

ECONOMICS

Paper 9772/01
Multiple Choice, Short
Answers and Data Response

General comments

Overall the exam appears to have worked well again 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 end candidates did consistently well / poorly on all three sections. It was less apparent this year that some candidates did particularly better on **Section A** relative to their performance on **Sections B and C** or vice versa. However, unlike last year, there did appear to be a handful of candidates who appeared to have run out of time when it came to the final question(s) on **Section C** – despite the addition this year on the front cover of the paper of recommendations as to how long to allocate to each section.

Section A

Multiple Choice Questions

Range of marks 9 – 27 (30% - 90%)

Mean mark 17.5 (58.3%)

Mode 17

It was evident that once again candidates, as expected, found the multiple choice questions to be the most challenging part of the paper. To reiterate from last year's report, there are several reasons for this. First, it is clear that the average question is harder than has been the case in many recent examination papers set by A level boards. CIE makes no apology for this – the Pre-U exam is terminal and therefore questions can be set on any topic at a higher level than is the case when AS module papers use multiple choice questions as part of the assessment. Second, it is envisaged that, over time, candidates will become more familiar with the type of question being used and, to quote one of the advantages of the division of labour, 'practice makes perfect'. Third, this part of the paper, along with the final parts of **Section C**, aims to provide a clear means of discriminating between even the better candidates and so some of the questions are challenging.

There were no concerns expressed this year by any Centre about the answer to any particular question. As stated in last year's report, 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. The fact that there were no concerns expressed is therefore vindication of the processes put in place after last year.

Section B

Generally candidates found this to be a relatively straightforward part of the paper, as had always been the intention. Many candidates were able to score highly on these questions, provided that they followed the instructions in the questions, particularly with regard to using examples in their answers, and were also precise in their use of economic terminology.

Question 1

- (a) As a general rule, candidates should be aware that for two marks, they should look to provide two relevant points. Several candidates just stated that an absolute advantage existed for Country X as it could produce more of both products. Given that numerical outputs were given, better candidates expanded to say something like, 'with the same amount of inputs, Country X can produce 50 more units of each good' and such an answer, or similar, secured the second mark.

- (b) There were many good answers to this part, but unfortunately several candidates misread the part of the question that said ‘if each country were to totally specialise’ and hence had output levels that were at 50% of what they should have been. As long as such candidates explained the concept of Opportunity Cost and gave numerical examples as to why the specialisation should be as it was, they gained two marks, but those who simply put down the incorrect values of 150 units of A and 100 of B and showed no working failed to gain any marks.

Question 2

At the top end candidates were able clearly to identify that government spending on building a new hospital and payment to teachers employed in state schools were the two that should be included. The better answers explained that Aggregate Demand (AD) looked at spending on goods and services and often correctly identified that state pensions and JSA payments were ‘transfer payments’. Even if this term was not used, they correctly identified that they were payments for which no goods and services had been produced, and often discussed the potential problem of ‘double counting’, as these benefits would then be spent and show up in the Consumption element of AD. However there were many candidates who clearly had no idea that the ‘G’ used in AD is not the same as the ‘G’ when considering a government’s overall budget situation, when comparing ‘G’ with ‘T’. This clearly caused candidates a problem as to which two should be excluded and in most cases they went for the incorrect two, stating that as health and education could be seen to affect the long run aggregate supply curve for an economy, such spending was therefore not part of AD. It is suggested that this issue is addressed in future teaching as a question testing this knowledge could certainly be set again in the future.

Question 3

- (a) Most candidates were able to answer that the £ had strengthened against the \$ but for the second mark the Examiners were looking for this being justified by use of the data provided – either in percentage terms or in actual terms (by 2% or 3 cents respectively).
- (b) There were some good answers that concentrated on the fact that the Bank of England ‘expected’ its Base Rate to rise and hence this attracted an inflow of ‘hot money’ for speculative reasons. Weaker answers assumed that the Base Rate had already risen. Somewhat surprisingly, very few answers discussed ‘relative’ interest rates in terms of the attractiveness of a currency, and hence the demand, although those that did easily picked up all the available marks.

Question 4

- (a) Most candidates had a reasonable attempt at answering this part although the labelling of the Lorenz curve axes left a lot to be desired in many cases. However, as long as the $a/(a+b)$ value was given, all marks were available. No candidate used the less conventional – though just as correct – $2*a$ value for the Gini coefficient – and it might be a good class exercise to get candidates to prove why the two values are identical.
- (b) The question was similar to one that had appeared on the previous year’s paper and, as before, produced some very good answers. However, clumsy statements such as ‘Countries with a high GDP have a high standard of living’ – failing to appreciate the need to consider GDP per head – led to several candidates dropping one of the marks. Most candidates were able to explain that the Gini coefficient was relevant to the distribution of income although, as is so often the case with such questions, many candidates seem to believe that income and wealth are totally interchangeable terms. The Chief Examiner would be delighted to see an answer that explained that one could have large wealth and yet negligible income while still having a high standard of living.

