ECONOMICS

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Paper 9772/01

Multiple Choice, Short

Answers and Data Response

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Key messages

- In **Section B** this year several candidates appeared not to know the economics involved in some of the questions and hence scored very low marks. A wide cross-section of the syllabus is covered by the questions and it would appear that for some candidates their revision may not have been total exhaustive of all topics.

- There were a few candidates who appeared to have run out of time when it came to **Section C** and for those who did it was because they had generally written far more than was expected for the earlier questions with fewer marks, rather than the 2 ¼ hours appearing to be too short a time for the paper.

General comments

As in previous years, the exam appears to have worked well in providing the candidates with the opportunity to demonstrate and use their economic knowledge and it acted as a good discriminator between candidates. At the top and bottom ends candidates did consistently well / poorly on all three sections.

Section A

Multiple Choice Questions

2012

Range of marks 7 – 28 (23% - 93%)
Mean mark 17.85 (59.5%)
Mode 20

2010

Range of marks 9 – 27 (30% - 90%)
Mean mark 17.6 (58.7%)
Mode 17 and 18

2011

Range of marks 9 – 27 (30% - 90%)
Mean mark 17.5 (58.3%)
Mode 17

It was evident that candidates, as expected, found the multiple choice questions to be a challenging part of the paper. However, with both a slightly higher mean and modal score, it would appear that candidates – and Centres – are becoming more familiar with the type of question that they will face and hence are probably less thrown by the harder questions, which can occur at any stage during the 30 questions.

There were no concerns expressed this year by any Centre about the answer to any particular question. As stated in previous reports, one of the clear aims of CIE with the Pre-U exams is to listen and take on board the views of Centres – and this has been true from the very start with the discussions over syllabus content and the means of assessment and continues today with listening and acting upon, when considered appropriate, the views on the exams.

Section B

As stated above, whilst many candidates did extremely well on this section, there was a sizeable minority who struggled on some of the questions.

Question 1

(a) Too many candidates gave a definition of the average propensity to consume rather than the marginal propensity to consume and hence failed to secure the mark. Whilst many candidates gave a good, relevant example, too many gave examples such as 'it's the extra curry you might buy, if you get a pay rise', perhaps showing a too literal interpretation of the word 'consume'.

(b) Knowledge of $k = 1/(1 - mpc)$ is clearly expected of candidates and most were able to come up with the correct answer of 5.

(c) Again, many candidates correctly calculated £16bn x 5 = £80bn but candidates were also able to gain one mark if they multiplied their values even if one of those values of 5 or 16 were incorrect – no marks were given though for £20bn x 5 - £4bn = £96bn.

Question 2

This question caused several candidates problems as they confused allocative efficiency with profit maximisation and hence for **(a)** put MC = MR and then for **(b)** tried to justify this answer. To gain both marks for part **(b)** the examiners were looking for either an explanation that at the margin the costs to society reflect society's valuation or that at this point, the combination of consumer and producer surpluses are maximised. For part **(c)** marks were awarded either for written explanations or for candidates who clearly showed via a diagram a deadweight loss with a divergence between (usually) mpc and msc – even if the candidate did not explicitly state that the free market outcome would not be allocatively efficient.

Question 3

(a) Several candidates seemed to find this question difficult and examiners wondered if this was because of the old problem of elasticities being taught in the first year of the course and candidates having forgotten the topic by the end of the second year. Inevitably given the linear nature of Pre-U this is something that candidates just cannot afford to do. It should be remembered, of course, that its linear nature is one of the reasons why UCAS has given the Pre-U grades a slightly higher tariff than the 'equivalent' A Level grade and also why the Chief Examiner believes that candidates are better equipped to start an economics related course at university after following the Pre-U syllabus with its terminal assessments. Some candidates failed to follow the instruction to use the figures provided and lost a mark.

(b) Surprisingly few candidates seemed able to link the fact of inelastic demand with a fall in total revenue if the price of the good were to fall.

Question 4

(a) Most candidates were able to gain these marks although a few candidates failed to differentiate between an increase in the amount of tax paid as income rises and an increase in the average rate of tax paid as income rises.

