ECONOMICS

Paper 9708/11
Multiple Choice

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

Key messages

- Candidates found particular difficulty in attempting questions involving aspects of supply and international exchange rates.

General comments

The topics that candidates found most accessible were privatisation, production subsidies, balance of payments flows and income tax changes. The topics which proved least accessible were movements along and shifts in the supply curve, elasticity of supply, the consumer price index and exchange rates. Candidates found questions of a numerical form the most challenging.

Comments on specific questions

In **Question 5** a larger than expected proportion of candidates chose option B. A tax on the good would shift the position of the supply curve rather than meaning a movement along the curve so was incorrect.

The largest proportion of candidates opted for option C in **Question 8**. This was incorrect as unitary price elasticity of demand would require that total expenditure is constant at all prices. D is the key as the same quantity was available at each price, showing supply elasticity to be zero.

In **Question 20** almost as many candidates selected option A as selected the key C. There is insufficient data to determine the change in the annual rate of inflation. What can be seen is a fall in the price level and hence an increase in the purchasing power of money.

While the largest proportion of candidates selected the key B, some of the higher achieving candidates chose option D in **Question 28**. This suggests that the exchange rate impact of the lower interest rate may have been overlooked. It is likely that the lower interest rate reduces outward income payments and the lower exchange rate resulting from an outflow of 'hot money' makes for an improvement in the current account balance.

ECONOMICS

Paper 9708/12
Multiple Choice

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

Key messages

- Candidates did least well with the questions involving international exchange rates and need to understand their analysis in numerical and diagram form.

General comments

The topics that candidates found easiest were scarcity, the production possibility curve, elasticity of supply, market equilibrium, consumer surplus, ability to pay and the terms of trade. Particular difficulties arose with price elasticity of demand and international exchange rates. The latter involved both diagram and numerical presentations.

Generally there was no significant difference in the ability to answer questions in verbal, numerical or diagram form.

Comments on specific questions

In **Question 6** almost one third of candidates chose option B. This was incorrect as it simply identified the nature of a normal demand curve without sufficient detail to determine its price elasticity.

Question 16 was set with an application of a subsidy rather than a tax. Some of the better performing candidates opted for C rather than the key D, which was the choice of more than half of the candidates. The inelastic nature of the supply curve means that the price will fall relatively little so consumers will gain less

benefit from the subsidy than producers. If a tax had been imposed with this diagram the burden would have been mostly on the producers. Candidates would have been helped by drawing the subsidy impact onto the diagram. The international exchange rate proved a stumbling block for a majority of candidates.

In **Question 22** an action was required that would decrease the supply of, or increase the demand for, the Yuan in order to return its value within the band. More than a quarter of candidates incorrectly opted for D which would have increased supply and moved the value further from the band.

The data in **Question 23** illustrated a fall in the value of the pound (£) against the dollar ($). The popular choices of option A and option B were surprising as they would clearly cause an increase in the demand for pounds, raising the exchange rate.

ECONOMICS

Paper 9708/13
Multiple Choice

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

Key messages

- While candidates coped well with price elasticity of supply calculations, they were less successful with elasticity of supply as a diagram and movements in the supply curve. Questions based on diagrams generally proved the most difficult form for candidates.

General comments

The most accessible topics were information failure, consumer surplus, trade balances, the terms of trade, free trade and quotas. As this indicates, candidates were knowledgeable on international trade topics.

Low facilities were recorded for the division of labour, opportunity cost and the supply curve. The performance on numerical questions was very sound.

Comments on specific questions

In **Question 2** the largest proportion of candidates picked option D. It is quite possible that automation and division of labour may result in an increase in employment and output. It is less likely to increase the cost per unit of production (key A). Increased productivity and lower unit cost is a likely motive for such a change in the first place.

The presentation in **Question 3** was more challenging than a typical question on production possibility curves and opportunity cost. The largest group selected option C as the incorrect statement. The steeper

slope for country 2 indicates that opportunity cost of good R is lower than in country 1 so C is true. Candidates could have confirmed this by adding some appropriate values. The same approach would have worked with option B. Option D is also true as a linear curve shows constant opportunity cost. The false statement is key A, as curves with the same gradient will illustrate the same opportunity cost.

Question 5 needed to be read very carefully to recognise that two markets (wholesale and retail) were involved. The fall in the price in the wholesale market meant a reduced input cost to the retailer increasing the retail supply. This would cause a shift to the right of the retail supply curve (key D). The majority of candidates, including higher scoring candidates, chose option A. The move along the curve would have been more relevant to the wholesale market.

ECONOMICS

Paper 9708/21
Data Response and Essay

Key messages

- Candidates need to ensure that they focus on the command word that is being used in a question, such as 'explain', 'discuss', 'assess', 'consider' or 'distinguish'.
- It is important candidates understand that in the second part of the 'discuss' questions in ***Section B***, a certain number of marks are awarded for evaluation. There is often a clue in the question to guide candidates towards this.
- Candidates need to ensure that diagrams are correctly drawn and clearly labelled. There were, unfortunately, a number of examples of poor labelling and, in some cases, no labelling at all.
- It is important that candidates read questions very carefully to avoid making an error in their answer

General comments

A diagram was explicitly required in several of the questions but some candidates did not draw one.

It is important that candidates focus on whether there is any additional guidance provided in a question, such as in **Question 4(b)**, where candidates were required to discuss whether an increase in aggregate demand will always cause inflation. Unfortunately, some candidates assumed that an increase in aggregate demand would always cause inflation, despite the clue in the question that this might not always be the case.

Comments on individual questions

Section A: Data Response

Question 1

(a) (i) Most candidates made some attempt to explain how Argentina's high rate of inflation could cause downward pressure upon the official exchange rate of the Argentinian peso by causing export prices to rise, reducing the competitiveness of Argentina's goods, and causing import prices to fall, making them more competitive. The overall impact of this would be an excess supply of pesos in the foreign exchange market, causing the exchange vale to fall. Unfortunately, relatively few candidates went on to consider the impact of this on the current account or the financial account of the balance of payments. Some candidates wrote about upward, rather than downward, pressure.

