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## FOREWORD

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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.**

# ECONOMICS

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## GCE Advanced Level and GCE Advanced Subsidiary Level

<b>Paper 9708/01</b>
<b>Multiple Choice (Core)</b>

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

### General comments

The mean percentage score on this paper was 50.2%, compared with 48.3% on the corresponding paper in 2001.

Only one item (**Question 4**) had a facility score above 80%. There were four items (**Questions 10, 11, 13 and 28**) that proved too difficult. Of these, **11, 13 and 28** also had low discrimination scores, as did **Questions 2, 29 and 30**.

In **Question 2**, more candidates opted for **B** than for the correct response, **D**. **B** describes the opportunity cost to the newly-employed workers. The opportunity cost to society is the alternative output forgone, which in this case would be zero.

In **Question 10**, only 21% of the candidates managed to work out that the equilibrium price was \$2000, and that at this price, Z would want to add a further 2 clocks to his collection, while X would want to sell off 2 of his clocks.

Virtually none of the candidates answered **Question 11** correctly. Most candidates, if asked, could probably give examples of externalities. However, it is clear that very few are familiar with the basic definition of an externality, viz. a situation where the production (or consumption) of a good directly affects the production (or the utility derived by the consumers) of another good.

The statistics suggest that most candidates resorted to guesswork in **Question 13**, which is puzzling since 'minimum guaranteed price' is a fairly standard item.

In **Question 16**, over one half of the candidates wrongly opted for **A**. The triangular area  $x$  in the diagram measures the deadweight loss to society from producing output  $OQ$ . The social cost is the area below the  $MSC$  curve.

**Question 28** was another item that caused candidates major problems. The basic idea behind this item, in fact, is very simple, viz. that if a country's goods are relatively expensive, then this indicates that its exchange rate is over-valued.

In **Question 29**, those candidates (38% of the total) who opted for **A** failed to recognise that if the demand for oil is price-inelastic, then an increase in the oil price will leave consumers in oil-importing countries with less money to spend on other goods.

In **Question 30**, one third of the candidates opted for **A**, and one fifth for **C**. A depreciation of a country's currency enables exporters to put up their prices (in their own currency), thereby increasing their profit margins. However, import prices increase by more than export prices, so that there will be a worsening in the terms of trade.

**Paper 9708/02**

**Data Response and Essay (Core)**

**General comments**

This paper was taken by both AS Level candidates and A Level candidates. While a minority of the A Level candidates made use of knowledge from the extension ('A2') part of the syllabus, the full mark range remained available to those candidates who had completed only the Core (AS Level) syllabus. There were virtually no problems with the rubric and time management, and the relative lengths of sections were satisfactory.

There are several issues that need to be addressed. The instruction 'with the aid of a diagram' was misinterpreted by some candidates, who made reference to the diagram in the data rather than providing their own. The quality of diagrams when supplied was often poor, with clumsily drawn curves and wrongly labelled axes. For essays, candidates must not feel compelled to offer all the information they know about a topic but should concentrate on being relevant to the title set. The best answers to the essays were those that paid attention to the specific wording of the title rather than responding to 'trigger' terms. In writing the essay, candidates should plan their response to avoid the repetition of information between sections.

Despite these comments, there was much evidence of sound and comprehensive knowledge and understanding. This might have been more fully exploited by ensuring that ideas were not merely listed but explained in the first section of the essay and that ideas were not merely explained but discussed in the second part.

Candidates should not tie or staple their scripts so tightly that it becomes difficult to turn the pages, should indicate the section they are answering by a number in the margin and should record the number of the questions attempted in the space on the cover sheet (if one is available).

**Comments on specific questions**

**Section A**

**Question 1**

- (a)(i) Relatively few candidates gave a succinct explanation of the difference between nominal and real prices that made clear the nature of the two measures. Most realised the relevance of inflation, although some were guessing with reference to taxes and costs.

