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FOREWORD

This booklet contains reports written by Examiners on the work of candidates in certain papers. **Its contents are primarily for the information of the subject teachers concerned**.

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ECONOMICS

GCE Advanced Level and GCE Advanced Subsidiary Level

Paper 9708/01
Multiple Choice

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

General comments

The number of candidates increased significantly from 5 444 to 6524. The mean score fell slightly from 18.1 to 17.7. Eight candidates gained full marks, while 71% gained half marks or better. Of the questions, four proved to be very easy, while one proved to be very difficult. There was no difference in performance between questions based on text, numbers or diagrams.

Comments on specific questions

The 'easy' questions, **3**, **5**, **16** and **19**, all involved basic knowledge about central concepts and were well-understood by candidates.

Although **Question 2** was correctly answered by 65% of candidates, the majority of the remainder opted for the quantity of good X produced rather than the amount sacrificed. This suggests careless reading of the question.

Question 4 proved to be the 'difficult' question. The largest group opted for **A**, which is not necessarily the case if the market does not perform perfectly, with failings such as externalities. The market mechanism does, however, make for speedy, non-bureaucratic decision making (option **C**).

While the majority correctly selected option **D** in **Question 6**, 35% made the mistake of assuming that the straight line demand curve had unit price elasticity throughout its length. This is only correct for a rectangular hyperbola. In contrast the nature of a supply curve with unit elasticity was well-known in **Question 12**.

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There was some confusion in **Question 13** between what a consumer is willing to pay (correct option **B**) and what they actually do pay, total expenditure (incorrect option **A**). The answer hinges on understanding the nature of consumer surplus.

Candidates were unsure between options **A**, **C** and **D** in **Question 18**. Options **A** and **D** do not offer an advantage to Namibia so are incorrect.

In **Question 25** almost as many opted for **C** as for the correct answer **B**. An index-linked asset will have a rise in price equal to the inflation rate so its nominal, money value will rise while its real value remains constant. Candidates seemed unfamiliar with the idea of index-linking.

In **Question 26** a significant number of candidates thought that spending on imports would increase inflation (option **C**). This would not increase AMD, as it is a leakage, neither would it reduce aggregate supply. The correct option **B** equates to reaching full employment, which would be inflationary.

Paper 9708/02

Data Response and Essay (Core)

General comments

The general standard appears to continue its upward trend. There are fewer papers that suggest inadequate preparation, and nearly everyone shows understanding of some aspect of the syllabus. Candidates performed competently on the more straightforward sections of the paper. They showed their knowledge in the first part of the essay and were usually able to offer some element of discussion in the second part. Some need to realise that the discussion sections require an examination of the two sides to an issue and that an unbalanced response will gain limited credit. The technical nature of parts of the data response was beyond some candidates, although they found some sections were within their grasp. There is still room for improvement in basic data-handling skills. Some candidates need to control their desire to write everything they know about a topic. Time is better spent in considering the meaning of the question than in rushing to start the answer. Generally candidates' performance was stronger on the essay than the data response question.

Comments on specific questions

Section A

Question 1

The question concerned the measurement of inflation in Jamaica and the United Kingdom. It also considered the causes of inflation.

(a) Some were able to answer this concisely and with support from the data, for example, the CPI rose and was fourteen times higher. Others confused the level of the CPI with the rate of inflation and used the wrong data source. Some simply copied the first sentence of the extract and gained no marks.

(b) Candidates were not expected to have detailed knowledge of the two economies, and any sensible observations were acceptable. The most commonly selected groups were food and drink, transport and housing. Candidates were most convincing in linking food weights to relative income levels. Some candidates did not understand weighting and simply described the data. Some confused proportionate shares of consumer expenditure with production and total demand.

(c)(i) There were some excellent answers, which calculated the contribution of the two products to the overall inflation rate. The majority, however, considered only the monthly inflation % *or* the weight but did not see that they were both relevant. As a result one mark was a common score. It was not necessary to explain the influences behind the rates of change.

(ii) Most recognised that the price of housing and other housing expenses had fallen in the month. This gained the first mark. The fact that this would reduce the rate at which the general price level would otherwise have risen was not brought out. There was much comment on the state of the housing market, which was not required.

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(d) Two errors were common. The first was to offer two long descriptions of the behaviour of inflation without drawing out a direct comparison. The second was to miss the difference in the scales in the two figures. Both of these made it unlikely that credit would be awarded. The better answers were a sentence in length and supported the conclusion with reference to the data.

