ECONOMICS

GCE Advanced Subsidiary Level

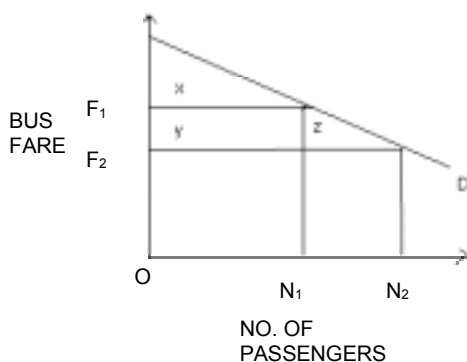| Question Number	Key	Question Number	Key
1	C	16	D
2	B	17	D
3	C	18	D
4	D	19	D
5	A	20	B
6	D	21	C
7	A	22	C
8	B	23	C
9	A	24	D
10	C	25	B
11	B	26	B
12	B	27	B
13	D	28	D
14	B	29	B
15	B	30	B

General comments

The mean percentage score on this paper was 57%. Three items, 1, 16 and 17, turned out to be too easy, i.e. they had facility scores above the 0.80 test design limit. Only one item, **Question 10**, had a score below the 0.25 guessing level. 26% of candidates gave the intended answer, **D**, to **Question 24**, but it was realised that option **B** would also be correct in many circumstances, and this question was therefore discounted for marking and grading purposes.

Comments on specific questions

Question 1

Past performance has shown that candidates have little difficulty in identifying areas of consumer surplus. Nor do they normally have any difficulty in identifying the increase in consumer surplus resulting from a reduction in costs. **Question 10** set candidates a task that was designed to be slightly more challenging. In the event, only 18% of candidates managed to work out that the increase in consumer surplus resulting from the reduction from OF_1 to OF_2 in the fare charged for a bus journey (area $y + z$ in the diagram) has two components: the financial saving to those passengers, ON_1, who were previously paying OF_1 (area y), and the consumer surplus derived by the new passengers, N_1N_2, attracted by the reduction in the fare (area z). This question referred only to the new passengers.

BUS FARE — NO. OF PASSENGERS diagram with F_1, F_2 on vertical axis, N_1, N_2 on horizontal axis, regions x, y, z, demand curve D, origin O.

Past performance has also shown that candidates have considerable difficulty in distinguishing between the price level and the rate of inflation, and this almost certainly explains why 44% of candidates wrongly opted for **D** in **Question 23**.

Some of the better candidates in **Question 25**, somewhat surprisingly, thought that changes in a country's purchasing power are a measure of changes in living standards.

Answers to **Question 30** suggested that candidates had very little understanding of the basic ground rules of a monetary union.

> **Paper 8708/02**
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> **Data Response and Essay**

General comments

A wide range of achievement was evident. Some candidates offered thorough, well constructed and relevant answers while others struggled to offer more than a few random ideas. Candidates, as always, need to consider their examination technique. This was evident with the data response, where marks were usually lower than on the essay. Candidates must offer the number of answers specified, they must be prepared to apply ideas to unfamiliar situations and they must be aware of the significance of the various directing words in different sections. With essays, the main imperative is to realise what is required to reach the top level of performance, where discussion is vital. Of the essays, **Question 4** was by far the most popular and the best done. Very few candidates attempted **Question 3** and, by and large, did it poorly. It seemed that price indices were not familiar to candidates while elasticity was well known.

Comments on specific questions

Question 1

(a)(i) Most candidates identified the deficit in goods and the surplus in services. This scored one mark. A large number of candidates did not attempt a second point despite the stressed requirement in the question for two differences. Those who did usually mentioned the higher value for goods or the position compared to the previous year.

(ii) This part was not well done. There was a failure to recognise the relevance of aspects of comparative advantage, although some mention was made of specialisation. The weaknesses were to say that a deficit was the result of higher outflows than inflows, which was not accepted as an 'explanation', or to suggest influences, such as a currency appreciation, which would have affected both goods and services.