- (ii) A brief answer, which highlighted the trend over an extended period, was all that was required. Long detailed description of the behaviour of the nominal price of oil failed to reveal trends and absorbed excessive time. A satisfactory answer would have been that there was an upward trend between 1970 and 1982 which became a downward trend between 1982 and 1998. Alternatively, reference to the fluctuations in price would have been acceptable. Some candidates need guidance on the concept of a trend, which is frequently examined. They need to be warned against giving detailed chronological accounts.
  - (iii) This was well done, with candidates either referring to the pattern of movement or the relative levels of the two prices. On occasions carelessness caused the two prices to be reversed.
- (b)(i) While many opted for the expected answers of 1973/4 or 1978/9, a surprising number opted for 1982 and 1991. In the first case there was no sharp rise while in the second the rise was not subsequently sustained.
- (ii) Most concentrated on difficulties with planning, stability of revenue/profits and menu costs. Few candidates failed to gain some credit here, although some were more focused on falling rather than fluctuating prices. The best responses concentrated on the issue of uncertainty.
- (c) Full marks were frequently gained for a clear diagram with an explanation that linked to the data. Some answers dealt only with supply or demand changes rather than both. The weakest responses offered no diagram and did not get beyond repetition of the data. A demand and supply diagram was the only format that gained credit: aggregate demand and supply diagrams were not appropriate.
- (d) Both micro and macro effects were acceptable. Candidates tended to concentrate on one of the approaches rather than combining them. There were many sound responses with detail on elasticity and tax incidence. Relevant diagrams were common. There was some misuse of the term disposable income and some considered a tariff rather than an indirect tax. A tendency which occurred was to change the emphasis of the question, this happened when having introduced the inflationary effect of rising oil prices the answer was turned into the problems of inflation. There were some rather tenuous links made between the tax and the balance of payments.

## **Section B**

Each question attracted a reasonable proportion of the entry, with **Question 3** the most popular. A wide range of achievement was evident in each case.

### **Question 2**

- (a) It was expected that private and external costs in production and consumption would be defined and clarified with examples, and the relationship to social cost established. The main problem was a confusion between external and social cost which undermined some answers. The best answers gave clear definitions and introduced a diagram, while even the weakest managed some relevant examples. The standard diagram was not always drawn accurately. It was not relevant to introduce benefits at this stage.
- (b) The purpose, method and limitations of cost benefit analysis were required. While some thorough analysis with good applied examples was offered, a disappointingly large number of candidates were unable to get beyond the notion of cost and benefit comparison in a general way. They did not offer anything precise about the method. Some candidates chose to answer a different question on government policies to combat negative externalities, or to discuss the nature of public and merit goods.

### **Question 3**

- (a) The methods to make domestic industry competitive in international trade needed to be identified, and the methods by which they were effective explained. Candidates were very knowledgeable about a wide range of methods, although they often took their method of operation for granted. Very few were able to introduce the type of policy e.g. restructuring, research and development or the improvement of factor quality, that would underpin long-term competitiveness.

- (b) The arguments for protection needed to be examined in the light of the theory of free trade, and a judgement needed to be made about their validity. Most candidates were aware of the arguments about infant industries, dumping, unemployment and demerit goods, which they listed, and the case for free trade. However it was quite rare to find an integrated answer that brought all elements together and made the justification of the valid arguments clear. Dumping was not always defined accurately, and time was wasted on long considerations of absolute and comparative advantage.

#### Question 4

- (a) The question sought to establish the causes of inflation and the way they interacted. The broad categories of demand-pull, cost-push and monetary were known, although some Centres appeared confused about the Keynesian and monetarist perspectives. It was quite common for candidates to stop without making a detailed breakdown of the changes within the broad categories. It was not necessary to start the answer with lengthy accounts of the levels and measurement of inflation. Some who used a 45 degree diagram mislabelled the inflationary gap.
- (b) Candidates needed to consider the problems resulting from inflation and analyse how harmful they might be in the context of overall government policy. There was sound knowledge of the effects on redistribution, international competitiveness and the workings of the market mechanism. Some tended to be rather descriptive without bringing out the significance of the effects. The strongest answers looked at situations in which inflation might not be the main priority, such as when it was at an acceptable level or when other targets required more urgent attention. Again, some candidates changed the question in this case to one about policies to control inflation, or offered long accounts of the Phillips curve.

**Paper 9708/03**  
**Multiple Choice (Extension)**

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

#### General comments

The mean percentage score on this paper was 51.2%. This compares with 47.7% on the corresponding 40-item paper on the old syllabus in 2001.

**Questions 5 and 25** proved to be easier than intended (with more than 80% of candidates answering correctly). Each item was answered correctly by at least 25% of candidates, so none was harder than the design limit.

In **Question 11**, the number of candidates opting for **D** was twice the number who chose the correct response, **C**. This clearly suggests that most candidates are very unsure about the relationship between a firm's *ATC*, *AVC* and *MC* curves.