(ii) The majority of candidates were able to explain that in a fixed exchange rate system, the Argentinian government would need to purchase the surplus pesos by using its foreign exchange reserves. However, many of the diagrams produced by candidates did not show what was happening in the foreign exchange market very clearly and some seemed to contradict what was contained in the explanation.

(b) Many candidates were able to explain that fixing the price of the US dollar in terms of the Argentinian peso meant that there would be a shortage of dollars in the market at the official price as a result of demand exceeding supply. Relatively few candidates went on to demonstrate that they understood that in a free market the price would rise but, since this was not permitted, dollars would be traded in a black/illegal market above the official price.

(c) The majority of candidates were able to explain the factors that were likely to determine whether the rise in the interest rate to 38 per cent would lower the rate of inflation and attract funds into Argentina. In terms of the possible effect on inflation, candidates pointed out that the effect would largely depend on the extent to which consumption and investment were likely to be sensitive to the change in the interest rate. There were some good answers on the impact of a higher interest

rate on decisions to save or borrow. In terms of the possible effect on the movement of funds, there were some good answers with candidates stressing that this would depend on the degree of confidence that international investors had and also on the difference between the interest rate in Argentina and the interest rate in other countries.

(d) Many candidates made quite a reasonable attempt to discuss the advantages of a fixed exchange rate system. This included helping to give confidence to those engaged in international trade and to provide a more stable and predictable trading environment. Answers then went on to discuss the disadvantages of such a system, such as the fact that trade deficits are not removed automatically and that the use of foreign reserves to maintain a fixed exchange rate can be quite expensive, preventing the use of such funds for other possible purposes. Candidates then made an assessment of the advantages of a feely floating exchange rate system, such as its ability to provide a self-adjusting mechanism in relation to trade deficits. Unfortunately, many candidates did not then attempt to offer a conclusion in terms of whether, on balance, a freely floating exchange rate system would be better for Argentina.

Section B: Essays

Question 2

(a) In this part of the question, candidates were required to explain the factors that determine whether the price elasticity of supply for a good was likely to be relatively elastic or inelastic. Most candidates were able to demonstrate they understood that price elasticity of supply referred to the percentage change in the quantity supplied of a product divided by the percentages in the price of the product, but unfortunately some candidates made no reference to the percentage or proportionate change while others placed price and quantity the wrong way round in the formula. Most candidates were able to distinguish between elastic and inelastic price elasticity of supply, but not all were very clear about PES being relatively elastic or relatively inelastic. The majority of candidates were able to explain a number of relevant factors, such as the availability of stocks, the availability of spare factors of production, the time period and the nature of the product. Unfortunately, some candidates wrote about just one factor, despite the question referring to factors, and this limited the mark that could be awarded to such answers. There were also a few candidates who wrote about price elasticity of demand rather than price elasticity of supply.

(b) In the second part of the question, candidates were required to discuss how governments might attempt to increase the elasticity of supply of an agricultural product. Many candidates were able to consider the factors that they had explained in part **(a)** and to go on to discuss how governments could influence them. For example, education and training might be used to alleviate labour shortages. Financial support could be provided by a government, such as in the form of subsidies or tax cuts. A buffer stock system could be introduced whereby stocks were stored at a time of a surplus and released at a time of a shortage. Candidates were also required to consider whether these various government initiatives were likely to be successful, and unfortunately some candidates gave this part of the question no, or very little, consideration. However, some candidates did offer some intelligent evaluation of such government initiatives, such as in relation to the financing of such schemes. Some candidates referred to the fact that the attempt to increase the elasticity of supply of an agricultural product might be prevented by the existence of a bad harvest or a succession of bad harvests. A number of candidates made some very good points in relation to the time period, contrasting the likely success of such government initiatives in the short run and the long run. Unfortunately, a few candidates made no reference whatsoever to agricultural products, despite the reference to them in the question, and this limited the mark that could be awarded to such answers.

Question 3

(a) In this part of the question, candidates were required to distinguish between equilibrium and disequilibrium in the market for a good and then to go on to explain how equilibrium price and equilibrium quantity would change when there was a decrease in the supply of a product. Most candidates had a basic understanding of what was meant by equilibrium and disequilibrium in the market for a good, but marks were gained by candidates who were more precise in distinguishing between the terms, e.g. by pointing out that a state of equilibrium exists in a market when there is no tendency to change and this will be when demand equals supply at a particular price. A state of disequilibrium, on the other hand, occurs when demand and supply are not equal, leading to a situation where equilibrium price and equilibrium quantity will change. The majority of candidates

produced an accurately drawn and accurately labelled diagram to support their explanation, showing a shift to the left of the supply curve leading to a rise in the equilibrium price and a fall in the equilibrium quantity. However, some candidates produced a diagram and explanation in relation to an increase in the supply of a product, while others produced a diagram and explanation in relation to a decrease in the demand for a product. Some candidates did not include a diagram, despite the explicit instruction in the question for candidates to 'use a diagram to support your answer'.

(b) In the second part of the question, candidates were required to discuss how the imposition of an indirect tax on a product would affect consumers, producers and the government. In relation to consumers, if an indirect tax is imposed, the supply curve of the product will shift to the left and consumers will have to pay a higher price. The question did not explicitly require candidates to include a diagram, but many did so and used it to good effect to support their answer. The effect on consumers will be a reduction in consumer surplus. A number of candidates brought the concept of consumer surplus into their discussions, but unfortunately a number of them thought that there would be an increase, rather than a decrease, in consumer surplus. In relation to producers, they will need to charge higher prices and will face a fall in the quantity sold. The effect on producers will be a reduction in producer surplus. A number of candidates did refer to the concept of producer surplus in their discussions, but many of them believed that there would be an increase, not a reduction, in producer surplus. A number of good answers did refer to the incidence and burden of taxation, making some very intelligent comments on the link with elasticity. In relation to the government, most candidates recognised that there would be a change in the tax revenue received by the government, many of them stressing the link between the extent and direction of this change and the price elasticity of demand for the product. There were also some useful comments in relation to public spending as a result of the tax revenue received by the government, such as in terms of economic welfare. Some candidates, however, seemed to offer a prepared answer on the advantages and disadvantages of indirect taxes, without really focusing on the particular question asked. The question also required candidates to assess whether the imposition of an indirect tax on a product would have an overall beneficial effect. A number of candidates did make a good attempt to assess the overall effect, pointing out that this would depend upon a number of factors, such as the nature of the product taxed and how the revenue raised was spent by the government. Unfortunately, the evaluation offered by many candidates was rather limited, despite the reference to the need to assess whether the imposition of an indirect tax on a product would have an overall beneficial effect in the question.