(e) Candidates knew the types of inflation and were able to describe them in great detail. While this gained some marks it was missing the central element of the question. They needed to link the type to its cause(s), specifically the role the government might play in generating inflation. Too many candidates referred to the rise in price of an individual good rather than the general price level. Diagrams did not always show aggregate demand and supply. At one extreme there were very long answers touching on every aspect of inflation, while at the other there was a simple identification of the three main classifications of inflation. Neither approach paid proper attention to the mark tariff.

Section B

Question 2

The question concerned movements in the production possibility curve and the operation of the market economy.

(a) Candidates knew the nature of the production possibility curve and usually illustrated it. They were clear on the direction of change associated with the two changes. What they did not do was to explain why the curve moved in the identified direction and how the opposing influences might turn out. There was no 'right answer' to this latter element and candidates could make whichever assumptions seemed best to them. Most candidates scored at least four marks.

(b) There were many sound answers, although too many were unbalanced in considering the two sides to the issue. The features of a market economy were well-known and there were excellent accounts of the failings of the market. There were detailed considerations of merit goods, public goods and externalities as well as other failings outside of this core syllabus. The strengths of the market economy tended to be dismissed in a sentence and were not examined to the same extent as the failings. Some candidates were sidetracked into considering solutions to the failings. Despite this the overall performance was impressive and some answers were exceptional.

Question 3

The relationships between different products and the uses of elasticity concepts were the subject of this question.

(a) The best answers introduced and applied the concept of cross-elasticity of demand. A more descriptive approach could also be successful. There was no need to explain why the price of the good would rise, since this was an assumption of the question. Much time was wasted here. Candidates were better at giving examples of the different relationships than giving precise definitions. The correct outcomes were usually identified and there was good use of diagrams. The main omission was the reference to the market for the good (rather than its level of demand). This, at its simplest, required a comment on the price effect for the complement and substitute. On the whole candidates answered competently.

(b) Whenever candidates see price and income elasticity of demand they feel compelled to write everything they know about the topics. This takes much time and is less useful than a more selective approach. Answers were usually more confident in dealing with price rather than income elasticity. Common errors continue to be the inversion of formulae, the confusion of negative and positive values with elastic and inelastic demands, the misuse of 'profit' and 'revenue' and the drawing of 'elastic' or 'inelastic' demand curves. There were good accounts of the use of the concepts in pricing, production and stocking decisions. What most answers lacked, however, was a recognition of the limitations of the use of the concepts. This was needed because of the requirement to consider the usefulness of the concepts. A significant number of candidates scored ten marks for a thorough consideration of the positive side.

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Question 4

The question focused on the types of exchange rate system and policies to tackle a trade deficit.

(a) The different types of system were known. It was not necessary to consider the variations on the fixed exchange rate. Any one of the possibilities was accepted. The degree of detail in explaining their operation was very varied. Some were thorough, some were brief, some could detail one system but not the other. The question did not require a comparison of the benefits of the two systems. It seemed that some candidates had prepared for a different question to the one posed.

(b) Knowledge of the meaning of a trade deficit was often imprecise, although devaluation and quotas were understood. Candidates were able to explain how the policies operated and to deal with the conditions necessary for them to be successful. There were good accounts of the Marshall-Lerner condition and the impact of retaliation. The J curve was also mentioned relevantly. Devaluation was dealt with more fully than quotas. Supply issues tended to be neglected. It was not necessary to examine alternative policies to tackle the deficit. There were many competent attempts to deal with the issues.

Paper 9708/03
Multiple Choice

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

General comments

The mean percentage score on this paper was 47.7%. This is somewhat lower than the scores achieved by candidates over the last two years.

Three items, **7**, **21** and **24**, turned out to be too difficult, i.e. had facility scores below the 0.25 guessing level. Of these, **7** and **24** were also poor discriminators. **Question 8** was another item that discriminated badly, with many of the better candidates incorrectly opting for **D**. One of the distractors also proved to be more attractive than the key in **Question 9**.

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Comments on specific questions

In **Question 7**, 51% of the candidates incorrectly opted for **A**. Diminishing utility explains why an individual's demand curve (and, hence, market demand curves in perfect competition and in the case of pure monopoly) are downward sloping. However, in the case of imperfect competition, the reason why the demand curves facing individual firms are downward sloping is the existence of market imperfections, in this case imperfect knowledge on the part of consumers.

In contestable markets, firms face the threat of potential competition. Hence, they can be expected to set a price aimed at deterring the entry of new firms. Only 33% of the candidates chose this option (option **C**) in **Question 8**, compared with 34% who chose **D**. The low discrimination score would also suggest that some of those who correctly chose **C** relied largely on guesswork.