Candidates also appear to be unclear about what is meant by a deadweight loss and how this is measured. This is reflected in the fact that 39% chose **D** in **Question 15**, compared with only 25% who answered the item correctly.

Those candidates (45% of the total) who opted for **B** in **Question 26** were clearly unaware that one of the central tenets of monetarist theory is that in the long run changes in the money supply affect only the rate of inflation, and have no effect on unemployment.

In **Question 29**, 38% of candidates, including (it would appear) many of the better candidates, chose **A**, compared with just 35% who chose the correct response, **D**. This is a little surprising, as one would have expected most candidates to realise that a fall in the exchange rate would make home goods more competitive, and would therefore probably increase the pressure of demand for home-produced goods.

**Paper 9708/04**

**Data Response and Essay (Extension)**

### General comments

There was a tendency for candidates to ignore the mark allocations in **Question 1** and to write at length on parts **(a)**, **(b)** and **(c)(i)**, leaving insufficient time for **(c)(ii)** and **(d)**. Some scripts also showed a misallocation of time, with their final answer being clearly unfinished. Not all diagrams were presented in a clear manner correctly labelled.

Too many candidates failed to indicate in the margin where their answer to each part of the question began. Sometimes spare blank sheets of paper are tied into the script which can make it unclear where the answer to a question ends. Some candidates tied the sheets of paper in their script in the incorrect order which again makes marking difficult.

### Comments on specific questions

#### **Question 1**

- (a)** The purpose of the data response question was to ask candidates to observe the information provided and to comment upon it. Too many candidates in this part of the question made general comments on inflation rather than focus on the data which was provided.
- (b)** Many candidates simply quoted the section in the text relating to legislation. They did not seek a reason within the text which might give weight to the opinion that the economy had moved in a direction that required some constraint on wage increases. The point of the question was to ask candidates to find such evidence.
- (c)(i)** Most candidates were able to identify the changes which occurred in each of the sectors.
- (ii)** This question asked candidates to relate the changes that they suggested in part **(i)** to a developed economy. Some answers referred instead to developing economies. Good candidates discussed the typical dynamic changes of a modern developed economy and explained how technological development, growth and overseas trade combined to enable the changes evidenced in the text.

- (d) The better answers focused on Belgium and were able to take precise examples from the text to discuss both the advantages and disadvantages. Candidates were not, of course, expected to know more about Belgium than that provided in the information. The main weakness of the answers occurred when candidates presented only general arguments about international trade without ever mentioning Belgium. The same information could have been used by referring to the text to much greater effect. Some weak answers considered only the advantages or only the disadvantages.

### Question 2

In this question candidates needed to structure an answer that began by discussing whether demand is influenced by advertising or impulse buying. Then they needed to describe how economic theory is determined according to economic theory, including utility. Finally they needed to discuss whether their conclusions in the first part of the argument led them to support the conclusion given in the assertion.

There were some excellent answers that dealt with a range of determinants of demand and concluded that advertising is a rational part of demand theory and that the theory is therefore relevant, while impulse buying is a result of behaviour by consumers that is either irrational or is based on lack of good information. In general, however, there was a failure to address the question asked, even though most candidates had a good grasp of economic theory. Many clearly identified a range of influences on demand, but they did not always add that advertising could be encompassed easily in the framework of standard demand theory. Further, there was often no discussion of impulse buying and little reference to the role of utility in the theory. Some candidates were content to provide only vague general assertions and superficial analysis.

### Question 3

- (a) In this part, candidates were expected to explain the advantages that a retail organisation might derive from being large, including economies of scale, large profits to invest or pay to shareholders, domination of the market and the ability to carry out research and development.

Too many candidates treated this part as an opportunity to write a general essay on economies of scale but did not relate their answers to "a large retail organisation". The level of understanding of economies of scale was generally good and there were some accurate diagrams produced that showed the change in the long-run average cost curve as the level of output changed.

- (b) Candidates were required to discuss whether the development of large companies is always a benefit to society, possibly in terms of employment, income generation, new technology and the effect of economic development in the area. This needed to be balanced against possible costs such as changes in the environment, increased traffic growth, extra pollution and the destruction of existing facilities. Candidates could also consider whether large companies always acted in the public interest with regard to prices and levels of output.

