

# ECONOMICS

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**Paper 9708/01**  
**Multiple Choice (Core)**

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

## General Comments

The mean score went up from 18.00 last year to 18.72, which is the highest mean in recent years. The number of candidates scoring full marks fell very slightly. In terms of the test design two **Questions (4 and 23)** proved significantly easier than expected while none was more difficult than intended. The performance on diagrams and numerical questions was more consistent than on verbal questions.

## Comments on individual questions

**Question 3** proved to be one of the more difficult questions with over 35% wrongly choosing C. As this option does not match any specific economic concept this suggests some guessing. A positive statement relates to matters of fact rather than opinion so can be tested to confirm its accuracy.

It was disappointing that in **Question 8** candidates did not adapt better to a different presentation of elasticity information. The relatively large number selecting B confused the line with a supply curve. With unitary price elasticity of demand total revenue does not change with price.

The increasing competence of candidates in understanding externalities was confirmed by the performance in **Question 14**, although the selection of A by a quarter of candidates indicates their need to confirm the position of a most desirable economic equilibrium.

For a number of years, candidates confused social costs and benefits with external costs and benefits. By and large, this error seemed to have been overcome. However the choice by 22% of B in **Question 15** may suggest that for some candidates the mistake still needs attention.

Given that the nature of public goods is well understood by candidates, it was surprising that a quarter opted for C in **Question 17**. Private sector firms do not produce public goods as there is no system by which a charge can be levied.

The range of possible assumptions underlying an economic action may make the outcome of the action uncertain. Past multiple choice questions have therefore included uncertain as a possible response and this has often been the correct key. In the case of **Question 20** however the outcome is certain. A higher price for Malaysian exports when they have a high price elasticity of demand will decrease the revenue they generate. Option C is therefore correct.

**Question 26** was the only case where more candidates opted for an incorrect response (B) than the correct key (A). The balance of trade of the developed country will improve as the increase in world supply will lower the market price. The expenditure on an import with inelastic price elasticity will fall, so the balance of trade will improve. This is the reverse of the case which usually receives great publicity.

One question failed to achieve the intended level of discrimination. This was **Question 27**, which also had the lowest facility at 36%. The responses were spread evenly across the options. 'Balance' is a technical concept in balance of payments accounting and is not the same as deficit/surplus or disequilibrium. Option C is correct as it deals with the recording of data, while the alternatives relate to the overall financial position with other countries.

**Location Entry Codes**

As part of CIE's continual commitment to maintaining best practice in assessment, CIE has begun to use different variants of some question papers for our most popular assessments with extremely large and widespread candidature. The question papers are closely related and the relationships between them have been thoroughly established using our assessment expertise. All versions of the paper give assessment of equal standard.

The content assessed by the examination papers and the type of questions are unchanged.

This change means that for this component there are now two variant Question Papers, Mark Schemes and Principal Examiner's Reports where previously there was only one. For any individual country, it is intended that only one variant is used. This document contains both variants which will give all Centres access to even more past examination material than is usually the case.

The diagram shows the relationship between the Question Papers, Mark Schemes and Principal Examiner's Reports.

| Question Paper                | Mark Scheme                | Principal Examiner's Report                |
|-------------------------------|----------------------------|--|
| Introduction                  | Introduction               | Introduction                               |
| First variant Question Paper  | First variant Mark Scheme  | First variant Principal Examiner's Report  |
| Second variant Question Paper | Second variant Mark Scheme | Second variant Principal Examiner's Report |

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Please direct any questions about this to CIE's Customer Services team at: [international@cie.org.uk](mailto:international@cie.org.uk)

# ECONOMICS

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Paper 9708/21

Data Response and Essay (Core)

## General Comments

With a significant increase in entries it was pleasing to see that there were continuing numbers of well-prepared candidates who were able to score highly on the paper. On the other hand, despite the best efforts of teachers, it remains a concern that other candidates did not appreciate what is expected of them and needed to tackle difficulties over both subject knowledge and examination technique. The performances of this group fell well short of the necessary standard.

One aspect of technique is the proper development of points. It is not usually enough to describe data: there is usually a requirement for selective use or some sort of conclusion about what the data is conveying. In the same way it is not enough just to identify ideas: they will usually need some form of clarification.