Question 9 had the same facility score (0.33) as the previous question. However, this item had a much higher discrimination index. One can, therefore, be reasonably confident that in this case the 45% of candidates who incorrectly chose **D** were drawn mainly from among the weaker candidates, who failed to recognise that at output OQ2 uniform pricing would result in the firm making a loss.

It had been anticipated that **Question 21** would prove to be to be a straightforward, standard item. The fact that only 17% of the candidates answered this item correctly was, therefore, something of a surprise. Twice that number incorrectly opted for **B**. Some of these candidates may possibly have thought that an increase in the money supply would result in more rapid inflation, which in turn would result in higher interest rates. However, this line of argument rests on a failure to distinguish between the price level and the rate of inflation.

Question 24 was another item that was answered correctly by only 17% of the candidates. This item was also a poor discriminator with many of the better candidates on the paper overall opting for **D**. Assuming no leakage of notes and coins into circulation, a 10% cash ratio would indeed imply a credit multiplier equal to 10. However, what some of the better candidates seem to have overlooked is that this multiplier applies to the change in the total volume of deposits, not the amount of loans advanced to customers.

Paper 9708/04

Data Response and Essay (Extension)

Comments on specific questions

Question 1

(a) Most candidates were able to identify that overtime had been reduced, health insurance had been taken from wages and that there was higher unemployment or some were on strike.

(b)(i) Most candidates were able to mention that the employers wished to reduce costs or maintain profit levels and could pass on the extra cost to employees more easily in a time of higher unemployment.

(ii) There was a range of answers that candidates could have speculated about. These could have included the fact that the company may have had higher profit levels, the company may have produced a product with inelastic demand which enabled it to raise the price, the cost of labour may have been a low percentage of the total cost, there may have been an increase in the demand of the product, there may have been an increase in productivity, there may have been an effective trade union or there may have been a wish to end the strike. Many candidates were able to suggest some of these and made a good attempt at this question.

(c) This question required the candidates to read the text carefully. Had they done so they would have seen that there was uncertainty about the overall effect of the reduction in the incomes. The outcome would depend on whether one took a wider view of incomes that included social security benefits. It would also depend on whether stock market gains were included. It is known that most of those affected were below management level. These may, therefore, have been on lower incomes. However, in reaching a conclusion, it should be noted that no information is given on unemployment before 2001; the only information is that it was then 5.9% and nothing is said about whether other jobs have been created and what wage levels those jobs paid. Candidates were expected to produce a balanced answer using the information that was provided in the text. It was an opportunity to argue their case. No right answer can be given with certainty.

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(d) The headline of the article states that 'Lower earning in the US could endanger economic recovery'. Candidates were expected to show how a reduction in spending can affect economic recovery by using the multiplier as a tool of analysis.

Very few candidates mentioned the multiplier. Most only gave a bald statement of a general nature.

Question 2

(a) The changes caused by income and substitution effects are often asked on the multiple choice paper but seldom on this paper. It was surprising, therefore, that so many candidates answered this question and answered it well. Many candidates were clearly able to distinguish between the two effects and were able to show the effects by means of appropriate diagrams which were correctly labelled and explained. It is important, as will be mentioned below, that whenever a diagram is used it is explained properly and that it is not left to the Examiner to draw conclusions about the diagram. Some candidates obviously knew the general idea about substitution and income effects but became muddled when describing the relative strengths of these two changes for different types of goods. On the whole, however, this question was well done.

(b) This question was designed to allow candidates to discuss the difficulties of interpreting marginal analysis and measuring marginal utility. Better candidates were able to discuss the difficulties of adding utilities and comparing the utilities of different types of goods. Questions on the value of consumer equilibrium have been asked before and this question was a slightly different approach to that same topic. It was not as well attempted as part **(a)** but candidates did make a valiant effort to use the material they had learned to good effect.

Question 3

The purpose of this question was to get candidates to examine the main features and characteristics of two market structures, perfect competition and oligopoly, and, in particular, to get them to discuss the similarities and differences between a firm's behaviour in these two types of markets. The majority of the answers were of a good standard and most candidates demonstrated a sound knowledge and understanding of the two market structures. It was particularly pleasing to see so many candidates using clear, accurate diagrams to good effect, although one common error on diagrams showing the short-run equilibrium position under perfect competition was to show output determined by the lowest point on the AC curve rather than where MC and MR intersect. Most candidates were able to elaborate on the detailed differences, such as the effects that the existence or absence of barriers to entry might have or the possibility of oligopolistic firms making supernormal profits in both the short run and long run. The discussion of the similarities was less satisfactory, although a number of candidates were able to explain that firms in both markets could be regarded as profit-maximising or that both would be interested in the calculation of costs or wish to recognise changes in costs and are interested in calculating possible revenue. Candidates need to realise that for a question such as this it is not enough simply to learn the features of different market structures; they are required to compare and contrast two market structures by focusing on the similarities and differences. Many simply separately described the market structures and left the Examiner to draw conclusions.