(b) There were several errors from candidates who seemed to fail to realise that an increase in the marginal rate of tax did not mean that the higher rate of tax would be paid on the entire income. A lot of candidates seemed to think that an individual would have a greater post-tax income by working less / earning less due to a higher pre-tax income causing all of the income to be taxed at the higher rate. Better candidates were able to express their answer in terms of a fall in the opportunity cost of an hour of leisure or in terms of the substitution effect making work less attractive and leisure more attractive.

Section C

Question 5

The aim of this section is to test both learners' ability to read articles and be able to pick out the salient parts and also to apply their knowledge of economics to the particular situations presented to them. In the final two questions in this section, there are 60% of the marks available for evaluation.

(a) Most candidates were able to use the information given to calculate the correct answer. One note of caution would be that although candidates were not required to show working, the Chief Examiner would always suggest that working is written down to make it clear where the answer has come from. As can be seen from the mark scheme, an answer of 1.9 million with working shown gained 2 marks whereas 1.9 million on its own gained just one mark.

(b) Part **(i)** was generally correctly answered but several candidates then failed to use this figure – as expressly required by the question – in answering part **(ii)**. There were also several candidates who incorrectly took the change in the CPI figure of 22.8 to be the percentage change in inflation.

(c) This was the question that produced the most problems in *Section C*. It seems to have become almost the norm to equate a 'poverty trap' with an 'unemployment trap' although there is a subtle difference between the two. Within the mark scheme, candidates were given credit if they talked about the lack of incentive of getting a job. With part **(ii)** too many candidates tried to argue that benefits have already been slashed in recent years by the Coalition Government demonstrating a clear lack of knowledge of reality. Better candidates talked about recent proposals to cap benefits and also to tighten up on the eligibility of benefits.

(d) Both this part and part **(e)** produced some excellent answers which were well focused, used the correct stimulus material and which demonstrated a good understanding of the economics involved and the clear ability to evaluate the proposition put forward. However, several candidates took the opportunity which, unfortunately, was not presented by this particular question to write an answer to 'Should there be a minimum wage?' Some better candidates were able to, somewhat tenuously, maintain some focus on the set question and still write a more general answer but it was disappointing to see so many candidates failing to read the question carefully enough. A point that the Chief Examiner would stress is for candidates to have a highlighter and to underline the key words of a question – in this case it would be 'right' and 'age *and* experience'.

(e) The final part of the data response question aims to give candidates the greatest opportunity 'to think outside the box' and to demonstrate real originality. This year's question was answered excellently by many candidates who approached the question in a very systematic way – namely looking at the pluses and minuses of the three groups specifically mentioned in the question. Perhaps surprisingly, a relatively small number of candidates latched on to the facts provided in the stimulus materials concerning the need for many interns to have private finance to help them both to secure and to undertake such internships and hence how differences in the distribution of income (and wealth) could be a issue for potential interns. It was interesting to learn from several candidates that the Government has been providing massive financial incentives to firms to provide more intern places. However given the amount of media interest in the schemes that were being operated by Tesco and the like in recent months, it was surprising to read almost no mentions to such developments within the answers.

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> **Paper 9772/02**
> **Essays**

Key messages

- It is worth pointing out two areas of weakness which caused a small number of candidates to under-achieve: the failure to be precise in the use of technical terms in the subject, and the failure to explain terms explicitly.

- Candidates shold be encouraged to use essay plans in their preparation for this examination – see below.

General Comments

The structure of the paper was unchanged, with candidates required to answer three questions out of a choice of six, with at least one from each of two sections. There were no cases of candidates failing to observe the rubric for the paper, and no evidence that candidates experienced severe difficulty in completing the paper in the 2 hours 15 minutes available. Five of the six essay questions were answered by large numbers of candidates, though one – **Question 1** – attracted very few answers.

The level of difficulty of the questions asked was much as last year, and the quality of scripts was again generally high, with the majority of them being deemed to be of at least D3 standard (i.e. equivalent to a grade A at 'A' level). There was again no significant difference in the overall quality of the answers to the two sections of the paper, *section A* consisting of questions on micro-economics and *section B* on macro-economics. At the top level, as in the past, the standard of scripts was outstanding, and usually fairly evenly so, with the candidates involved producing three answers, all of which were written at a level above grade A standard at 'A' level.

