ECONOMICS

Paper 9708/12
Multiple Choice

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

General comments

Questions 2, **3**, **13**, **14**, **15**, **17**, **18**, **19** and **27** were answered most successfully. These questions covered the full range of skills and syllabus topics.

Questions 1, **5**, **6**, **7**, **9**, **10**, **20** and **21** were those answered correctly least frequently.

Comments on specific questions

Question 1 was answered correctly by 41 per cent of candidates, who chose the key **D**. Few candidates chose option **B** while 27 per cent chose option **A** and 24 per cent chose option **C**. Division of labour will lead to an increase in productivity and hence to a decrease in opportunity cost, giving **D**.

Question 5 was answered correctly by 43 per cent of candidates. This question required candidates to distinguish between a change which would explain the shape of a supply curve and a factor which might shit the whole curve. Option **D** was the key because a supply curve will slope upwards to demonstrate the impact on the supply when costs rise with a rise in output.

Question 6 was answered correctly by 39 per cent of the candidates. This was a two-stage numerical question, which required candidates to calculate price elasticity of demand and then link a change in price to a change in total revenue.

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Question 7 was answered correctly by 40 per cent of candidates. The key **D** required candidates to read the stem carefully and then demonstrate that supply will be more price elastic when producers can increase output without a rise in cost or significant time delay.

Question 9 was answered correctly by 37 per cent of the candidates. This question was found the hardest of those on this paper. A clear understanding of why price elasticity of demand will vary at each point on the demand curve was required. PED will vary from perfectly elastic at the vertical intercept to zero elasticity at the horizontal intercept. Hence option **D** was the key.

Question 10 was answered correctly by 42 per cent of candidates. This question required candidates to be able to identify, from a diagram, the effect of a fall in equilibrium price on both consumer and producer surplus. Option **D** was the key.

Question 20 was answered correctly by 43 per cent of candidates. Option **B** was the key. Candidates were required to make numerical calculations based on a diagram to show the impact of an embargo on all imports on both domestic and world producers.

In **Question 21**, 39 per cent of candidates chose the key **C**. Again, candidates were required to use information provided on a diagram to demonstrate understanding of the meaning of the economic term *devaluation*.

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Paper 9708/22
Data Response and Essay

Key messages

- In order to score well candidates need to apply their knowledge and understanding to the question set.
- Consideration of the directive word in each question will ensure that the answer provided is appropriate.
- Analysis must be well directed and sufficiently developed to cover all aspects of a question.
- Evaluative comment should be balanced and sufficiently detailed to lead to a reasoned conclusion.

General comments

Candidates usually showed good knowledge and understanding of the key economic concepts required to score well.

However, some missed out on marks because of weakness in applying the concepts to answer the question set. In addition, although some candidates showed the ability to develop their analysis to provide a full answer to the question, many left their answers undeveloped and the outcome was often superficial. This meant that the analysis provided was incomplete often because the full extent of the question requirements was not grasped. Inevitably, superficial or incomplete analysis undermined the extent to which marks could be scored for evaluation and this continues to be a key weakness amongst many candidates. A disappointing number of candidates displayed gaps in their understanding of the concepts and this often resulted in an uneven response to the questions set.

Comments on specific questions

Section A: Data Response

Question 1

(a) (i) It was disappointing that many candidates were unaware of what is included in the primary income balance of the current account of the balance of payments. Many confused this with the primary sector of the economy and failed to score here. Acceptable examples of such components include profits or dividends from investments abroad and interest on overseas loans.

(ii) A similar lack of knowledge of the secondary income balance was revealed in answers to this question. Again, there was confusion with the secondary sector of the economy amongst some candidates despite the clear evidence in the data that this term referred to the context of international payments. Acceptable examples include government aid and spending on overseas embassies.

(iii) This question was generally well done with many candidates performing the required calculation to conclude that the current balance shows a declining deficit. Some candidates however missed out on possible marks because, although they performed the calculation correctly, they failed to use the figures to answer the question. To score marks they had to use the figures to state that the trend in the current balance was a declining deficit.