Some parts of the questions specifically ask for the use of diagrams, so high marks will not be awarded if they are not present. However, even if they are not asked for, they should be used if they are the usual and most effective way of tackling a topic.

A point that some candidates overlook is that they are often asked about a 'change' rather than a 'rise' or a 'fall' in a variable. Those who continue referring to a change without saying what it is miss the opportunity to gain credit from identifying the nature of the change, which can then become the starting point for their response.

Some answers put too much stress on political rather than economic outcomes.

A small number of candidates, possibly those from Centres new to the syllabus, attempted only one part of an essay question. The instruction to 'Answer one question' means both parts (a) and (b).

## Comments on specific questions

### Question 1

The data response question concerned the mining of copper in Chile and its importance to the country's trade and the balance of payments.

- (a) (i) Most were able to recognise the rise in the price and to quantify it (e.g. price rose by about 300%). Better answers paid attention to the units. Some, however, used the wrong axis in referring to price and some described the movement **within** the years rather comparing movement between the years.
- (ii) A sound structure was helpful here. The higher price might have been caused by an increase in demand which, for example, might have resulted from greater production of goods that incorporated copper (derived demand). A fall in supply might have caused the rise in price and have occurred because of higher production costs associated with the industrial action. Many supported their analysis with a diagram. There were some shifts in the curves that were not explained and some shifts in the wrong direction. It was not sufficient just to copy 'global growth' and 'strike action' as reasons since these do not amount to an explanation, only an identification.

- (b) (i) This was not done well, although this type of question has been asked before. Most candidates recognised that the two thirds increase was relevant but did not know how to use it. Answers of \$11.33 billion and \$5.66 billion were common, as was \$40 billion. Some of those who correctly calculated \$10 billion (approximately) omitted to state that it was a surplus. Some admitted defeat immediately and offered no answer.
- (ii) At the basic level a mark was gained for stating that import figures were needed as only export figures were given in Fig. 1. Stronger answers recognised the need to have, in addition to exports of goods given in the data, information on services/invisibles, current transfers and income. The most detailed added visible imports to these three to gain full marks. There were errors involving capital flows and investments and some careless references to income transfers. It was not necessary to go into detail on the nature of the components.
- (c) (i) The key to this question was the ability to see that the changing proportion of copper exports to total exports was needed. The growth of copper exports in isolation would not prove an increasing relative importance. There were some impressive answers which approximated the percentage shares of the two categories in the two years. On the other hand there were some which either copied the data or asserted an outcome.
- (ii) Specialisation is a topic with which candidates are familiar. Few had difficulty in seeing the potential conflict between efficiency gains and risk and dependency. The degree of detail in different answers was very marked. Stronger responses were able to use theoretical ideas rather than adopting a descriptive approach. Candidates are reminded, however, that the instructions indicate that only brief answers are required. Long numerical proofs of comparative advantage were unnecessary. Current and recent examples were used effectively to support arguments.

### Question 2

The question considered changes in production possibility curves and the ability of economic systems to solve scarcity. This was the most popular of the essays.

- (a) While most candidates defined the idea of a production possibility curve, the other term in the title, 'productivity', was rarely defined. There was some evidence that productivity was not understood and was being confused with production. This view was supported by the fact that a surprisingly large number of candidates thought the outcome of the change would be a move along the curve. Although diagrams were not asked for, it seems strange that they were not automatically considered the easiest and best way to approach the topic. There was considerable unnecessary detail of every aspect of a production possibility curve in the introduction to the essay. Very few considered any effect other than the changing slope with increased agricultural output. Possible links between agriculture and industry might have furnished further lines of thinking.
- (b) The better answers recognised the significance of the reference to solving scarcity. This was the way to score top marks. It was not simply a question of 'discuss the advantages and disadvantages of market and command economic systems', for which some candidates clearly had hoped and prepared. The more thoughtful approaches recognised the inability to 'solve' scarcity and addressed the extent to which the two systems were more effective in approaching that aim. The general consensus favoured market systems, although others attempted the case for the command system.

### Question 3

Indirect taxes and their effects on consumer surplus and negative externalities were the focus of the question.