Almost all candidates generally demonstrated a good understanding of relevant economic concepts and principles in their answers, with clear errors or misunderstandings being very unusual. Explanation of relevant economic analysis was also generally very sound, and indeed sometimes of very high quality; again, it was clear that candidates had been impressively prepared. As mentioned above it is, though, perhaps worth pointing out two areas of weakness which caused a small number of candidates to under-achieve: the failure to be precise in the use of technical terms in the subject, and the failure to explain terms explicitly. In this examination, perhaps the most common example of the former was 'progressive' in **Question 5**; a disappointing number of candidates defined a progressive tax simply as one that 'taxes the rich more than the poor'. Fiscal policy, too, in **Question 5**, was sometimes interpreted as referring only to taxation policy. With regard to the latter, quite a few candidates answered **Question 2** without bothering to state what they understood by either oligopoly or collusion, or **Question 3** without explaining in general what 'market failure' means.

As in previous years, the skills of evaluation were generally less evident in some answers than those of analysis, and generally scripts showed much greater variability in this aspect. The detailed mark scheme contains much of relevance in this context, and the comments on individual questions below also attempt, amongst other things, to indicate how the better scripts tended to gain credit for evaluation, but the main general point is perhaps that candidates who have clearly planned an answer before tackling it seem to benefit not just in terms of the coherence of their overall answer to a question but also in their ability to gain credit for evaluation – and since evaluation marks constitute 32% of those available, this clearly has a significant impact on overall performance. The benefit of essay-planning perhaps derives largely from the fact that it tends to force candidates to keep the precise wording of the question at the forefront of their mind from the outset. It is very often in the failure to address the precise question asked that answers fail to gain the full credit which the quality of economic analysis they contain suggests that they ought. Perhaps it is in this context that the failure of so many candidates to attempt **Question 1** might be considered; the Examiners, for example – though clearly not the candidates - felt that the great advantage of a relatively wordy question such as **Question 1** is that it ought to be relatively straightforward to produce a plan for it,

whereas, in contrast, a short question such as **Question 2** or **Question 5** places more demands on the candidate to produce a plan before embarking on a detailed answer. Whatever, it cannot be stressed enough that explicit answering of the precise question asked is the best route to maximising performance in 9772/02.

Comments on individual questions

Question 1

As has previously been said, very few candidates chose to attempt this question, although most who did produced very good answers, which, given the detail given in the wording of the question, was perhaps not too surprising. These good answers showed full understanding both of all three demand elasticity concepts, explaining each clearly, and also of the implications of the given value of each. For example, they explained that a cross elasticity value of +3.7 with respect to the prices of regular fruit and vegetables implies that the two categories of products were strongly competitive with each other, so that a 10% rise in the price of 'regular' fruit and veg. would result, ceteris paribus, in a 37% rise in the demand for the organic equivalent. Crucially, too, they focused explicitly on the use a national supermarket might make of the information to increase profit. One would expect weaker answers not to have made this link so strongly, or perhaps to have been less explicit on the impact on profit as such.

Responses to the instruction to 'discuss how --- might use ----' were varied, and invariably valid, in this question. They all made the point that the data available derived from a commissioned national survey, of middle income consumers, so that there were issues as to how representative the results might be, and how relevant to decision-making on pricing in different possible supermarket locations. Some also considered the possible impact of the competitive environment in which the supermarket might operate – for example, that predicting impact on profit may well depend on the response of oligopolistic competitors. Possible non-profit-maximising strategies also provided another valid route to gaining credit for 'evaluation', as did consideration of the extent to which the ceteris paribus aspect of the measurement of elasticities might need to be relaxed in practice.

Question 2

This was quite a popular question, and the answers varied between merely adequate on the one hand and excellent at the other extreme. The weaker answers tended to show a decent understanding of what is meant by an oligopolistic market, but without an appreciation of the range of possible outcomes that this implies; sometimes they also showed a grasp of a model of oligopoly, but failed to link it to collusion, as was required by the question. Slightly better answers tended to show a greater awareness of collusion, without focusing on the features of oligopoly that relate to the likelihood of its occurrence. The best answers, however, usually considered a range of possible outcomes, often linked to explicit models such as game theory, and, most importantly, they then discussed specific features of oligopolistic markets, often with concrete examples to illustrate, which might either encourage or discourage the emergence of collusive behaviour. This was the crucial factor in determining the level of response achieved by an answer in the 'theory and analysis' element of the mark scheme.