(b) This question was generally done well with most candidates being able to identify two policies adopted by the Polish government that could be considered as supply-side policies. Some candidates failed to gain a mark because they identified a decrease in the retirement age as a policy that had been adopted. This measure could certainly be classified as a supply-side policy,

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but it was not worthy of a mark because it was only described as an 'interesting suggestion' in the data – the question required identification of two policies that had been adopted.

(c) The quality of responses to this question showed considerable variation. Some candidates provided an accurate diagram together with a clear explanation of the reason why a general sales tax was likely to discourage entrepreneurs from investing. Explanations included the impact of the tax upon the firm's costs and the resulting decline in profits. Disappointingly, a number of candidates were unable to provide an appropriate diagram. Some produced diagrams with no reference to supply or demand curves, others mistakenly shifted the demand curve to the left. As usual, some candidates left axes and curves unlabelled and missed out on marks as a result.

(d) In order to do well here it was necessary to have a good knowledge and understanding of the components of aggregate demand and then to show how the information in Extract 2 could be used to assess the likely changes in Poland's aggregate demand in 2017. It was clear from the extract that some components of aggregate demand were expected to fall. Investment by private companies for example was expected to show a significant decline. There were indications in Extract 2, however, that government spending might increase and this would offset the decline in private firm investment. In reaching a conclusion on the overall impact upon aggregate demand it was necessary to recognise that whether aggregate demand would rise or fall depended upon the relative strength of these various factors affecting aggregate demand. This was sufficient for the mark available for the conclusion.

(e) Some good responses were provided here with candidates providing a clear explanation of the meaning of a budget deficit and then going on to explain the potential positive effects that this might have on the Polish economy such as the fall in unemployment that might occur as aggregate demand was boosted by the deficit. Successful candidates then went on to explain the potentially negative effects of the deficit such as the threat of inflation before reaching a reasoned conclusion on whether the impact will always be positive. Weaker candidates gave rather superficial answers that did not consider both the positive and negative effects that might occur. Others gave rather vague answers that simply equated a budget deficit with a rise in the national debt and they stated that this was a negative effect, but this claim was left unjustified. A disappointingly large number of candidates scored very poorly because they thought that a budget deficit was the same as a deficit on the current account of the balance of payments. The analysis that followed was inevitably irrelevant to the question.

Section B: Essays

Question 2

(a) This was a popular essay question but many candidates attempted it with insufficient understanding of the core concepts required for successful answer. Some candidates were able to draw a production possibility curve but this was insufficient for the award of a high mark. In order to score well it was necessary to use the curve to explain scarcity, choice and opportunity cost. A disappointing number of candidates failed to do this and left the diagram to speak for itself. Some candidates drew the diagram and attempted some explanation of opportunity cost whilst dealing with scarcity and choice in a purely theoretical, knowledge-based way without reference to the diagram. High-scoring candidates were able to explain each concept in turn and illustrate it with reference to the production possibility curve.

(b) Most candidates were able to draw a valid diagram showing the imposition of a maximum price in a market and the resulting excess demand that would occur if the maximum price was placed below market equilibrium. Fewer were able to go on and consider whether this could improve resource allocation. Many did make the point that the intention of the lower price was to allow those with lower incomes the ability to purchase essential goods, but many did not consider the impact of the shortages that would arise and whether the government might be able to manage this through rationing systems for example. The frequently incomplete analysis often undermined the ability of candidates to arrive at a conclusion and effectively capped the overall mark awarded.