Question 4

(a) In this part of the question, candidates were required to use production possibility curves to explain the different impact on an economy of a rise in the unemployment rate and an increase in the working population. Most candidates recognised that a rise in unemployment would lead to a movement from a position on a production possibility curve to a position inside the curve, whereas an increase in the working population would lead to a shift outwards of the curve. Although many of the explanations were clear on the different impact of the two situations, the quality of some of the diagrams was rather poor. For example, some candidates incorrectly labelled the two axes of the diagram 'price' and 'quantity', while others labelled them 'employed' and 'unemployed'. Some candidates did not seem to understand what was meant by a production possibility curve, drawing a demand and supply diagram or a trade cycle diagram instead.

(b) In the second part of the question, candidates were required to discuss the causes of an increase in aggregate demand and to go on to assess whether such an increase in aggregate demand would always cause inflation. Most candidates were able to demonstrate their understanding of the components of aggregate demand in terms of C + I + G + (X–M) and then went on to discuss what might cause each of them to increase causing the level of aggregate demand in an economy to increase. A number of candidates made a good attempt to assess whether such an increase in aggregate demand would always cause inflation, explaining that in order to assess the likelihood of such a possibility it would be necessary to consider aggregate supply as well as aggregate demand, i.e. if an increase in aggregate demand was matched by an increase in aggregate supply, it would not necessarily have an inflationary effect. There was also some consideration of the potential importance in this context of the existence of spare capacity in an economy. Candidates were required to use diagrams to support their answers and most did so to good effect. Some candidates, however, did not use any diagrams to support their answers, despite the explicit instruction in the question to do so.

ECONOMICS

Paper 9708/22
Data Response and Essay

Key messages

- If assertions are offered it is essential that these are explained. Assertions that lack an accompanying explanation are unlikely to score well.
- It is essential that data handling skills are developed to ensure that the data provided can be analysed and used to good effect.
- Candidates should ensure that all the economic concepts tested in a question are fully understood so that balanced analysis can be provided and evaluative comment delivered.
- Candidates are advised to read questions carefully to ensure that they provide an answer to the question set rather than a rehearsed answer that is poorly focused.

General comments

There was evidence that there was a great deal of knowledge and understanding of the key economic concepts tested in this paper, but the answers of some candidates revealed that some areas are not fully understood. This often led to an uneven analysis and this undermined the ability of candidates to score well for evaluative comment where this was required. In addition, weaknesses in examination technique amongst some candidates often resulted in low marks being awarded to answers that have a great deal of content but which are poorly focused on the question set.

Comments on specific questions

Section A: Data Response

Question 1

(a) This question required candidates to display their data-handling skills and most were able to do this to gain both marks available. A number of candidates, however, did not understand that prices had fallen overall between the base year and June 2013. Understanding and interpreting a simple index is an essential skill for candidates. A few spent too long on this question and provided unnecessary calculations along with a detailed trawl through the data.

(b) Responses to this question were generally disappointing. It was intended that candidates would understand that oil was an input into the production of items such as fuel, transport and possibly housing. This would mean that a fall in the price of oil would be reflected in a fall in the price of these categories. A simple statement that the fall in the price of oil would lead to a fall in the price of any one of the relevant categories was sufficient, but unfortunately many did not see the association and as a result few gained full marks here.

(c) There were many pleasing responses to this question that showed that many candidates had a good understanding of the way in which the consumer prices index is constructed. Many candidates identified 'Food' as the category of spending that would have the biggest impact upon the real incomes of households, but the explanations provided to support this assertion varied in quality. To score well, it was necessary to explain that food had the greatest weighting in the categories of spending and this, together with the 2.4% increase in food prices, meant that this category of spending had the greatest impact upon real incomes despite the fact that the change in food prices was not the highest amongst the categories. Unfortunately many missed out on a mark because they identified food as the category that showed the greatest impact upon real income, but

they did not show clear understanding of how the real income had been affected. They needed to show understanding that real income had fallen as a result of the rise in the price of food.

(d) Most candidates were able to identify the features of an expansionary monetary policy such as a decrease in interest rates together with an increase in the money supply or a devaluation of the exchange rate. Disappointingly, a number of candidates confused monetary policy with fiscal policy. Others were confused between expansionary and contractionary monetary policy. A further weakness was that a number of candidates failed to explain the process through which expansionary monetary policy could be expected to cause a rise in prices. Candidates scored well where they had a good grasp of the components of aggregate demand and how these would be increased through changes in monetary variables. They also went on to explain the circumstances under which expansionary monetary policy would not lead to a rise in prices. Good answers used the data to place their answers in a Japanese context. A further misconception amongst a number of candidates is that an increase in the money supply is the same as an increase in income.

(e) This was generally not well answered with many candidates failing to recognise that the context of the question was upon the impact of a rise in the rate of inflation upon individuals and firms. Many simply focused on the impact upon the economy in broad terms. Many assertions were made for example concerning the impact of a rise in the rate of inflation upon the exchange rate with limited explanation of how it was affected and how this would impact upon individuals and firms. It was also generally assumed that poorer citizens would suffer more than others without any reference to why this was the case.