Section C

Question 5

The aim of this section is to test both candidates' ability to read articles and ability to pick out the salient parts, and also to apply their knowledge of economics to 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 referred to the article and hence were able to gain full marks for this part. There were several candidates who felt that the question was asking about a price war *between* supermarkets *and* pubs, rather than just between supermarkets but as long as the economic knowledge that they displayed made sense – even if it clearly did not reflect reality – they were not penalised for this misinterpretation of the question. There were however far too many candidates where their script received an Examiner's comment of 'Reference?' as they failed to make any reference to the article.
- (b) Most candidates were able to provide a good answer to this question; although for full marks to be awarded candidates were expected to make some reference to the fact that it was the net increase in costs that was important, using the material provided in lines 33 – 35 of the article.
- (c) Many candidates secured full marks on this part although several did not give the greatest explanation of what is meant by the term 'the law of unintended consequences'. Several gave an answer that explained what a negative externality was and, whilst it could well be argued that often the unintended consequences are due to negative externalities that had not been considered, it should be stressed to candidates that the unintended consequence could well be of a positive nature – as given with the example in the article (lines 49 – 51) where an existence of more male role models in the home could be an unintended consequence of the smoking ban.
- (d) It had been expected that the answers to this part of the question would have used lines 31 – 32 as their starting point although, almost without exception this was not the case. However there were still some excellent answers that often argued along the lines of: *even if there are negative externalities incurred by passive smoking, how can one measure these, might not any attempt to 'internalise the externality' act as a highly regressive tax, what about all the 'unintended consequences' and should not a cost-benefit analysis be done to look at the overall effect of intervention?* It was somewhat disappointing to see that the vast majority of candidates used a diagram that showed a tax being imposed on a demerit good, in order to 'curb its consumption' whereas clearly it has been the introduction of a ban on smoking in public places rather than an additional tax that has been used.
- (e) The final part of the data response question will always aim to give candidates the greatest opportunity 'to think outside the box' and to demonstrate real originality. This was certainly the case with this question and there were some outstanding answers. Some of the excellent points that were considered included:
- Why should a pub be supported rather than say the local post office / shop or tea rooms?
 - Would it not be ironic to try to ensure the survival of an outlet of a demerit good? Although a few excellent answers considered whether 'all drinking' was a demerit good or whether a 'social drink' was not in fact a merit good.
 - Is a pub really that different from any other business enterprise? In particular, if those pubs that have 'moved with the times' – as clearly explained in the article – appear to be doing well, would not a government subsidy just encourage inefficiency and provide a lack of incentive for change.
 - Some candidates considered what is meant by 'community life' and drew distinctions between rural and urban settings. Some argued that the idyllic country pub atmosphere, whilst highly appealing to many, should not be subsidised by general government finances both because of the relative few numbers who would benefit and also, particularly in the current economic climate, because of the opportunity cost of subsidisation in this area.

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Paper 9772/02

Essay

Key messages

- It is in the area of response focus where there is the greatest room for improvement in the overall quality of 9772/02 responses. Those candidates who write what are in effect answers to what the candidate would have liked the question to have been, rather than what it actually is, inevitably score less well.
- The skills of evaluation are clearly of a higher order than those of analysis, but the fact that marks for evaluation constitute almost one-third of those available in this paper demonstrates how important they are in order for a candidate to achieve high marks.

General comments

The structure of the paper was as for 2010, with the overall response of an increased entry for the paper broadly similar too. All six essay questions were answered by sizeable numbers of candidates, with no candidates failing to observe the rubric for the paper, and there being no evidence that candidates experienced any difficulty in answering three questions in the time available.

The level of difficulty of the questions asked was perhaps slightly greater than in 2010, but the quality of the scripts was again generally high, with a comfortable majority deemed to be of Grade D3 standard (i.e. equivalent to an 'A' Level Grade A) or better. There was no significant difference in the quality of the responses to the two different sections of the paper, **Section A** consisting of questions on microeconomics and **Section B** on macroeconomics, though it was probably true to say that, on average, candidates seemed to find **Questions 3** and **5** more difficult than the other four.

