



## EXAMINER'S REPORT

MAY 2001

### ECONOMICS

#### General Comments

The pass rate this year is 63.5%. The majority of candidates who failed had not attempted the requisite number of questions. However most of those achieving an E grade had attempted 5 questions (though see comments on Question 1). Most of those who failed wrote very little, were sometimes wholly off the point, or treated questions as general essays, without the specific insights that economics brings to the questions asked. This is a widespread phenomenon with economics principles papers. Those who do not understand the basics really have got very little from courses.

About 10% of all candidates achieved a B or better. The three A papers were excellent. The B papers were also very good.

**Question 1** was, in general, poorly answered. First, many people only attempted one part, though it was clearly stated that notes on two topics were required. Also, the term brief may have been too literally interpreted. Each was meant to be brief, but possibly more than 2-3 sentences. Each was poorly answered. People need to learn what the PPF is, and what lying within and outside means, and how can it change. In the same way the importance of the price system as an indicator of what people want, the resource costs and the marrying of these two needs to be taken on board. The BSE issue needs a diagram, showing the decline in demand, the implications this has for prices, and what happens when cattle are ready for slaughter.

**Question 2** was meant to be a simple test of supply and demand. The cases to be considered were: Demand increases/decreases, with the supply curve unchanged; Supply increases/decreases with the demand curve unchanged; and then the cases where supply and demand change together. The main mistake (and cause of failure) was to confuse movements along a demand curve and shifts in a demand curve.

**Question 3** was generally answered reasonably well. However, the key point in relation to the second part is not the distinction between normal and inferior goods, it is between elastic and inelastic. The more elastic the income demand the greater the fluctuations in demand between booms and recessions, and the less elastic the less the fluctuations. The inferior/normal distinction is really a footnote to this, as most goods are normal goods.

**Question 4** was also answered very well. It would have been sufficient to consider just perfectly competitive industry, show excess profits, the effect of new entrants shifting the supply curve and driving down price, and that this will proceed until no excess profits. Three diagrams needed here. Some people had none.

**Question 5** was only attempted by a small number. The key point is that cartel members have an incentive to cheat, as given the price agreed,  $MR=Price$ . In addition, new sources of supply (OPEC faced by UK, Indonesia etc), substitutes (gas, coal), and of course falling demand.

**Question 6** was poorly answered. People need to take a good numerical example, talk about the money multiplier, and indicate that in the real world not all funds will come back into the banking system. On the second part the answer is simply the need for prudence - the cash ratio should reflect the actual cash requirements so that banks can meet their customers' needs. Otherwise there will be a run on banks.

**Question 7** is based on the proposition that governments might like to keep the economy close to its potential, and that a boom represents an economy above potential. Hence objective would be to dampen boom, by fiscal measures (increasing taxes, reducing expenditure) or monetary measures (raising interest rates). It could be plausibly argued that governments should do nothing, based on the second part of the question, as the practical limitations of policy (forecasting, timing etc) has meant it has mostly not been good. Many, however, argued for keeping the boom going, so the fiscal and monetary policies were the direct opposite of both of these!

**Question 8** was to do with Capital (including technological developments), Labour (including education) and the degree to which an economy has well functioning markets. It was treated as a general essay by many, or a simple listing of points. It needed a framework, as indicated.