- (a) Candidates were, by and large, able to define consumer surplus. The reduction in consumer surplus that results from the imposition of an indirect tax was usually clearly illustrated in a diagram. Some detailed analysis based on differing price elasticities of demand appeared in some answers. The final stage in explaining why the consumer surplus was reduced was not often brought out explicitly and was the weak point of many responses.

- (b) There were some very detailed answers that incorporated appropriate diagrams. The effect of the existence of negative externalities needed to be made clear at the start to help explain the impact of the indirect tax. A wide range of effects and criticisms were known to candidates, who wrote relevantly and at some length. There was a tendency to take the benefits of the tax for granted and therefore to overlook analysing how the tax was effective. This was rarely the case with criticism, which examined the effects and problems at length. It was not necessary to consider alternative policies.

#### Question 4

The question examined the effects of instability in the internal value of a currency and the possibility of constructing a representative cost of living index. This was the least popular of the essays.

- (a) This was the least well done part of any of the essays. There were two clear errors in approach. First, some candidates wrote exclusively about the external value rather than the internal value and secondly some saw it as an invitation to write extensively about the effects of inflation. While aspects of these approaches might have some relevance they were not the whole point of the question. Those who addressed the question directly considered the impact on the role of money and the implications for trade, production, consumption and the government. These were sound responses from those who adopted this approach.
- (b) This part was in marked contrast with the previous one, as candidates generally understood the point of the question and wrote relevantly. They showed understanding of the construction of a consumer price index and the difficulties in producing an accurate measure of the cost of living. The strongest answers went on to consider the position of different groups within an economy and the reasons why their circumstances make the 'average' result inappropriate.

# ECONOMICS

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Paper 9708/22

Data Response and Essay (Core)

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### Question 2

The question concerned normal and inferior goods and the ways in which economists classify different goods.

- (a) There was sound understanding of the difference between normal and inferior goods. The strongest answers made detailed use of income elasticity of demand to contrast the nature of the goods. A range of suitable examples were offered. A demand and supply diagram was required to show the effect of a fall in income on the markets for the goods. Those who realised this scored high marks. Those who did not tended to repeat what they had written in terms of the nature of the goods.
- (b) Many answers treated the idea of classification in too narrow a way. This meant that after recognising that the two products are classed as demerit and merit goods no other groupings were analysed. Differences between private and public goods and consumer and capital goods might have been considered. A clear structure to the answer was essential. Those who produced long descriptions of the nature of the two goods and left the Examiner to draw out the similarities and differences were less impressive than those who made direct comparisons. For the most part, the focus tended to be on differences rather than similarities. Candidates were generally able to show good understanding of the different natures of merit and demerit goods and government attitude towards them. Candidates did not always concentrate on the two products in the title.

### Question 3

Government interventions in markets through a maximum price and subsidies were examined in this question.

- (a) Candidates were familiar with the standard diagram showing the impact of a maximum price. Although this was not explicitly asked for in the question, it was the obvious way to approach the answer. Some, however, did not offer an example of a market in which a maximum price might be introduced even though this was required. Rather than just asserting the existence of excess demand the behaviour of consumers and producers in reaction to the maximum price should have been analysed. The consequences, such as illegal markets or rationing systems, also needed to be considered.
- (b) The subsidy diagram formed a central part of most answers. Surprisingly few candidates indicated how the subsidy itself is shown. The subsidy diagram is less familiar to candidates than a tax diagram and this became apparent when some tried to indicate the cost and incidence of the subsidy and became confused with the incidence of a tax. As often happens, the benefits and the drawbacks of the subsidy were not treated equally, although different candidates stressed different sides. A wide range of arguments were in evidence. Some argued, correctly, that the infant



industry and anti-dumping arguments justified a subsidy, getting their idea from a careful reading of the rest of the question paper..

#### Question 4

The justification of the use of tariffs and the impact of trading blocs on free trade were the themes of this question.