Section B: Essays

Question 2

(a) Many candidates made a good start to this question by providing an accurate formula for the calculation of income elasticity of demand. Many then went on to provide a good explanation of normal goods and then clearly distinguish these types of goods from inferior goods. Disappointingly, many candidates seemed unaware of how goods could be classified as necessities and they failed to gain marks as a result. Some candidates started badly by providing an incorrect formula and others wasted time by providing information on everything they had learned about elasticity. It was disappointing that many candidates provided material that was not relevant to the question set and they scored poorly as a result.

(b) Most candidates were able to gain some analysis marks for providing relevant explanations of the way in which knowledge of price elasticity of demand would be of benefit to producers of agricultural goods. Usually this focused upon how total revenue would change as the price of goods changed and how this depended upon the price elasticity of these goods. Again there were many graphs and other material that displayed knowledge but were of little relevance to the question. Most candidates found it more challenging to provide analysis of the benefit to a producer of knowledge of income elasticity of demand. Many linked demand for agricultural goods to income levels rather than explaining how changes in the demand for goods is affected by changes in income. As a result of these weaknesses in analysis the attempts to make evaluative judgement as required by the question were often very poor or non-existent.

Question 3

(a) Most candidates who attempted this question were able to explain the causes and significance of shifts in a production possibility curve rather than a movement along it. Most were able to explain how changes in resources or technology would cause the curve to shift inwards or outwards and some good marks were awarded for this part of the question. Although many candidates gained credit for explaining what a movement along the curve represented only a few candidates addressed the issue of what might cause a movement along the curve. This could happen as a result of government directive in a command economy for example or through changes in demand for alternative goods in a market economy. Many candidates seemed unaware of this and failed to gain the available marks as a result. Again, a number of candidates provided a great deal of pre-learned material on the production possibility curve that was of marginal relevance to the question.

(b) The answers provided here were often descriptive rather than analytical. Many candidates provided answers that were perceptions of planned economies based upon historic examples rather than economic theory. The better answers did examine failures in resource allocation that were likely to

occur in both systems and gave some underpinning economic theory but such answers were relatively rare. Evaluation was often weak and assertive and often made a simple statement in support of mixed economies with insufficient justification for this model of resource allocation.

Question 4

(a) Most candidates had some idea of the four sections of the current account, but many provided these as a list with little underpinning description. Disappointingly, a number of candidates stated that the cause of a deficit in the current account was simply that more money was 'going out than coming in' rather than explaining what might cause this such as changes in the exchange rate or changes in price or income levels. Nevertheless, some good answers were provided by those candidates who thought carefully about the question requirements and responded appropriately.

(b) Most candidates were able to analyse expenditure-switching policy far better than expenditure reducing policy. The latter was not always understood. Many answers began with inaccurate descriptions of this policy with many unaware of how an expenditure-reducing policy would be carried out. As a result, many answers were unbalanced with long explanations of how tariffs, quotas and embargoes could switch spending from imported to domestically produced goods with little on contractionary fiscal or monetary policy. Uneven responses such as these resulted in limited opportunity to provide evaluative judgement on which approach was likely to be effective. Those candidates who did explain each approach often scored well for evaluation on this question.

ECONOMICS

Paper 9708/23
Data Response and Essay

Key messages

- Candidates should focus upon application of concepts in order to explain economic issues. It is not enough, for example, to be able to produce a formula without understanding how it can be applied in a variety of contexts.
- Full comprehension of the data in data response questions is essential if appropriate answers that are in context are to be provided.
- Candidates need to consider each question and think carefully about the question requirements and avoid pre-prepared answers that are often irrelevant to the question set.
- Analysis should be fully developed to ensure that evaluative judgement can be effectively made.

General comments

There was considerable evidence that the knowledge and understanding of the key economic concepts tested here was generally sound with only a small number of candidates appearing unprepared. There was, however, considerable variation amongst the candidates in their use of these concepts to answer the questions set effectively. Often, application was weak and analysis left undeveloped.

Comments on specific questions

Section A: Data Response

Question 1

(a) Most candidates were able to calculate the percentage change in the price of rice, but a number missed out on a mark because they did not make it clear that the price of rice had fallen. Data-handling skills are essential for successful interpretation of data and a full understanding of the case study.

(b) Most candidates were able to produce an accurate diagram to support their explanation of how rice farmers in Japan could benefit from subsidies on fertilisers. Many of those who failed to score full marks did so because they produced a diagram which was unlabelled or labelled incorrectly. In addition, a number missed out on a mark because they failed to explain that the subsidies would lower costs of production of rice.

(c) The better prepared candidates gained full marks here. It was good to see that the idea of a minimum price was well understood and many candidates could draw the minimum price diagram. Relatively few candidates were confused between minimum and maximum price legislation. Also, most explained that a minimum price, if imposed above equilibrium price, would lead to a surplus in the market and the impact upon farmers' revenue was generally well explained. Some good answers then went on to suggest that the government would have to purchase the surplus and explained the problems this would cause in terms of storage costs and the impact upon the government's budget. Others suggested that dumping the surplus in overseas markets would remove the surplus and then questioned whether this was practicable. A number of candidates however missed out on marks because they failed to go on to consider whether the minimum price could be sustained in the long-run.

(d) Most candidates gained some credit here. The concept of comparative advantage was stated by many candidates in terms of specialisation in those goods which could be produced with the lowest opportunity costs and many were able to explain that this was determined by an economy's factor endowment. Some failed to go on to link specialisation to trade which is essential if mutual benefit is to be gained through specialisation. Vague references to 'more efficient production' or monetary costs, with some clearly describing absolute rather than comparative advantage, causes some candidates to score low marks. Some candidates provided diagrams and tables which were often unnecessary and did not add to the quality of the answer. It seems that some choose to write everything they know on a topic in the hope of gaining marks rather than thinking carefully about the question requirements and responding appropriately.

(e) A range of marks were awarded here. Some candidates were able to provide a balanced answer that considered both the advantages and the disadvantages of rice importing countries removing controls on the rice market. They then went on to assess whether on balance the controls should be kept and as a result gained credit for evaluation. Weaker answers were unbalanced or made assertions that were left unexplained. Inevitably, this undermined the attempt to provide evaluative judgement and marks were lower as a result.