There were some good answers that established the criteria by which large firms might be judged and then went on to look at the possible range of disadvantages including economies of scale, externalities and the abuse of monopoly power. There was also evidence of candidates misreading the question or wanting to include a pre-learnt answer about the advantages for companies of remaining small.

### Question 4

- (a) Candidates were required to comment on the differing importance of the primary, secondary and tertiary sectors of the economy in developing and developed economies. They could also contrast the amount of training and the levels of income and employment between the two types of economy.

While there were some good answers to this part, too many candidates either gave rather vague and generalised answers that mentioned agriculture and services, or described all they knew about the differences between developed and developing economies or about types of unemployment. Only the best answers explained these differences with good examples of primary, secondary and tertiary industries and with a clear understanding of the principles involved.

- (b) In this part it was expected that the answers would contain a discussion of the likely economic changes that a developing country would experience from economic growth, such as changes in incomes, health, education, housing, the environment and social factors.

This part was often answered more convincingly than part (a). Candidates usually showed a clear understanding of economic growth and they discussed a range of advantages and disadvantages that may affect an economy as it grows. Not all answers provided clear evaluative comment and conclusion and some suffered from the belief that things are perfect in a developed economy with low inflation, full employment, balance of payments surpluses and greater equality of incomes and wealth.

### Question 5

- (a) The purpose of the first part of the question was to involve candidates in an explanation of how wage rates are determined in a perfectly competitive market. Good answers explained clearly exactly what were the essential features and characteristics of a perfect market and then included appropriate theoretical analysis. The majority of candidates used diagrams to aid their explanation and although these were generally of a good standard, some were not very clearly drawn or were either not labelled or labelled incorrectly. Many candidates explained marginal revenue productivity fully and linked this to the demand side and then went on to say that it was still necessary to consider the supply side in order to understand the establishment of an equilibrium wage.
- (b) The purpose of the second part of the question was to ask candidates to consider critically what they had written in part (a) and discuss why wage rates might be different in practice from those in a perfectly competitive market. Most candidates recognised that many markets were imperfect and that this would affect the conditions of demand and supply. There was some very good discussions of the impact of elasticities and some good analysis of the role of governments and trade unions. Candidates explained clearly how these factors can influence a market, for example through the establishment of a minimum wage by a government or through a trade union trying to influence or control the level of supply of workers in a market. A number of answers also brought in an analysis of a monopsony buyer and there were some good diagrams to illustrate this. Throughout the answer, there was often a clear realisation that perfect markets were essentially theoretical and that, in reality, a range of imperfections could explain particular wage rates in a market.

### Question 6

- (a) The purpose of the first part of the question was to ask candidates to give an explanation of the various factors which could determine the level of investment in an economy. There were some very good answers to this, with candidates offering a range of possible influences. These included the rate of interest, marginal efficiency of capital, changes in the level of income, the accelerator principle, the expectations of businessmen, the rate of return on investments and the level of social and political stability. It was particularly interesting to note that many candidates gave a number of recent and relevant examples from different countries to support the general points that they were making. There were some useful diagrams included, especially in relation to the marginal efficiency of capital.
- (b) This part of the question was successfully answered by the majority of candidates. Its purpose was to discuss how effective fiscal policy alone might be in reducing inflationary pressure in an economy. Many candidates began their discussion by explaining just how increases in aggregate demand could lead to inflation through an analysis of the inflationary gap. This was then followed by a clear examination of how a contractionary fiscal policy could help to reduce these inflationary pressures through a reduction in government spending and/or an increase in taxation. There was some very good evaluation of these policy measures. Candidates considered, for example, the problem of time lag, the difficulty of getting the measures just right because of the problems in calculating the size of the multiplier and the possible effects of particular tax changes, such as the disincentive effect of an increase in rates of income tax. This consideration of the potential shortcomings of fiscal policy was then followed, in many cases, by an assertion that fiscal policy should, therefore, not be used alone but should be accompanied by other possible policy measures, such as monetary policy and the possible increase of interest rates. Very good answers then concluded by a contrast of the relative advantages and disadvantages of the two approaches. This approach illustrates the importance of reading the question very carefully because some candidates paid no, or very little, attention to the two words 'how effective'? Some candidates were not very clear about the distinction between fiscal and monetary policy and wrote about changes in interest rates or in the money supply as examples of fiscal policy. Other answers gave a very lengthy discussion of inflation, both in terms of causes and consequences, but paid very little attention to the use of policies to try and reduce it.