- (a) The two cases to justify the use of tariffs were well known to candidates. There were some excellent responses that contained full detail. The most frequent weakness was the failure to be exact in defining dumping. It is the sale of a product in an export market at less than the cost of production. 'At low cost' is not an accurate enough description. There were some good examples offered of actual cases. Those answers that ran the two cases together were less successful than those that considered them individually. Weaker answers also failed to draw a significant difference between the nature of the two cases.
- (b) This question set the issue of free trade within the context of trading agreements of different types. In this case it was a free trade area and an economic union. Too many candidates ignored this as a contributory element to their answer. Credit was available for distinguishing the two settings and considering if they have a different impact on the operation of free trade. This meant that a standard 'What are the benefits and drawbacks of free trade?' answer gained only limited credit. The issues of trade creation and trade diversion are central to the issue and were understood by some candidates but unfamiliar to others. Actual knowledge of the two trading blocs used as examples was not expected but the nature of such arrangements was.

# ECONOMICS

Paper 9708/03

Multiple Choice (Supplement)

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

## General comments

The mean percentage score on this paper was 53.14%, compared with 60% on the corresponding paper in 2008, and 56.3% on the 2007 paper. Clearly, candidates found this year's paper more difficult than usual. Out of the 30 items, two (**Questions 1 and 11**) proved exceptionally difficult and one, **Question 26**, exceptionally easy. There were a further 3 items, **7, 14 and 30**, where more candidates chose a particular distractor than chose the key.

Only 25% of the candidates answered **Question 1** correctly. The 54%, including many of the better candidates, who opted for B were under a common misconception that is even found in some text-books. Productive efficiency requires that a firm produces its output (whatever that may be) at minimum cost – not that it produces at its cost-minimising level of output. In diagrammatic terms, the requirement is that the firm produces at a point (any point) on its LRAC curve – not just at the lowest point on the curve.

**Question 11** posed even greater difficulties. Only 19% opted for the key and the discrimination score was very low. Why 44% of the candidates chose B is somewhat puzzling. Clearly, the diagram is not one with which candidates were familiar, but one would have expected them to notice that curves for a firm and the industry were plotted against the same axis and to be able to work out that it would not be possible for a single firm to supply the whole of the market for this product.

All three items where more candidates chose one of the distractors than chose the key had satisfactory discrimination scores, which suggests that it was the weaker candidates who were opting for the incorrect option. In **Question 7**, only 34% managed to work out that a perfectly elastic demand curve implies that a firm will be able to increase its output without having to reduce its price, and, hence, an increase in output will be accompanied by an equal percentage increase in revenue. Perhaps the phrase 'equal proportionate increase' triggered an automatic response of +1 from some candidates, even though the word 'revenue' was

printed in bold in the question. In **Question 14**, nearly all the candidates recognised that a deadweight loss is invariably measured by a triangular area, but a majority of the candidates chose the wrong triangle! Finally, in **Question 30**, 76% of the candidates correctly identified the loss in producer surplus, but only 34% managed to figure out that the imposition of a tax causes an upward vertical shift in the supply curve equal to the tax per unit of output, and, hence, the tax revenue in the diagram is measured by the whole of the area  $x+y$ .

# ECONOMICS

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Paper 9708/04

Data Response and Essays (Supplement)

## General comments

In **Section B**, **Questions 3** and **5** were the most popular combination of questions chosen, followed by **Questions 4, 7, 2** and **6** in that order.

The highest marks were obtained in the two most popular questions, although weaker candidates tended to perform poorly in **part (b)** of **Question 5** when the link between interest rates and inflation was misunderstood. **Question 4 (b)** also tended to generate lower marks because many failed to define 'in the public interest' satisfactorily. The same thing was true of **Question 7 (b)** in which 'efficiency' was not understood by many. Some candidates tended to lose the focus of the question and, it appeared, wrote all they knew on the syllabus area of the question without relating their material explicitly to the question asked. Nevertheless, there were many sound performances and such candidates are to be congratulated.