Question 3

(a) This was the most popular essay question and it is clear that there is recognition of the importance of the concept of price elasticity in the teaching of economics. Although most candidates were able to provide the definition and formula for price elasticity, it was disappointing that when using the

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concept to distinguish between elastic and inelastic responses to price changes candidates often provided a vague explanation. Many for example referred to price inelastic demand as a situation where demand 'does not change' with price or only changes 'a little' whereas price elastic demand is where demand changes 'a lot'. This reveals an insufficiently precise understanding of the concept. To apply the concept to explain how it can help a business to assess the effect of price changes upon total revenue it is necessary to compare the percentage change in demand with the percentage change in price. If the good is price elastic then the percentage change in demand is greater than the percentage change in price and total revenue will fall if the price is increased. Similar application of the concept could explain the impact of price changes upon price inelastic goods and also goods that have unitary price elasticity.

(b) Merit goods are those that are better for a consumer than they realise because of information failure and as a result they are under-consumed. Demerit goods are more harmful than consumers realise and this results in their over-consumption. This simple explanation was lacking in many answers with some candidates becoming confused when discussing possible third party effects of consumption. Many candidates were aware of how indirect taxes and subsidies would affect the consumption of these goods, but were less confident when considering how the impact of indirect taxes and subsidies would be affected if the demand for both of these goods were price inelastic. Too often it was asserted that indirect taxes would have no impact whatsoever on the consumption of demerit goods as they were addictive. Similarly, many argued that subsidies would have no impact on increasing the consumption of merit goods. Some good answers were provided by those candidates who had a good grasp of the nature of both types of goods and could see the significance of the degree of inelasticity in affecting the impact of indirect taxes and subsidies on the consumption of these goods.

Question 4

(a) This was the least popular essay with few candidates attempting an answer. To score well candidates needed to show understanding that the demand and supply of a currency affects the exchange rate and that governments can reduce the value of this rate by affecting either the demand or the supply of the currency. They needed to explain that this could be done by using foreign exchange reserves to intervene in the market. Alternatively, they can influence the demand and supply of the currency in other ways. In order to reduce the value of a currency they could, for example, reduce interest rates so that the demand for the currency would fall and the supply of the currency would rise in the foreign exchange market. Some candidates clearly understood how exchange rates are determined and scored well, but it was clear that many candidates did not have a firm grasp of these factors and many were unable to display the appropriate knowledge and understanding to score well.

(b) Some candidates gave a good explanation of the advantages and disadvantages of using expenditure-reducing policies and were able to reach a reasoned conclusion after due consideration of the issues. It was disappointing that a significant number of candidates were unclear of the distinction between expenditure-reducing and expenditure-switching policies and some gave lengthy explanations of tariffs and quotas with no reference to policies designed to remove a deficit such as interest rate rises, increases in direct tax rates and reductions in government expenditure. Inevitably, such confusion resulted in a low mark.

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Paper 9708/32
Multiple Choice

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

General comments

The questions for which most candidates selected the correct answer were **1**, **3**, **4**, **6**, **8**, **14**, **18**, **20**, **24**, **25**, **28**, and **30**. These questions were answered correctly by 75 per cent or more of the candidates. 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 **7**, **10**, **19**, and **26**. These questions were answered correctly by fewer than 55 per cent of the candidates.

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Comments on specific questions

Question 7 was answered correctly by 51 per cent of the candidates, who chose the key **A**. 14 per cent chose option **B**, 23 per cent chose option **C** and 12 per cent chose option **D**. Revenue maximisation occurs at the output level where the marginal revenue is zero. Those who chose option **C** correctly identified the profit maximisation point but forgot that the relevant price at that output is given by the average revenue curve and not at the level where the marginal revenue is equal to the marginal cost.

Question 10 was answered correctly by 46 per cent of the candidates, who chose the key **B**. 19 per cent chose option **A**, 27 per cent chose option **C** and 7 per cent chose option **D**. The question asks which statement is **not** correct. The profit maximising point for firm Y will result in a situation where the average revenue is greater than the average variable cost but less than the average total cost. This would mean that the firm would operate in the short run but not in the long run. Option **B** reverses that statement and is, therefore, not correct.