Question 4

The purpose of this question was to enable candidates to discuss the factors that help to determine the level of wages in an economy and, in particular, to compare wages in vital and less vital industries. Some candidates offered a limited demand and supply answer and did develop this to consider the importance of marginal revenue product on the demand for workers in particular industries. Many candidates, however, did use MRP and there were many good examples of relevant diagrams used to explain wage levels, especially in relation to the elasticity of both demand and supply.

A number of the answers brought in the potential role of trade unions in different industries and there were examples of very good discussions of the contrast between workers in the public and private sectors. As with **Question 3**, candidates must expect to apply their knowledge to the particular question asked; many candidates obviously knew a lot about wage determination but they did not always apply this knowledge to the contrast between vital and less vital industries. There was a tendency to concentrate much more on the demand rather than the supply side; candidates need to offer a much more balanced assessment of these two factors.

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Question 5

(a) In the first part of the question, candidates were required to discuss whether the existence of traffic congestion in cities might be considered as evidence of market failure. There were some good answers to this, with candidates demonstrating a sound knowledge and understanding of the potential divergence between private and social costs. The most common examples were in relation to pollution and the loss of time, and there were was some very good discussion of negative externalities and their spillover effect on third parties. Again, there were a number of excellent examples of diagrams being used to good effect to aid the explanation of market failure. One problem with some answers, however, was the tendency to simply write as much as possible about market failure in general with little specific reference to traffic congestion.

(b) In the second part of the question, candidates needed to analyse what might be done when market failure does exist. Many of the answers to this part of the question were of a very high standard, with candidates discussing taxation, subsidies, different types of rules and regulations and government provision of certain goods and services, such as merit goods and public goods. As in the first part of the question, diagrams were frequently used to aid in the explanation of the different types of government intervention. A few candidates limited their answer to traffic congestion, failing to realise that the second part of the question concerned market failure in general. Another problem was that a number of candidates simply offered a summary list of potential solutions without really analysing them. Candidates need to recognise how important it is to look at the command word at the beginning of each question. In this question, the emphasis was very clearly on the need of candidates to analyse the possible measures proposed.

Question 6

(a) This part provided candidates with lots of scope for establishing and discussing the links between interest rates and the main components of aggregate demand and related variables such as employment. Many candidates presented fairly superficial answers to this question and could not, for example, proceed beyond stating that there was an inverse relationship between changes in interest rates and investment. They did not explain why this was or the extent to which it might occur.

(b) Usually questions on inflation produce many well-developed answers with clear structure and reasoned conclusions. Sadly, this was not the case with this particular question. The discussion of the policies (which might include those designed to restrict imports, curb spending, reduce incomes or give directives about wage and salary increases) was very limited. Candidates were aware of the main causes of inflation and explained these. They did not then really answer the question, which asked what policies might be used to control any inflation that occurs.

Question 7

(a) This question was designed to enable candidates to give an explanation and description of the main economic indicators such as Gross National Product or Gross Domestic Product and to comment on the adequacy of these indicators. Many were aware of the economic indicators but tended to present them in a list form and did not explain why they might be particularly relevant in determining whether a country was developed or developing. Critical comment of these indicators was often non-existent, although better candidates did attempt to expand points and provide appropriate supporting illustrations. These candidates also did discuss alternative indicators connected with, for example, social provision, education or health. A surprising number of candidates made no reference to the importance of considering the size of the population when comparing GDP figures.

(b) This question was intended to enable the candidate to explore how policies in developed countries can affect developing countries through trade, or aid, or political agreements. Candidates could have commented on the import/export agreements, exploitation of labour for cheap production, international aid, voluntary aid in terms of skilled workers, medical help or governments' encouragement of muti-national companies in promoting development of resources. Sadly, many did not read the question carefully. Many wrote about the policies adopted by a developed country that could help that same developed country mentioning basic fiscal and monetary policies. Those who did deal with developing countries often only mentioned possible policies but did not develop an analysis or discussion of how those policies might affect the developing country.

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