## **Question 1**

- (a) The majority of the candidates understood that the money sent to Kenya by Kenyans working in the UK would not be included in Kenya's GDP, as it was not earned in the home country. A number of others got confused on the meaning of GDP and argued, incorrectly, that it would be included.
- (b) This part of the question was answered well by many candidates, who recognised that there were a number of reasons why people from developing countries might go to work in developed countries. These included remuneration, working conditions, hours of work, range of employment opportunities, the scope to learn new skills and an improved socio-economic infrastructure. Some candidates, unfortunately, offered a simple list without really commenting on the various reasons they mentioned. If the reasons were accurate they were accepted but it is always better to give a brief explanation or put the reasons in a narrative framework and not just a list.
- (c) The majority of candidates did relate their comments to the article, arguing that there was evidence to support both the role of private actions and government policy. For example, there was a lot of information provided about the amount of money sent home by workers, but there were also references to 'remittance partnerships' arranged by governments. The government of Mexico had gone even further and had agreed to match private funds with their own funds in community development schemes. A number of candidates pointed out that it would have been useful to have had more information provided in the article. The weakness in the answers to this question occurred when candidates did not quote any information from the article but wrote a very general answer on economic development.
- (d) Answers to this final part of the question were mixed. Some candidates did not seem to understand what the question required of them and wrote very general answers about production and consumption. The better answers, however, offered a very useful contrast between traditional indicators, such as real GDP per head, and more recent indicators, such as the Human Development Index (HDI). It was very pleasing to see some candidates demonstrating a very sound knowledge and understanding of the HDI and other recent indicators.

**Question 2**

- (a) The introduction to the question provided the stimulus for explaining how economists classify profits and whether “free” newspapers, which carry advertisements, can make a profit.

Most candidates attempted to classify profits, using analyses of costs and revenue, under conditions of both perfect competition and imperfect competition, especially using monopoly as the model for the latter.

Good candidates distinguished between the way that accountants define profit as the revenue earned by a firm from which fixed and variable operating costs are deducted compared to that of the economist’s concept of normal profit. However, very few candidates explained that opportunity cost is significant and that normal profit is the profit that entrepreneurs could have earned in the next best alternative business, using the same amount of capital and labour inputs. Therefore, for economists, ‘normal profit’ must be included in costs. If a firm earns more than normal profit, it will stay in business. If it earns less than normal profit, it will leave the industry.

Candidates also showed profit diagrammatically, explaining profit maximisation at output where  $MC = MR$ , over and above normal profit in both short run and long run situations under perfect competition, monopolistic competition and monopoly. The diagrams were usually clearly explained and properly labelled to show costs and revenues and size of profits. Weaker candidates, however, produced diagrams that were incomplete, wrongly labelled and not explained in the text. This suggested memorisation without understanding.

Most candidates were able to conclude that “free” newspapers could make a profit provided that revenues from selling advertising space at least covered costs of production and distribution. A few understood that the greater the circulation of the “free” newspaper, the more the newspaper could charge for advertisements.

- (b) Most candidates recognised that a discussion of how a firm might compete in a market involves an analysis of both price and non-price competition. The better answers investigated contrasting market structures, determined by ease or difficulty of entry, and explained how market structure regulates price competition.

Firms under perfect competition (price takers) were contrasted with price makers under oligopoly and monopoly. Under oligopoly, price leadership and price collusion were explained, along with monopoly price discrimination practices. Non-price competition was adequately analysed by those who referred to product differentiation using promotion, packaging and advertising. Better candidates emphasised that non-price competition is more significant in markets with restricted entry.

**Question 3**

This was one of two open-ended questions on the paper and required a discursive essay on what might cause inequalities in wage rates in an economy. Along with **Question 5**, this was the most popular question.

Ideally answers to questions of this nature should involve an explanation of the theoretical basis for determining wages and an application of the theories to discuss possible reasons for inequalities in wages.

Good candidates did this but weaker candidates tended to leave the theories underdeveloped and merely described differences in wages within and between occupations without explanations.

Good answers explained both marginal revenue productivity, as the basis for understanding the demand for labour, and marginal factor cost regarding the supply of labour. Using perfect competition as a model, wage determination was established at the point of equilibrium  $MRP = \text{marginal factor cost}$ . Such candidates then contrasted this situation with possible imperfections in the labour market, especially those relating to the role of trade unions, government interference and monopsony. Explanations were given for the effects of collective bargaining by trade unions, for obtaining wage settlements above the equilibrium wage and the effects of the imposition of a minimum wage rate by governments. Those who included monopsony analysed the situation of a single dominant buyer in the labour market and how this could result in a lower wage than the equilibrium  $MRP = MFC$  level of wage.

Most candidates were able to contrast differences in earnings within and between occupations. The better answers explained transfer earnings and economic rent and related these to differences in demand, supply, skills, training, qualifications and experience as well as socio-economic issues relating to gender bias which might lead, for example, to discrimination against female wage earners. Some mentioned politico-economic issues relating to lower wages for immigrant labour in developed countries.