'Evaluation' again could involve a range of different aspects, and most answers gained at least some credit in this area. Perhaps the most common approach was to contrast at least one circumstance which tended to militate against collusion occurring – for example, a strong regulatory environment – with another which tended to work in the other direction – for example, the existence of significant economies of scale so that a small number of large firms were likely to dominate the industry involved. Other good evaluative responses concentrated more on long-run/short-run differences in the likelihood of collusion occurring.

Question 3

This was also a very popular question, which again generated answers covering a wide range of quality. In particular, there were some at the lower end which seemed to see the mention of alcohol as an excuse to produce rehearsed answers about market failure in the form of negative externalities. Even when such answers were accurate – and this was not always the case – they often largely ignored the 'minimum price' aspect of the question, or produced analysis of the introduction of a minimum price which was largely separate from their consideration of the market failure. On the other hand, there were also many good answers which looked at more than one possible market failure associated with the consumption of alcohol, and explained in detail how the introduction of a minimum price might 'tackle' these failures. At the top level, there was then also consideration of the crucial aspect of the question, which required consideration of the 'best way'; this was almost always done via consideration of at least one other possible method for

addressing the problems identified – usually both taxes and regulation were considered, in fact. Answers which took this approach were already showing skills of evaluation, of course, and quite a number were particularly impressive in that they in effect set up criteria, even if only implicitly, for coming to a conclusion as to which method or methods might be viewed as providing the 'best way'.

Question 4

The general standard of answers to this question was quite good. The topic of macroeconomic objectives, and possible conflicts between them, is clearly one with which candidates are very familiar, and indeed most seemed reasonably confident in explaining and manipulating relevant economic theory. There were a few weak answers that showed limited awareness of any relationship between inflation and unemployment, but the large majority of answers had at least some idea, with appropriate explanation, of at least an elementary relationship between the two, and its implication for the impossibility of simultaneous achievement of satisfactory levels of both. Most, too, were able to go further, in considering alternative relationships, often linked to the use of long-term supply side economic policies; a number of such answers showed considerable sophistication in their use of economic analysis. Evaluation in this question tended to consider the viability of inflation-targeting in practice, and the desirability or otherwise of governments prioritising between the two stated objectives. Others also stressed the need to take into account other possible government macroeconomic objectives, such as growth or inequality-reduction, or looked at the possibility that perhaps inflation might be prioritised in some circumstances but unemployment in others. Overall, it was a question where relatively few answers failed to come up with a considered conclusion which was explicitly responding to the wording of the question.

Question 5

This was a popular question, and elicited some excellent answers, though it also perhaps generated a larger proportion of relatively weak answers than the other five questions. This was partly because quite a number of candidates were somewhat imprecise in their use of terms – sometimes fiscal policy, sometimes progressiveness/regressiveness and sometimes both. But it was also because there were quite a few answers that may have described how fiscal policy measures may reduce income inequality reasonably well, but then went little further. Better answers, of course, also considered possible problems in the effectiveness of the policies in achieving the stated objective, and also addressed the 'alone' aspect of the question. This required some consideration of other possible methods of attempting to reduce inequality – supply-side policies and direct regulation were the most commonly explained, with links between the policies and their likely effects on income inequality usually made explicitly. Evaluation was also usually impressive within such answers, with a clear answer to the question asked given directly, though weaker responses tended to be content with more general statements and to ignore the 'alone' aspect.

Question 6

There was again a wide range of quality of answers to this question, and it was probably the question in *Section B* in which the general quality of evaluation was least impressive. Most answers satisfactorily identified the general benefits of free trade, although the weaker ones tended not to be so clear as to who are the 'winners', and most too were able to identify in broad terms the case or cases which are generally made for protectionism. However, the question required more than this. Its explicit focus on MEDCs, for example, tended to be ignored in weaker answers, which therefore often failed to make much headway in terms of evaluation since their response to the wording of the question was at best somewhat peripheral. More generally, though, quite a few answers merely explained the benefits which some in MEDCs would gain if their industry were protected in some way, with little attempt to assess whether or not this in itself was a sufficient reason for arguing that therefore protectionism is desirable. Of course, there were also answers of much greater quality; these not only showed the ability to analyse the case for protectionism in the circumstances identified in the question, but also evaluated it. This often involved consideration both of the position of the 'winners' from free trade, and of the case that even the apparent short-term beneficiaries from the protectionism might not benefit in the longer-run.