(b)(i) The most common successful answer was transfers. There was confusion over the position of investment flows and the balancing item.

(ii) Many candidates were able to make the calculation successfully. Arithmetic errors were very rare if the principle was understood.

(c)(i) Candidates might have been anticipating the more usual question on depreciation but were able to reverse the reasoning for this case. Many were able to argue the changes through to a worsening of the trade position, and elasticity aspects were introduced in the stronger scripts. Some candidates were diverted into a consideration of the terms of trade, and did not consider the trade position. Marks were lost unnecessarily by those who, despite understanding the effects on price and demand, did not take the final step in the analysis and draw a conclusion on the trade balance.

(ii) Candidates found this a difficult exercise. Some did not realise that the answer required the link to be made between the two figures. Weaker responses were very descriptive and failed to relate the outcomes to the analysis in the previous section. A number of candidates concentrated on depreciation, while others described the pattern through the whole period. It was expected that candidates would realise that some evidence supported the theory, while other evidence refuted it. The strongest responses explained the performance on services in terms of elasticity, and the very best introduced the idea of a possible time lag.

(d) Candidates understood what a tariff is and had knowledge of some of its effects. Some accurate diagrams were introduced. Most candidates were able to show both advantages and disadvantages of its implementation. Candidates must realise that stating words or phrases such as 'retaliation' and 'revenue' is not sufficient on its own but must be amplified. Some arguments advanced were more relevant to a specific rather than a general tariff. Although these could gain some credit, candidates are urged to read questions very carefully to get the precise intent of the question. It is a good policy to define the central concept to make it clear that it is understood, and many candidates did this. The section was done reasonably well.

Question 2

(a) A wide range of performance was evident in this section. There were good accounts, which outlined the features of the market system and worked through the operation of demand and supply to show the process of resource allocation. The strongest candidates clarified the assumptions of the model. On the other hand, some answers did not go beyond explaining the idea of scarce resources and seemed to be answering a rather different question.

(b) There was good knowledge of reasons for and methods of government intervention. The treatment of the ideas, however, often tended to be superficial. Most candidates favoured width in their response at the expense of depth. Public goods, merit goods, externalities and monopolies were mentioned without their nature being made fully clear. Diagrams were used relevantly in the case of maximum and minimum prices. Only a minority of candidates discussed rather than described the issues. In consequence, few reached the top level, where a critical approach was required. Some answers dealt with macro problems of the economy rather than the failings of the price system so could gain only limited credit.

Question 3

(a) Those candidates who attempted this question were aware of the functions of money, but found it difficult to explain them accurately. Hardly any responses made the link to the efficient operation of a modern economy, although occasionally a relevant point was made within the explanation of the functions.

(b) This question was not understood by the majority of those who answered it. It is about the measurement of the changing value of money, which involves price indices. Even quite lengthy answers gained few marks since the focus was inappropriate. Some concentrated on the international value of a currency, but again did not address the measurement aspect. A knowledge of the construction of a price index and the need to revise it over time were the central issues.

Question 4

(a) Candidates performed well on this section. They were able to define the terms, show the formulas and comment on their natures. Indeed, excessive effort was sometimes spent on a large number of diagrams which might well have been condensed. Errors were carelessness in omitting the

proportionate element and in implying constant elasticity values over the length of negatively sloped demand curves. To achieve the top level it was necessary to make the distinctions between price elasticity and income elasticity explicit, rather than leaving them for the examiner to deduce.

(b) The uses of elasticity to business were well known and good scores were recorded. The best responses were able to deal with wider issues than pricing and output decisions, also considering marketing aspects. A few candidates spent time on describing consumer behaviour in relation to income and price changes, without going on to show how the company might respond to this knowledge. These gained little credit. There was some confusion over price elasticity and inferior goods. The top level required an understanding of the limitations of elasticities as tools of company planning, and some very impressive answers were forthcoming.