and therefore imports will increase, leading to current account deficit. However, for imports to increase and exports to decrease, marshall learners conditions have to be satisfied, which ~~is~~ is not satisfied in the short run. This means imports and exports have to be elastic, which is not possible in the short run. ~~Therefore, inflation is created again. Government~~ However, government can intervene through deflationary fiscal policy, which has no adverse effect on exchange rate. Therefore, ~~supply can be increased productively~~ demand can be decreased with no effect on ~~ext~~ exchange rate. **4**	**3** The candidate discusses a number of possible positive effects of a favourable change in an economy's terms of trade. **4** The candidate discusses a number of possible negative effects of a favourable change in an economy's terms of trade.

Example candidate response – low, continued	Examiner comments
4 (b) However, this may create conflicts between the government objectives. A fall in aggregate demand will lead to fall in revenues, and therefore firms may shut down, leading to higher unemployment and fall in the standard of living. 5	5 The candidate provides a brief conclusion, but with only very limited evaluation. There is a reference to the Marshall–Lerner condition, but this could have been expanded upon. A mark of 4/8 is awarded for analysis and a mark of 1/4 for evaluation. Mark for (b) = 5/12 **Total mark awarded = 8 out of 20**

How the candidate could have improved their answer

In part **(a)**, the candidate was awarded three of the eight marks. One mark was given for knowledge and understanding. The candidate could have improved by developing their explanation of what is meant by an economy's terms of trade, as only the first few lines focused on this and it was not always clear whether the term refers to exports and imports or the relative prices of exports and imports. Two out of four marks were given for application to the context of the question. Additional marks could have been awarded if this section had been developed more fully, as much of it was in the form of assertions or statements rather than explanations.

In part **(b)**, the candidate was awarded five out of the twelve marks. Four out of eight marks were given for analysis and this could have been improved if the candidate had developed their points about both the positive and negative effects. One mark out of four was given for evaluation and this was largely for reference to the Marshall–Lerner condition. However, the candidate simply referred to Marshall–Lerner and needed to consider this more fully to improve their answer.

Marks awarded: (a) = 3/8, (b) = 5/12.

Total marks awarded = 8 out of 20

Common mistakes candidates made in this question

In part **(a)**, a common weakness was to explain the concept of 'the terms of trade' in relation to the volume of exports and imports and not to the relative prices of exports and imports. Some candidates thought that 'the terms of trade' referred to terms and conditions of trade, i.e. the trading arrangements between countries, making no reference to the relative prices of exports or imports at all.

In part **(b)**, a common weakness was to focus on either the possible positive effects or the possible negative effects of a favourable change in the terms of trade, but not both. Relatively few candidates offered very much evaluation, despite the word 'overall' appearing in the question. There were some vague references to elasticity and a few candidates referred to the Marshall–Lerner condition, but unfortunately this concept did not seem to be fully understood by many candidates.

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