Section B: Essays

Question 2

(a) Most candidates were able to supply the accurate formula for calculating price elasticity of demand and gained due credit. Unfortunately, many then gave a vague and imprecise explanation of price inelasticity. Many for example stated that when the price of an inelastic good increased the quantity demanded did not fall by 'very much'. Few defined price inelasticity with reference to the relative percentage changes in price and quantity demanded. Most showed some awareness of the factors that made goods price inelastic, but these were often explained poorly. Some also wasted time by explaining the factors that caused the price elasticity of demand for a good to be elastic. The lack of any economic precision was evident in many answers. It was common to see answers that made unexplained assertions in which factors such as the degree of necessity or the lack of substitutes were identified as the causes of price inelasticity. A simple explanation of the factor in terms of its impact upon the relative percentage change in price and demand was sufficient for a good mark.

(b) It is clear that most candidates have a better understanding of how price elasticity of demand might be used than income elasticity of demand. Many candidates assume that income elasticity measures an individual's ability or willingness to buy a product rather than the impact on demand of changes in income. As result, many answers provided were incomplete or largely irrelevant. Some candidates tried to make a pre-learned response fit the question. Some candidates clearly expected a question on the use of these concepts to a producer rather than the government and as a result they provided answers that contained a great deal of material that was irrelevant. Some candidates did provide good and balanced answers but evaluation was generally weak across the cohort with only a few providing evaluative judgement to reach a reasoned conclusion based upon the analysis provided.

Question 3

(a) This was a popular question and most candidates could draw an accurate diagram and label it accordingly and explain it in terms of opportunity cost. Many, however, ignored the reference to rising opportunity costs and the significance of the concave shape. Rarer still was an explanation as to what might cause opportunity costs to rise and where mentioned, this was seldom explained. Surprisingly, some candidates ignored the reference to military goods and the significance of a decision to produce more military goods in terms of the opportunity cost of such a decision. Some provided analysis of the consequence of choosing to produce more capital goods rather than consumer goods. Such explanations were often accurate, but were irrelevant in terms of the question set.

(b) Answers here were often quite good on supply side policies but many were extremely generalised and did not explain how such policies could generate growth through any reference to specific examples. Many supplied assertive comments that were not sufficiently explained. Some tried to compare supply side policies against alternatives such as fiscal

policy. This was relevant but often it was done in a way that failed to identify any weaknesses in the former. Such answers tended to compare the way each worked rather than comparing the relative strengths and weaknesses of each. Clearly, it is not enough to state that fiscal policy is better without saying why supply side policy is weaker.

Question 4

(a) Many candidates had the required knowledge and understanding of the way in which exchange rates are determined in a freely floating exchange system, but very often they were unable to apply this to explain the impact of inflation upon the exchange rate. Where application was attempted, it often focused on the demand for the currency rather than supply and rarely offered sufficient explanation for a full mark answer.

(b) Some good answers were provided by many of those who attempted this question, but a disappointing number of candidates failed to use the relevant economic concepts effectively. Many attempted to compare the two systems without fully assessing the strengths and weaknesses of a free float. Analysis was often superficial as a result. Nevertheless, the better answers showed good analytical skills and went on to make a reasoned conclusion based upon the analysis offered. As a result, these answers gained good marks for evaluation.

ECONOMICS

Paper 9708/31
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **2**, **6**, **8**, **12**, **13**, **16**, **23**, **25** and **26**. They covered different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **5**, **11**, and **19**.

Comments on specific questions

Question 5 was answered correctly by 32 per cent of the candidates, who chose the key D. However, 44 per cent chose option C. Option C referred to a normal good. The final position for a consumer with a normal good would be to the right of point S, not to the left of point S.

Question 11 was answered correctly by 26 per cent of the candidates, who chose the key A. However, 57 per cent chose option B. All market structures mentioned in A could have the possibility of other firms entering the industry although there may be some potential barriers to overcome. Not all monopolies or oligopolies are immune from future potential competition.

Question 19 was answered correctly by 33 per cent of the candidates, who chose the key A. However, 57 per cent chose option D. This question concerned employment and unemployment rates. It did not give any figures for absolute amounts of employment. All the options except A require some knowledge of absolute employment levels. For A it can be seen that France had the highest rate of unemployment, and thus the lowest rate of employment, in both years. There are often questions that require candidates to recognise that the matter questioned involves rates rather than absolute amounts.

ECONOMICS

Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **6**, **12**, **14**, **16**, **21**, **24**, **26** and **29**. They covered a range of topics from different parts of the syllabus and were set to test different skills.

The questions for which the fewest candidates selected the correct answer were **5**, **9**, and **10**.

Comments on specific questions

Question 5 was answered correctly by 20 per cent of the candidates, who chose the key B. However, 41 per cent chose option C. Those who chose option C confused the short run and long run curves. The curves shown were short run curves and, therefore, related to diminishing returns and not to economies of scale.

Question 9 was answered correctly by 27 per cent of the candidates, who chose the key A. However, 34 per cent chose option C. The essential characteristics are given in A. It is not necessary for there to be a single firm that controls the supply of raw materials which are used in the output of the industry (option C).

Question 10 was answered correctly by 28 per cent of the candidates, who chose the key B. However, 43 per cent chose option A. The question stated that increased advertising caused an increase in demand for the firm's product. Increased advertising does not necessarily cause diseconomies of scale (option A). However, if a rival firm also increased advertising it would be likely that some consumers would switch their demand for the product to the rival firm, causing a fall in profits of the initial firm (key B).

ECONOMICS

Paper 9708/33
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **3**, **5**, **8**, **9**, **13**, **15**, **19**, **20**, **21**, **22**, **23**, **27** and **28**. They covered a range of topics from different parts of the syllabus and were set to test different skills.

The questions that were found most challenging were **2**, **4** and **17**.

Comments on specific questions

Question 2 was answered correctly by 35 per cent of the candidates, who chose the key D. However, 50 per cent chose option B. Those candidates who chose option B understood the idea of positive externalities but unfortunately did not notice that the benefits listed were for consumption, not production.