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Paper 9772/03

Investigation

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Key messages

- Candidates are encouraged to reach a judgement at the end of their answer which is supported by data relating to the context and/or the application of relevant theory.
- Some candidates had clearly not undertaken sufficient independent investigation and this severely hampered their efforts. See below for further comment.

General comments

Responses to this paper were generally of a similar standard to previous years. Once again, there were a good number of excellent responses produced by candidates who had clearly completed extensive individual research and had a comprehensive grasp of the context. These candidates were also generally able to accurately apply a range of relevant economic concepts from the specification to the set question in order to produce answers of impressive scope and depth.

Unfortunately, there were a significant number of responses which demonstrated a lack of clear and up-to-date understanding of the context. This was often a major impediment to the production of a detailed and relevant answer. Some candidates had clearly not undertaken sufficient independent investigation and this severely hampered their efforts. Those who did investigate were able to respond to the question appropriately by selecting the relevant data and analysis from the body of their research. They generally had a good critical awareness of the context and were able to maintain an objective discussion using clear examples to support their arguments. Those who had not investigated had only a small number of superficial examples which were often not relevant to the question. They also lacked sufficient depth of knowledge of the context to respond to the specific question and often latched on to initially attractive, but ultimately superficial and one-sided, arguments to support their case.

The very best answers demonstrated an impressive unity of theory and application, actively using economic theory in context to answer the specific question. Unfortunately, some candidates used very little theory or did so in a tokenistic way by including a diagram or concept but not making effective use of it in the analysis.

The structure of answers was again very good but evaluation remained an afterthought for many.

Comments on specific questions

Question 1 Transport and the Environment

This was the second most popular question and candidates were generally quite well informed about the context. They generally had a good understanding of the environmental problems caused by the use of fossil fuels, although there was a tendency to focus exclusively on atmospheric pollution leading to climate change and to therefore miss the impact on the local environment and, for example, the health of city-dwellers. Alternative energy sources were also clearly understood, although many candidates focused on only one form of energy and this tended to weaken their evaluation as the arguments tended to apply only to that form of energy. Many candidates also focused entirely on cars when there was plenty that could have been said about other modes of transport.

The application of economic theory was generally good, although some candidates made simple mistakes on the externalities diagram which, given that it is the key diagram for this topic, should have been avoided. Once again there were few references to macroeconomic concepts even though there were opportunities to discuss emissions targets at both the UK and EU Levels as well as the potential impacts, both positive and negative, on macroeconomic performance as a result of adopting alternative fuel technologies. Such an

approach also offered the opportunity to consider transport fuel technology as part of a wider issue of energy provision across all sectors of the economy. Some candidates also missed the opportunity to discuss sustainability issues.

Some responses included a good range of interesting, and occasionally rather esoteric, case-study examples to support their answer. This demonstrated effective investigation and allowed those candidates to deepen both the analysis and the evaluation as they were able to grapple with specific, rather than generic, arguments. Some candidates were unable to resist the temptation to describe their case-study examples in great detail. This clearly reduced the time available to them for meaningful analysis and therefore weakened their answers.

Once again, there was a lack of selectivity in some answers and candidates were keen to share their learning with the Examiner, whether it was relevant to the question at hand or not. It is perfectly acceptable, for example, to conclude that alternative fuel technologies do not offer a solution and to give a brief indication of more appropriate policies. However, to reach this conclusion at the half-way stage and to use the rest of the essay to explain the merits of road pricing will not gain much credit.

Evaluation was generally done, but was often vague and generic. The best answers demonstrated knowledge of specific government policies and possible future policies. This allowed them to engage in informed discussion and to reach suitably nuanced judgements.