Most candidates generally demonstrated a good understanding of relevant economic concepts and principles in their answers, although there were occasions when only a partial interpretation hindered the overall quality of a candidate's answer – for example, of public goods in **Question 1**, or of globalisation in **Question 6**. Explanation of appropriate economic theory was almost always at least sound, and sometimes extremely thorough and accurate; it was again evident that candidates had been very well prepared. As in 2010, though, there was much greater variability in the quality of evaluation displayed in answers, and in particular in the extent to which answers were explicit in addressing the precise question asked.

The comments below, taken together with the extensive mark-scheme, are aimed to assist in the preparation of candidates in the future, in particular in suggesting possible avenues through which candidates might have accumulated marks for evaluation on the particular questions set in 2011.

Comments on specific questions

Question 1

The question was generally answered reasonably well, with almost all having a good understanding of the concept of a pure public good, in terms of its characteristics and of the need for governments to provide it, given the absence of private sector provision. There were, though, a few answers which demonstrated some confusion about the characteristics of non-rivalry and/or non-excludability, or which failed to link the inevitability of the 'free rider' problem either to the need for state provision or to the characteristics. However, more common – and the main reason why a significant number of answers failed to gain marks within the top levels – was a failure to even consider the case of quasi-public goods, where the issue of the extent of desirable state provision is a much more relevant one. Some answers mentioned roads as an example, though usually without considering the difference between them and, for example, defence, in terms of either characteristics or state versus private sector provision; and others considered perhaps health or education

as if they too were merely further standard examples of pure public goods. On the other hand, at the top level, there were a small number of answers which showed a good understanding of both pure and quasi-public goods, and addressed explicitly the issue of the extent of desirable government intervention in the provision of such goods.

Question 2

There was quite a wide range of qualities in the answers to this question. The least impressive merely explained the levels of supernormal profit likely to be earned in different market structures, with varying accuracy and varying coverage, though with little link to the technology aspect of the question, and usually even less to the requirement in the question to make reference to examples. On the other hand, better answers tended to make valid points about recent changes in relevant technology, with appropriate examples, and also linked them to their possible impact on market structure. Usually, good answers suggested that the impact of technology has generally been two-edged; on the one hand, much of the development of IT has tended to make markets more competitive, with greater freedom of entry, and so a reduced ability of firms to make supernormal profit, but there has also been major technical progress in many, though not all, industries which has tended to reinforce the monopoly power of market leaders, and so their potential to earn supernormal profit, perhaps even into the long run. In addition, good quality evaluation often considered whether or not the traditional economists' analysis of market structures was relevant to the examples they had put forward.

Question 3

Although there was nothing inherently difficult in this question, the general standard of answers was slightly disappointing. This was probably the result, in many cases, of candidates attempting to twist an answer to a question which they would have liked to answer – about whether natural monopolies should be run by the state or by the private sector – to accommodate the one actually asked. Others, who did actually respond to the question asked, tended to write about the advantages and disadvantages of nationalisation versus privatisation – which was certainly not irrelevant – though without emphasising the role of regulation. The better answers, on the other hand, correctly focused on this aspect, as well as using appropriate examples to make their points about the benefits and otherwise of privatisation policies. This was an apt question, too, to emphasise how important it is that an answer should be explicit in its conclusion in answering the actual question asked; in this case, candidates were asked to evaluate the extent to which it is the case that regulated private ownership is preferable to nationalisation, and they could not access the top Level 3 marks for evaluation unless they did.

Question 4

This was a further question which differentiated well between candidates, and largely via the extent to which answers addressed the question directly. Thus, the best answers invariably considered what a 10% reduction in real GDP might mean, and made explicit reference to Ireland, whereas weaker ones tended to consider linkages between GDP and standard of living in very general terms, without any reference to a 10% fall, to Ireland or indeed to MEDCs. In order to gain the higher levels of response marks, answers also needed to consider both issues of problems of compiling national income figures and also issues of using them to draw conclusions about living standards, in MEDCs in particular. Some answers concentrated largely on the latter; the best looked at both, as well as at the meaning of the question's stem.

Question 5

This was the second question which many candidates found difficult. There were a small number who, incorrectly of course, understood a budget deficit to relate to a country's balance of overseas trade, but happily this error was rare. More common, though, were answers which concentrated entirely on linking the main macroeconomic objectives to the process of a government spending more than it receives in taxes; whilst this in itself was not necessarily irrelevant, it was only a very partial answer to the question asked. A full answer required explanation of the undesirability of a budget deficit of the size stated, with a link made too to the relationship between the deficit and the national debt. This would then lead to consideration of the possible actions a government could take to bring about improvement, with the implications then analysed of such actions for the ability to achieve the objectives. Only the very best did this.