Question 4 was answered correctly by 28 per cent of the candidates, who chose the key C. However, 44 per cent chose option D. Given that S and T are on the same indifference curve and, assuming the indifference curves are the usual convex to origin shape, then W must be on a higher indifference curve to S and T. W would thus be preferred to S (option D).

Question 17 was answered correctly by 34 per cent of the candidates, who chose the key A. However, 52 per cent chose option C. Monopolies may achieve economies of scale (option C) but this does not necessarily mean that production will be at the point of lowest average cost for any given output. An increase in competition, achieved by an absence of barriers to entry, would be more likely to increase the possibility of productive efficiency (key A).

ECONOMICS

Paper 9708/41
Data Response and Essays

Key messages

Candidates should:
- clearly label diagrams and explain them in the accompanying written answer
- ensure that they fully answer the whole question, paying particular attention to questions where there are multiple elements to be addressed.

General comments

As last year, there were some good answers to this paper and those candidates are to be congratulated on their achievements. They presented well-balanced and clearly structured answers, accurately directed to the question and enhanced by relevant examples and applications where appropriate.

However, there were answers that were not helped by the presentation of diagrams that were squashed into a corner of the paper, not labelled clearly or not explained in the narrative. This was particularly noticeable in **Question 3**. It was sometimes very difficult to distinguish the movement of the change in demand on the diagram or, when an explanation of the diagram was given, it was not always possible to determine where the particular point referred to was on the diagram. Poor diagrams were also found in **Question 4**. The profit maximising point was sometimes not clearly indicated and the intersection of the average variable cost and the marginal cost was sometimes omitted.

Comments on specific questions

Section A: Data Response

Question 1

(a) This question required candidates to state what is meant by real Gross Domestic Product (GDP). It was expected that the answer would mention the value of the production of goods and services in the United States, in a given period, adjusted for price changes, not taking account of depreciation. Most answers mentioned the value of the output. Many omitted to mention the adjustment for inflation, or the time period.

(b) The changes could have affected the rate of growth in the US because of changes in the exchange rates, the demand for exports, the cost of imports, or the level of spending. Examples should have been given from the extract.

(c) It was expected that candidates would briefly explain the circular flow of income. The items in the table were all the major components of aggregate demand and changes in them would affect GDP. Consumption expenditure increased but at a slower rate. Exports decreased. The overall absolute change was uncertain as the information did not give absolute levels, but it is likely that the slow increase or fall in injections accounted for the change in GDP through the multiplier process. There were good comments on the link between the items and the GDP. The weaker part of many answers related to the circular flow of income.

(d) There might have been an expectation of higher GDP growth because of the house price rises, the fall in unemployment, the wage increases and the lack of product price rises which could all encourage spending. Falling oil prices may have encouraged investment. Inflation elsewhere may

have made US exports comparatively cheaper. Candidates usually were able to identify and comment on these points. It was expected that there would be a conclusion to the answer.

Section B: Essays

Question 2

This question required an evaluation and discussion of an argument. Candidates should have considered the query in the question. It required an explanation of efficiency and its link to competitive markets. Competitive markets may achieve efficient outcomes but privatisation does not necessarily mean increased competition. Further, even it if did mean more competition, individual actions are not always best for society as a whole as there could be market failures. It was expected that candidates would discuss the reasons for market failure and the possible necessity/desirability of government intervention to achieve efficiency. This intervention could be by persuasion (nudge theory) rather than by enforcement or fiscal/monetary measures. There were some good answers to this question but some candidates did not set out the principles of their analysis and failed to give an accurate account of the meaning of efficiency. Most candidates attempted to present a discussion of market failures and dealt with merit goods, externalities, public goods, lack of information and monopolies. The grade awarded depended on the precision of the explanation of efficiency, the range of market failures and the logical presentation of the information in relation to the question asked. There needed to be a conclusion to the answer.

Question 3

This question required candidates to give an explanation of the construction of an indifference curve and the determination of consumer equilibrium with given income and prices using budget lines. The ideas of indifference curves and the equilibrium were presented with varying degrees of clarity. Some candidates made good attempts to describe indifference curve analysis but many did not help their response by drawing diagrams that were very difficult to understand the difference between income and substitution effects. Many omitted to refer to the second part of the question that asks about the importance of changes in price to a manufacturer.

Question 4

(a) This question required an explanation of the profit maximisation rule. Most candidates were able to explain the significance of marginal cost and marginal revenue. The answers were often less clear about the second part of the question that required a comment on the significance of average variable cost and the difference in the possibility of continuing in production in the short run and the long run.

(b) There were some clear explanations of the market structure of oligopoly. The explanation of the prisoners' dilemma was less clear and, as a result, its link to the market structure of oligopoly was not strong. Firms that are interdependent cannot act independently of each other. A firm operating in a market with just a few competitors must take the potential reaction of its closest rivals into account when making its own decisions and anticipate the likely response of a rival to any given change in their price, or non-price activity. They need to devise possible options based on how they think rivals might react. Oligopolists have to make strategic decisions, such as whether to compete/collude with rivals, raise/lower/keep prices constant. Introduce new strategy or follow others. These strategic decisions are embedded in the nature of the prisoners' dilemma.

Question 5

(a) This question required an explanation of the demand for labour in a perfect market. It was expected that candidates would analyse how the wage rate was fixed in the industry and then explain how that level of wages would determine the demand for labour in an individual firm. Many answers did not relate the individual firm to the market. The answer, therefore, only dealt with part of the question.

(b) When a factor market is imperfect it is likely that the wage rate would be lower than that in a perfectly competitive market, unless collective bargaining raises it. The analysis would also suggest that the marginal revenue product (mrp) curve would move to the left as, in imperfect markets, marginal revenue is no longer equal to average revenue and thus the marginal physical product x the marginal revenue is lower than in perfect competition. Employment would probably be reduced unless a union negotiates or there is a fixed government wage. Although there were some good

answers to this section, the less strong answers did not compare the outcome in imperfect competition to that in perfect competition, and thus it was not clear how the wage rate might change – which is what was asked in the question.