Question 19 was answered correctly by 38 per cent of the candidates, who chose the key **A**. 47 per cent chose option **B**, 8 per cent chose option **C** and 6 per cent chose option **D**. Those who chose option **B** did not take account of the adjustment for taxes and subsidies that is necessary to achieve national income at factor cost. Consumer expenditure, investment expenditure and government expenditure must be added. To this must be added the balance of exports and imports. In this case that balance was negative by $50 million. This will give the value at market prices. Then taxes must be deducted and subsidies added to achieve the factor cost.

Question 26 was answered correctly by 53 per cent of the candidates, who chose the key **C**. No candidate chose option **A**, 1 per cent chose option **B** but 45 per cent chose option **D**. It is likely that birth rate will fall as a country progresses through the 'emerging' status. The amount of money left that would be available for saving would be likely to rise. Candidates who chose option **D** may have confused the amount of savings that is, on average, likely from low income and high income households within a particular level of development.

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Paper 9708/42
Data Responses and Essays

Key message

Candidates should check that their answers address every element of the precise question set.

General comments

There were some very clear answers to the questions on this paper and candidates are to be congratulated. Sadly, there were still a considerable number of answers that were illustrated with diagrams that were too small to be clearly legible and that were not adequately explained in the text. The other general weakness was that sometimes candidates did not consider every aspect of the question. For example, they did not explain the meaning of efficiency in **Question 2**, they concentrated on the characteristics of oligopoly but did not consider alternative aims in **Question 4 (b)**, or dealt only with a situation of reduced employment in **Question 5 (b)**.

Comments on specific questions

Section A: Data Response

Question 1

(a) Most candidates were able to explain that quantitative easing is when the central bank creates money through the purchase of bonds with cash which increases the stock of money held by banks and financial institutions. This would have an effect on interest rate and increases the potential for lending in the economy.

(b) Candidates recognised that the central bank controls credit creation and hence the money supply. Commercial banks create credit to finance consumption and investment by households and enterprises and thus provide liquidity in an economy. If bank customers lose faith in the banking system there could be a run on the banks leading to collapse in banking services.

(c) Nearly every candidate realised that part of the cause of the oil price fall was the increase in the oil supplies – mainly by the Saudi Arabia/OPEC cartel. They presented a demand and supply diagram to show the effect of an increase in supply.

A significant number of candidates did not mention the other factor in the information which was the decline in demand – particularly from China. China, the information explained, had an over-investment on infrastructure based on excessive borrowing and the country was experiencing an economic downturn. It was this overinvestment, the reduced government spending and the government fiscal policy that helped to further the economic downturn. The downturn was, thus, not entirely caused by the fall in the price of oil.

The effect on oil importing countries was mentioned with the benefit from lower production costs – although the cheaper cost would result in a loss of revenue from taxes on oil products for the government.

(d) Candidates were able to explain the concerns of the OECD and commented on the criticism of the over-reliance on monetary policy and the recommendation of an increased use of fiscal policy. They described the likely effects of the recommendation of the use of fiscal policy on an economy.

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Section B: Essays

Question 2

It was expected that candidates would explain the theoretical analysis of the different types of efficiency and consider why a monopoly might not achieve efficiency. The discussion should also have debated whether all monopolies necessarily cause inefficient production and what policy might be used by a government to deal with the inefficiency should it occur. Most of the answers dealt competently with the possible policies that a government might use. They also elaborated on the situation that might arise that would lead to a conclusion that the monopoly was not necessarily inefficient in its production choices. A significant number did not, however, explain in any detail what was meant by efficiency except to say that monopolies were likely to charge higher prices than competitive firms.

Question 3

(a) This question asked about indifference curves. It was expected that candidates would give an explanation of the link between the construction of the indifference curve and how a consumer would have an 'indifferent' response along them representing a constant level of utility. The link between the downward slope and the principle of diminishing marginal utility, and how more of a good is preferred to less of a good so the curves cannot cross was also necessary. Many answers covered all three elements in the question. The weaker answers did not explain fully enough why the curves were downward sloping.