Question 2 China and the Global Economy

This was the most popular question and responses were generally well structured and demonstrated a clear awareness of the nature of supply constraints. However, whilst many candidates were very well informed and had up-to-date knowledge of the context, there were still a significant minority referring, for example to China's 'fixed exchange rate'. Whilst this information is clearly some years out of date, many candidates also suffered from using data that was merely months out of date. This could result in a severely weakened answer if they relied upon these data in their conclusions. For example, numerous answers referred to the inability of the Chinese government to control inflation despite employing a very tight monetary policy. In fact, at the time of the examination, inflation had been falling for many months and monetary policy had been significantly relaxed. It is difficult for candidates to write a convincing answer and draw pertinent conclusions when they do not have accurate knowledge of current macroeconomic conditions.

There were very many fewer highly descriptive answers this year. A few candidates persisted in offering a potted history of modern China on the first page, but this rarely had a negative impact on the overall quality of the answer.

Apart from a few responses of exceptional quality the use of economic theory continues to be rather disappointing in relation to this question. Many candidates missed the opportunity to use AS/AD diagrams despite the fact that the question was fundamentally concerned with supply-side analysis. Some who drew the diagrams did not really use them or describe what they hoped to show with the diagram, presumably assuming that the meaning was obvious. Relatively few candidates made a useful distinction between short and long-run outcomes.

The best answers considered the issue of productivity in some depth and recognised that relative real unit factor costs are important when considering international competitiveness. Disappointingly, the vast majority of answers failed to make this conceptual leap and assumed that rising nominal costs must necessarily reduce the comparative advantage of the Chinese economy.

Some answers made good use of development theories, including the Lewis and Harrod-Domar models. However, candidates should guard against the temptation to explain these models in great detail. They key is to use them rather than explain them in a textbook fashion.

Analysis of the labour market was generally good and many candidates were able to bring specific knowledge of the Chinese context to bear, by referring to the Hukou system, for example. However, many otherwise good answers did not adopt a systematic approach by considering each of the factors of production in turn.

The vast majority of candidates recognised the need to engage in discussion and to attempt to maintain an objective approach. However, many took an idea with a kernel of truth and extrapolated it into a generalisation which often demonstrated a lack of objectivity and critical awareness. Many responses, for example, asserted that the Chinese education system is very poor and that there is no official school leaving

age. The second part of this assertion is factually incorrect and the first part makes the mistake of comparing the value of human capital in China with that of the UK or USA, rather than with economies at a similar level of economic development.

Most candidates recognised the need to reach a conclusion at the end, but many were unable to add anything new in their final paragraphs and resorted to listing the key points that had already been made.

Question 3 Expansion of the EU

A small number of candidates answered this question. The responses generally showed some knowledge of the context, although theoretical understanding of the Single European Market (SEM) was generally weak. Most candidates focused well on the question and there was relatively little unnecessary descriptive detail.

Few candidates had sufficient understanding of the SEM to engage in a well structured response to the answer. For example, there was little discussion of the extent to which convergence had been achieved or of the degree of competition in enlarged markets which were issues central to the question. This was a little disappointing as the enlargement of the SEM is one of the key theoretical advantages of EU enlargement.

Candidates were also substantially distracted by recent events in the EU and some spent a good deal of time discussing events in Greece and the broader context of the Eurozone crisis which was, at best, only peripherally relevant to the question.

As in previous years there was relatively little convincing data relating to the experience of enlargement and the tangible costs and benefits to date. This was disappointing and demonstrated a lack of meaningful and focused research into the topic area. Most of the contextual data was either historic or not directly related to the question. As a result, the discussion and conclusions were sometimes more relevant to a broad consideration of the value of the EU rather than being specifically focused on enlargement.

Question 4 The Pensions Crisis

It was pleasing to see that some candidates answered this question, although only a very small number did so. They demonstrated some understanding of the crisis and were able to produce clearly structured answers with some discussion.

However, the answers were generally very descriptive and contained insufficient economic analysis. They also tended to simplify the pensions crisis and concentrated on one aspect of it, namely the alleged 'unaffordable' nature of public sector pensions. Thus the wider problems of under-provision and under-consumption were largely ignored and this significantly reduced the potential scope of both analysis and evaluation.