Question 6

The answers to this question gave good descriptions of the nature of a developing economy in terms of its GDP, GDP per capita, productive capacity, standards of living, health, education, sanitation, occupational structure of the population, age structure of the population. Answers also considered the relevance of the use of GDP as an indicator of the standard of living compared with alternative indicators. Clear accounts were given of both the weaknesses of using GDP and of the alternative measures (e.g. Human Development Index or the Measurement of Economic Welfare), that might be used to determine the standard of living and thus the classification of the country into developed or developing.

Question 7

(a) Candidates were asked to explain the difference, if any, between fiscal, monetary and supply side policies. There is a distinction between monetary policy and fiscal policy. Monetary policy involves measures to influence economic activity, specifically by manipulating the supplies of money and credit and by altering rates of interest. Fiscal policy influences the economy by the use of taxation and government spending. Supply side policy aims to influence aggregate supply. Supply side policies refer to factors affecting the quantity or quality of goods and services produced. This includes the level of productivity, investment in research, the training of labour. There is some overlap between the measures used in fiscal and monetary policies and supply side policies. Supply side policies can be linked to fiscal policy through tax incentives, government subsidies, government spending, or monetary policy through interest rate changes. However, other supply side policies such as the provision of information, wage legislation, regulation, deregulation and trade incentives do not overlap as much. Candidates were clear on the difference between fiscal and monetary policies, although there were a few who confused the two terms and were less accurate about the link between those and supply side policies.

(b) Candidates gave a good explanation of the way that fiscal, monetary and supply side policies might be used to influence wealth distribution, although the answers were clearer on fiscal policy than monetary or supply side policies. Fiscal policy can be used through tax changes, direct and indirect, or through government spending – welfare payments, grants. Monetary policy can be used to affect savings and potential future earnings, investment and potential employment. Supply-side policies can be used to encourage training and skills and potential increases in wages, or to encourage competition, or through regulation to keep prices lower, or minimum wages to encourage people to work.

ECONOMICS

Paper 9708/42
Data Response and Essays

Key messages

- Candidates generally demonstrated that they understood the relevant theory but did not fully develop the analytical aspects of the question or apply it to the context of the question. The best answers articulated the analytical aspects within the context of the question.
- Many questions contained the command word 'discuss' or 'consider'. Both these terms require an argument or debate within the answer and the drawing of a conclusion. Many answers were one-sided or left the examiner free to draw their own conclusions.
- Candidates are reminded that thorough reading is necessary to pick out the full breadth of the question.

General comments

Many answers were again of a high standard in response to the questions.

Some diagrams were badly drawn, or inaccurately labelled. There were also diagrams which were perfectly presented but had no reference made to them in the essay. There were also some rehearsed answers seen that did not match the question which had been set.

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

Comments on individual questions

Section A: Data Response

Question 1

(a) Many candidates successfully identified two measures of changes in the economic that could be used to explain why households should have benefitted from the economic recover.

(b) Candidates were able to identify evidence for 'a fall in living standards' but did not develop an explanation.

(c) Many candidates did not use the evidence in the passage to identify, for example, low interest rates and low wage growth as possible explanations for the creation of jobs by private sector entrepreneurs and instead gave general analyses of the effects of job creation.

(d) Most candidates were successful in identifying two economic policies and how they were implemented. Only a minority considered the second element of the question and explained who were the winners and the losers from these policy changes.

Section B: Essays

Question 2

(a) Candidates were able to write fluently and at length on the definitions of efficiency and were able to link the concept of productive efficiency to the movement to a point on the production possibility curve. Many did not address the relationship between the production possibility curve and allocative efficiency.

(b) Candidates were successful in discussing reasons for government intervention to overcome inefficiency in the economy and either explicitly or implicitly referred to the 'necessary' element of their intervention but few made reference to whether the intervention was 'sufficient'.

Question 3

(a) Those who attempted the question were able to explain the concepts of an indifference curve and budget line and to reach the point of equilibrium between an indifference curve and the budget line. However, only a minority progressed to explaining the effect of a change in price on the budget line and the effect this would have on the point of tangency and hence the downward-sloping demand curve.

(b) Candidates were able to distinguish and explain the difference between income and substitution effects and to combine them into an overall effect of the demand curve. Many identified the inferior good effect but only a minority considered both that and the 'Giffen good' outcome.

Question 4

(a) The better answers included an explanation of the existence of why some industries consisted of a few large firms whilst other had a significant number of small firms. This was further developed with reference to market size and the minimum efficient scale of operation. However, many candidates simply presented a generalised answer on market structures.

(b) Generally, candidates dealt better with this part of the question and were able to produce a reasoned discussion of both the beneficiaries and losers from the dominance of large firms. A minority produced only a one-sided argument.

Question 5

The key words in this question were 'best' and 'no need … to fix wages' and good answers addressed these elements. They also showed understanding of the origins of the demand curve for labour in marginal productivity theory and went on to deal with the ways in which the government and trades unions should intervene in the labour market. The weaker responses omitted different elements of the analysis or discussion, and some generalised answers on wage determination were seen.

Question 6

Candidates produced some good responses as they considered the adequacy of GDP as a measure of development and also whether unlimited growth of GDP was good for a country. Better answered offered a discussion of a range of alternative measures which may be appropriate for less developed countries. A minority focussed extensively on the alternative measures without addressing the relevance of GDP.

Question 7

(a) Nearly all candidates were able to cover a range of types of unemployment. However, there were differences in the quality of the explanation of the causes of unemployment, with better answers using a stronger, analytical approach.

(b) The stronger responses recognised that a comparison of government economic policy objectives – reducing unemployment against other aims – was required to answer the question fully. Some answers explained that priority would be given to whatever was the most significant economic problem of the time and there were occasions when unemployment may not be main objective. Weaker answers instead wrote about possible policy solutions to unemployment.

ECONOMICS

Paper 9708/43
Data Response and Essays

Key messages

Candidates should:

- try to demonstrate their understanding of concepts through the use of clearly label diagrams with an accompanying written answer
- ensure that they fully answer the whole question, paying particular attention to questions where there are multiple elements to be addressed.