Question 6

The extent to which answers accurately analysed the economic effects of globalisation often depended upon the extent to which they went beyond a solely trade-based interpretation of the term. The best answers looked at the process of globalisation as a combination of changes affecting flows of goods and services, factors of production and financial capital. Good candidates looked at all aspects, often quite subtly, with reference to, for example, technology transfer and/or remittances, whereas lesser quality answers tended to focus just on trade. Some of these were themselves quite good, for example in their discussion of trade creation versus trade diversion, but they were clearly only partial interpretations of the question. As usual, the best answers demonstrated a balanced response, with globalisation perhaps generating net advantages for some countries in some circumstances, whilst others might find disadvantages more significant. Long-run / short-run differences also yielded worthwhile evaluative comments in some of the good answers.

ECONOMICS

Paper 9772/03
Investigation

Key messages

- There needs to be greater use of economic theory in support of the answer. Too many answers were overly descriptive, using very little theory at all. Some could have been written by candidates who had not studied economics.
- There needs to be accurate use of economic concepts. A significant proportion of candidates attempted to use economic concepts with which they were not fully familiar. Others did not take the opportunity to fully clarify their understanding of the theory. It is not necessary to explain theoretical understanding from first principles in this paper, but responses must make clear their understanding of concepts through the way in which they are utilised to answer the question. Candidates must also make sure that they label diagrams correctly and utilise them to answer the question. Many responses included diagrams which were not referred to at all or which included a brief reference to imply that their meaning was obvious when it was not.
- There needs to be greater critical awareness and less use of sweeping and unsupported statements. Many candidates made statements which were unsupported by either evidence or economic reasoning. Others made statements which were supported by anecdotal or partial evidence without making it clear that they understood the limitations of the evidence presented. This lack of critical awareness often undermined potentially good points that candidates were trying to make.
- There is a requirement for balance. All candidates recognised the need to engage in some form of discussion, but in some cases the discussion was extremely one-sided and the impression given was of a token attempt to engage in discussion when the outcome of the debate was pre-determined and the opposing argument was felt to have very little merit. Many statements which were presented as obvious truths demonstrated candidates' lack of understanding of the broader context and the subtlety and fine balance of some of the debates.
- There needs to be greater selectivity. This problem was not as acute as last year, but some candidates were still determined to bring in extensive quantities of descriptive and theoretical material that was not relevant to the question at hand. This clearly reduced the amount of time available to discuss the relevant material.

General comments

Responses to this paper were slightly disappointing this year, with the overall standard being slightly lower than last year. However, there were a good number of excellent responses in which candidates demonstrated their in-depth understanding of the topic areas and fully applied their answers to the set question.

The structure of answers was generally good and almost all candidates recognised the need to engage in discussion. Many responses also demonstrated that some investigation had been done and most candidates were able to use at least some relevant data to support their arguments.

Comments on specific questions

Question 1 Transport and the Environment

This was the second most popular question and was generally answered well. Candidates generally had a good understanding of high-speed rail as well as the economic and environmental arguments for and against

its construction. Most were also able to apply this understanding within the broader context of the UK's transport problems and bring some data relating to emissions into the analysis.

Microeconomic concepts tended to dominate the analysis, especially externalities and the concept of merit goods. The distinction between the two was not always clear. Some candidates referred to cost-benefit analysis, although this concept was generally not used well or with any great precision. There was also some macroeconomic analysis, although this tended to be limited and lacking in theoretical depth. However, there were some good references to the current state of the UK economy and the impact of this on the construction of high-speed rail. A few responses included lengthy considerations of market structure and particularly natural monopoly which, whilst potentially relevant, were not effectively applied to the question.

Some comparisons were made with alternative solutions and these were generally within the confines of the question, although a small number of candidates took the opportunity to discuss the content that they wished to be examined on (particularly congestion and road pricing) rather than dealing with the question at hand. Comparisons were also made with the experience of other economies, although examples tended to be very general and lacking specific evidence to support or oppose the construction of HS2.

Disappointingly, few candidates made good use of the question structure to help them with their answers. Few responses differentiated explicitly between the economic and environmental cases for more high-speed lines. Few candidates placed any emphasis on the word 'priority' in the question, which was intended to steer them towards an evaluation which considered the case for high-speed rail, and its very high cost, in comparison with alternative solutions.