(b) The theory states that consumers maximise satisfaction and determine demand by relating utility to price; this is shown by indifference curves and budget lines. Any income change would shift the budget lines in a parallel manner, a price change of one good would cause the budget line to pivot. Either would cause the consumer's equilibrium position to change – the extent and direction of the change would depend on the type of good. It was necessary, in answering this question, to explain the income and substitution effects for an inferior good. Candidates sometimes confused the negative income effect for an inferior good caused by a rise in income with the overall effect of a price change. If the price falls for an inferior good it causes a rise in demand because of the substitution effect but a fall in demand because of the income effect. The overall result is still an increase in demand, but a smaller increase than if the good were a normal good. Many candidates stated that there would be an overall fall in demand. It is only with Giffen goods that the overall effect results in a lower demand. Most candidates who answered this question used a diagram which they hoped would illustrate their answer. Sadly, many of the diagrams were very small or badly drawn and did not achieve that hope.

Question 4

(a) Most candidates who answered this question were able to explain the meaning of marginal cost and variable cost and that the marginal cost changes as the variable cost changes. The answer to the second part was not as clearly explained. The marginal cost is the firm's supply curve in perfect competition. The sum of the individual firm's supply gives the industry supply. This link between marginal cost and supply does not apply with imperfect competition.

(b) Candidates who answered this question often used much of their answer to describe the characteristics of oligopoly concentrating on the explanation of a 'kinked' demand curve or explaining the meaning of collusion. Many did not consider the alternative policies that might exist between perfect competition and oligopoly. Perfect competition assumes profit maximising. Oligopoly can still assume profit maximising. However, with collusion, the profit maximising output/price can be fixed for the industry and each firm is given an output quota which is not necessarily the profit maximising output for that firm. The oligopoly need not always assume profit maximisation and might have alternative aims.

Question 5

(a) Candidates needed to explain the link between the marginal product and the marginal revenue product (MRP). They also needed to explain the equilibrium position of the firm comparing MRP with wage given to the firm in perfect competition by the market. The MRP and market wage determine employment. The average product is used to construct the average revenue product which is significant in determining level of profit for the firm. Candidates usually explained the MRP very competently but the weaker section of their answer dealt with the average product.

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(b) Most of the answers to this question concentrated on the situation that would occur if the equilibrium wage was increased but did not consider whether this could occur without reducing the number of workers employed. Those who did draw the distinction between an increase in wage that could possibly occur in imperfect competition without a reduction in employment gave very good analytical answers.

Question 6

(a) It was expected that answers would identify each of three leakages and each of three injections in the circular flow of income. The key distinction should focus on the autonomous nature of the injections and the endogenous nature of withdrawals. Most candidates who answered this question were able to explain the difference in a clear manner. The weakness, if any, in the answers was that there should also have been some attempt to show how an injection might affect a leakage or vice versa. For example, an increase in investment (injection) might lead to an increase in income which might lead to an increase in savings (withdrawal). The links between injections and withdrawals was often omitted from the answer.

(b) The best answers were able to link interest rate changes to each of the three injections and focused on why injections might rise. For example, they stated that a decrease in interest rates might lead to a rise in borrowing which in turn might lead to a rise in investment (injection). They were also able to attempt a critical evaluation of any change. For example, by discussing whether investment changes are solely dependent on interest rate changes.

Question 7

This was a popular question and most candidates were able to present a competent well-argued answer. Their answers gave an explanation of Keynesian demand management theory and how the associated policies might be used to solve the problem of unemployment together with an evaluative comment on whether such policies are likely to work. The weakness of the answers, if any, was where candidates did not allow sufficient time to discuss the extent to which any policy directed at reducing unemployment might conflict with the attainment of other key macroeconomic goals. For example, deficit spending to increase employment might cause inflation, it might lead to higher interest rates and lower growth and it might increase balance of payments deficits.

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