General comments

As last year there were some good answers to this paper and those candidates are to be congratulated on their marks. They presented well-balanced and clearly structured answers, accurately directed to the question and enhanced by relevant examples and applications where appropriate.

However, much as last year, there were answers that were not helped by the presentation of diagrams that were squashed into a corner of the paper, not labelled clearly or not explained in the narrative. This was particularly noticeable in **Question 2**. It was sometimes very difficult to distinguish the movement of the change in demand on the diagram. When an explanation of the diagram was given, it was not always possible to determine where the particular point referred to was to be found on the diagram. Poor diagrams were also found in **Questions 3** and **7**.

Comments on specific questions

Section A: Data Response

(a) While most candidates explained the difference in the terms correctly, there were a considerable number of candidates who confused the terms, reversing the explanation. Most candidates, who correctly explained the terms, recognised that the first paragraph contained the word 'should' which would indicate a normative statement. However, the paragraph also contained statements that were capable of being tested to determine their accuracy. Very few candidates identified both positive, as well as normative statements.

(b) Candidates were able to explain that a cartel is a group acting together that fixes output, that fixes prices and that prevents competition, all of which could be against the public interest.

(c) It was expected that candidates would explain the meaning of economies of scale and comment on their possible relevance to large international markets. Many answers gave statements about general efficiency but did not comment on possible economies through large scale.

(d) The article contained evidence to support the statement in terms of lack of innovation, acquisitions not innovation, managerial problems(e.g. at banks), and a tendency to form cartels – but there were no figures, or details to confirm these statements. There was also evidence about niche markets, economies of scale, international trade – but no details of success rates, price changes, costs, or whether profits have improved. No source was given for the surveys, for example, of young people. There was an oversimplification of role of state. The article used some normative words, for example, "dull, identical brands", to give a pretended meaning to their aim. The article presented a negative side of large business and a beneficial side of smaller businesses: it was not a balanced view.

Section B: Essays

Question 2

(a) This question required an explanation of indifference curves, a description of a normal good, (positive substitution, positive income effect for a price fall), an inferior good (negative income effect does not outweigh positive substitution effect for price fall). It was also expected that there would be a clear link from the indifference curve equilibrium to a demand curve, which could show the possible different changes in demand and the different price elasticity of goods. Candidates made good attempts to describe indifference curve analysis, but many did not help their response by drawing diagrams that were very difficult to understand. Very few showed the connection between the change in demand on the indifference curve which represents two goods, and a demand curve, which represents one good and its price.

(b) It was expected that candidates would present a discussion of consumer theory. They could have discussed whether it is likely that consumers might behave irrationally. They could have also discussed whether there might be other criticisms of the theory, for example, whether it is possible to construct indifference curves, whether it is possible to calculate marginal utility, or elasticity, or present a precise simple price equilibrium. This section proved more challenging than section **(a)**.

Question 3

(a) This question required an explanation of the profit maximisation rule. Most candidates were able to explain the significance of marginal cost and marginal revenue. The second part of the question required a recognition of the significance of average variable cost and the difference in the possibility of continuing in production in the short run and the long run. Candidates performed less well in the second part and the significance of average variable cost was often omitted.

(b) Candidates were required to consider the market structure of oligopoly and relate that to the pricing practice described in the question. Oligopoly theory assumes: their profit maximisation, (price match could support this); product differentiation/advertising (this again could be supported by the statement); it assumes a concern about competitor's actions or interdependence (supported by the statement). The theory presumes that prices are relatively constant (this has only debateable support in the statement); and that there are a few large firms (large – is supported, few – is debateable in the statement). The theory also states there is a possibility of collusion between the firms (this is not supported). While candidates were able to describe the market structure of monopoly, many did not relate this to the question, or merely added a brief sentence at the end of a general description.

Question 4

The question required a discussion of wage determination. The question refers to any labour market, so both perfect and imperfect markets should have been considered. There were some well-reasoned answers to this question. The most common difficulty encountered was that the answers related to the product market and the analysis was of profit maximisation and pricing for the product, rather than the analysis of the factor market.

Question 5

(a) This question required an analysis of the causes of an increase in unemployment. Although the information is essentially the same as the static causes of unemployment, candidates should make some comment about the reasons for an increase in unemployment, drawing attention to what might have changed to result in such an increase. It was expected that candidates would frame their answer around the standard classification of types of unemployment. For many this question was answered very well. Sometimes though, these classifications were presented in a general manner without the usual name (e.g. cyclical, structural), and sometimes they were not mentioned at all.

(b) This question appeared to present candidates with fewer challenges than the first section and they were able to discuss the likely impact of unemployment. They wrote about reduced expenditure by consumers, but possibly increased expenditure by governments on training programmes, or benefit schemes; they referred to reduced incomes, a reduced rate of economic growth, and the social impact of unemployment.

Question 6

(a) Those who answered this question presented a good assessment of the use of GDP as an indicator compared with alternative indicators. They commented on the relevance of GDP for the classification of developing countries and analysed the value of other characteristics apart from GDP for the classification. Few, however, made more particular comment that the table only related to one year and that no comparison with other years was given.

(b) Good answers were given discussing the benefits of growth that covered some, or all, of the likely effect on increases in income, productive capacity, trading position, employment, profitability and standards of living. Some also considered the difficulties or drawbacks that might occur from economic growth.

Question 7

This question required an explanation of the meaning of efficient allocation and a presentation of the analysis that ensures an efficient optimum may be reached. Most candidates were able to distinguish between productive and allocative efficiency. Some included dynamic efficiency. Better answers also gave a discussion of reasons for market failure and the necessity/desirability of government intervention to achieve efficiency – mentioning the ways in which this intervention might occur through regulatory changes, fiscal policy, monetary policy, supply side policy or by general influence through persuasion (nudge theory) rather than by enforcement. It was expected that there would be a conclusion, drawing these ideas together to determine whether there was a realistic hope that economics might help achieve a practical allocation of resources.