The weaker candidates described such contrasts without the necessary explanations and usually offered inadequate analyses of the theoretical basis for wage inequalities.

#### Question 4

- (a) In the first part of the question, candidates were required to explain why Airbus was likely to be in an imperfect market structure. There were some very good answers by the candidates who were able to offer a very comprehensive contrast of perfect and imperfect market structures. They then explained why Airbus was much more likely to be part of an imperfect structure, given that few companies would be producing aircraft and the high start-up costs required. It was clear, therefore, that there would be very significant barriers to entry in such a market.
- (b) In the second part of the question, candidates needed to consider what was meant when it was written in many economics textbooks that firms in imperfect competition often operated against the public interest, and whether Airbus gave weight to this view. Candidates were able to offer a very convincing critique of firms in imperfect competition, arguing that price was likely to be higher and output lower than in perfect competition. There was also some useful consideration of productive and allocative efficiency and of the contrast between normal and abnormal or supernormal profits. Many then suggested that Airbus, to some extent, did seem to prove the textbooks wrong in that it was increasing its research budget in order to try and develop a more environmentally friendly aircraft that would have lower fuel consumption. Some candidates, however, pointed out that its research budget would now be almost \$600 million, a very clear indication of the size of abnormal profits in such a market structure.

#### Question 5

- (a) In the first part of the question, candidates were required to explain what might cause unemployment. This part of the question was answered reasonably well by the majority of candidates who were able to explain the possible causes of unemployment, giving rise to such types as frictional, residual, cyclical or demand-deficient, regional, structural, technological and natural. The question did ask candidates to explain the possible causes, but some of them simply offered a rather limited summary of the different types of unemployment without really explaining how such unemployment might occur.
- (b) In the second part of the question, candidates needed to discuss how interest rate policy might prevent a rise in inflation. Most candidates were able to demonstrate a sound knowledge and understanding of the link between changes in interest rates and the rate of inflation, arguing that higher interest rates would make spending less attractive and saving more attractive, contributing towards an easing of demand-pull pressures in the economy. Some candidates, in their conclusions, commented that the likely effect of such a policy initiative would depend on the interest elasticity of demand.

#### Question 6

For this question candidates were asked to construct an argument. The elements in the argument should have consisted of a statement of government macro-economic aims, a consideration of the alternative aims mentioned in the question and whether governments have to abandon their other macro aims in order to achieve these alternative aims. This question paper usually contains questions where a clear argument structure is important. In principle to obtain the highest marks for such questions, candidates should demonstrate a thorough knowledge of the facts or theory involved in the question and also have an excellent ability to describe, explain or analyse this in a precise, logical, reasoned manner. If necessary, they should be able to query some of the assumptions in the question and then be able to draw some conclusions on the matter being discussed. Conclusions should be formed and expressed within a sound structured answer so that the whole is well presented. For this particular question, many candidates did not establish the foundation upon which they based their answer. They did not explain what traditional macro-economic aims of a government might be in any depth and, therefore, were unable to present an argument which put the alternative aims in the question into perspective. Relatively few were able to present an opinion about whether the traditional macro-

economic aims could be used alongside or in conjunction with the alternatives suggested in the question. Clear conclusions to candidates' answers were, therefore, not often evident.

**Question 7**

- (a) For this question it was hoped that candidates would explain how an increase in major spending might affect national income. The analysis of the multiplier process was the theoretical basis that they could use in order to explain the changes that might occur. Most candidates were able to explain the multiplier process and scored well on this part of the question. They were able to demonstrate the principles involved with an injection into the circular flow of income and the resultant effect on the change in national income.
- (b) For this part of the question it was hoped that candidates would discuss the meaning of an efficient allocation of resources and whether this might be more readily achieved by the public sector than the private sector. Sadly, many candidates did not establish what they thought was meant by an efficient allocation of resources and so, therefore, were unable to put this into the context of a discussion about the effectiveness of the public or the private sector in achieving that efficiency. It is usually necessary at the start of an answer to establish the parameters on which the answer is to be based. Terms need to be explained before the analysis or discussion can be presented. Some candidates, of course, did do this but many talked in general terms about efficiency without a clear indication of what this meant.