The best answers, and there were some very good ones, were very specific about the transport problems facing the UK and the extent to which HS2 offers the possibility of a solution. They differentiated between the impact on different transport modes and types of journeys. They also referred to freight transport, the environmental problems generated by it and the extent to which these would be alleviated. Particularly good use was made of statistics which demonstrated that the limited scope and capacity of HS2 means that it is likely to have only a modest impact on overall transport patterns in the UK and thus on the environmental problems caused by transport use.

Question 2 China and the Global Economy

This was the most popular question and answers tended to be better informed than last year about the current position and recent history of the Chinese economy. Most responses were also largely based in the context of China's relationship with developing economies.

Many candidates offered good examples of China's involvement in both a negative and positive way in developing economies. Unfortunately, many of the examples were rather anecdotal, dealing with very specific and localised events. This did not undermine their validity in itself, but few candidates recognised the limitations of this evidence and went on to evaluate whether these cases were typical or exceptional. Some responses lacked precision in their use of examples, referring to China's involvement in Africa as if it was a country rather than an entire continent. There was also a good deal of irrelevant data, generally referring to the historical growth of the Chinese economy over the previous two, or even three, decades. In the worst cases candidates wrote over two sides of historical description before they began to answer the question. Whilst some context is valuable, candidates must be discouraged from including long, rehearsed and largely descriptive passages which do not explicitly answer the set question.

Use of theory was disappointing overall. Most candidates referred to comparative advantage, but few used it to analyse the potential benefits to both parties. Some fleeting use was made of AS/AD analysis, but few candidates made distinctions between the long-run and short-run. There was some microeconomic analysis, but this was generally confined to a brief reference to negative externalities. The very best candidates took a more structured approach and utilised the content from the development section of the specification effectively. They analysed the problems faced by typical developing economies and considered, in a systematic way, whether the involvement of China in specific economies was likely to boost development or impede it.

In some responses there was a lack of clarity about the nature of developing economies. There was a good deal of reference to newly industrialised countries (NICs) and the 'Tiger Economies' which are not conventionally regarded as developing economies. Some responses included examples of China's interaction with developed nations and demonstrated a lack of selectivity on the part of some candidates. This was also evident when candidates strayed into political and social issues, although this problem was not as pronounced as last year.

The wording of the question sought to encourage candidates to consider a balanced response to the issue although most tended to focus more on threats than opportunities. Most made some attempt to reach a conclusion at the end, but relatively few were able to support their conclusions with rigorous argument. The majority of conclusions were very negative about China's actions as, they argued, they are primarily designed to benefit China rather than stemming from any altruistic motive. Whilst this conclusion is valid it is far from sufficient and they should have gone on to consider the realistic alternatives available to developing countries in the form of relationships with developed nations, multinationals (MNCs) or other BRIC countries (Brazil, Russia and India).

The best responses were able to contrast China's involvement with the alternatives available and to look at both short-run and long-run outcomes. In this context there were several good references to China moving up the 'value-chain' and the implications of this for developing economies over time. Some candidates took this analysis further by considering the growth of the other BRICs, the extent to which the development of these economies was challenging the Washington Consensus and whether this offered a new model for development.

Question 3 Expansion of the EU

A small number of candidates answered this question. The responses were generally in context and all candidates entered into some form of discussion.

The use of economic theory was generally quite superficial, with some brief use of production possibility curves (PPC) and/or AS/AD analysis being typical. There were few answers that seemed to have a clear and systematic understanding of the theoretical economic benefits of enlargement. Such an understanding would have provided a useful structure with which to analyse the success of enlargement to date. More specifically, few responses included a very clear explanation of the concept of international competitiveness and demonstrated a comprehensive understanding of the factors that can increase or reduce it. A couple of responses were unfortunately diverted into lengthy microeconomic considerations of market structure and competitiveness between firms which were generally not very relevant.

Knowledge of the process of enlargement was generally good, although there was a little too much descriptive historical detail in a couple of responses. Knowledge of the impact of enlargement on specific economies was quite weak and few candidates were able to use data to effectively support their arguments that enlargement had either increased or reduced competitiveness. There was also a lack of detail regarding the nature of the competitive threat and the specific opportunities that enlargement may have presented in order to counter this threat.

Most answers confined themselves to relevant content, but there were occasional, and sometimes quite lengthy, diversions into the current problems in the Eurozone without a clear explanation of why this information was relevant to the question. A couple of responses were also insufficiently rooted in the enlargement context and could have been equally relevant to a question about the benefits, or otherwise, of EU membership.

The best answers were effectively focused on the enlargement context and also recognised the steer in the question to consider the time-span of the benefits. They were able to distinguish between short-run and long-run effects and to consider the position of the EU economies in the broader context of the dynamic global economy.

Question 4 The Pensions Crisis

No candidates answered this question.