## Question 7

- (a) The assertion was made in the question that 'economic analysis is preoccupied with efficiency'. The purpose of part (a) was to explain what economists meant by the term 'efficiency'. Answers to this part varied a great deal. There were some very good answers with a clear and detailed discussion of productive and allocative efficiency and there were some useful diagrams to show where production would be at the lowest point on the average cost curve and where price should be equal to marginal cost. The explanations were very thorough, with candidates explaining precisely why these situations were regarded as efficient. There was also some very good discussion of the concept of Pareto optimality. Weaker answers, however, demonstrated only a very vague and general understanding of the idea of efficiency and did not really distinguish between the different elements in the efficiency concept.
- (b) The purpose of the second part of the question was to ask candidates to discuss exactly how governments might use the concept of efficiency in deciding economic policy. A large number of candidates grasped that they needed to give particular examples of what they had been discussing in part (a) in relation to government policy. There was some good discussion of the problem of negative externalities and social costs and how governments might intervene in a market to try and reduce these problems – perhaps through taxation. Alternatively the consideration of efficiency was applied in terms of trying to encourage positive externalities and social benefits, such as through subsidies. Other candidates wrote about the need of governments to try and encourage the consumption of merit goods, such as education, or discourage the consumption of demerit goods, such as cigarettes. Another approach was to consider the possible inefficiencies that might arise as a result of the establishment of a monopoly and the need for governments to try and influence or control the activities of such organisations. There were many possible examples which could have been used, and the majority of candidates provided a sensible and intelligent discussion of how the concept of efficiency might influence government economic policy.

## GCE Ordinary Level

Paper 2281/01  
Multiple Choice

<i>Question Number</i>	<i>Key</i>	<i>Question Number</i>	<i>Key</i>
1	<b>C</b>	21	<b>D</b>
2	<b>C</b>	22	<b>C</b>
3	<b>C</b>	23	<b>C</b>
4	<b>B</b>	24	<b>A</b>
5	<b>C</b>	25	<b>C</b>
6	<b>D</b>	26	<b>D</b>
7	<b>D</b>	27	<b>A</b>
8	<b>B</b>	28	<b>D</b>
9	<b>D</b>	29	<b>C</b>
10	<b>B</b>	30	<b>C</b>
11	<b>D</b>	31	<b>C</b>
12	<b>D</b>	32	<b>C</b>
13	<b>D</b>	33	<b>B</b>
14	<b>B</b>	34	<b>D</b>
15	<b>B</b>	35	<b>C</b>
16	<b>A</b>	36	<b>D</b>
17	<b>A</b>	37	<b>A</b>
18	<b>B</b>	38	<b>C</b>
19	<b>A</b>	39	<b>C</b>
20	<b>C</b>	40	<b>C</b>

## General comments

There were 3416 candidates who took this paper and the mean score was 25.0, which was higher than the previous year when it was 24.3.

The easiest questions proved to be **Questions 3, 4, 6, 9, 14 and 19**, with over 80% choosing the correct key. These tested a range of topics and skills including definitions, the use of tables, and application. There was, therefore, no one area of the syllabus or one particular skill which candidates found easier than others.

The most difficult questions were **Questions 2, 15, 32, and 35**, with fewer than 40% choosing the correct answer.

In **Question 2**, 57% of the candidates chose option **D** rather than the key of **C**. They were probably misled by the example of pollution and, as a result, presumed that the answer was connected with external cost.

59% of the candidates chose option **A** for **Question 15**. The term 'real' wages is one with which many candidates find difficulty. Candidates are advised to familiarise themselves with this term because it is often used in these multiple-choice questions. 31% chose the correct key, **B**.

The most difficult was **Question 32** where only 15% of the candidates chose the correct key, **C**. 59% chose option **B**. This meant that candidates made the common error of confusing a slower growth rate with an absolute decline. This type of question causes confusion every year and these reports have drawn attention to the need to understand the distinction between yearly changes which show an increase, albeit at a declining rate, and a change which shows a decrease. Candidates should read the axis carefully.

On **Question 35** only 38% chose the correct key, **C**. 44% of the candidates chose option **A**, including some who did well on the test overall. It is presumed that they were influenced by some of the figures that were not relevant to the question. Occasionally there is information in the tables or data that is not relevant. One of the skills encouraged by the syllabus is the ability to select and use relevant data to come to a conclusion.

**Paper 2281/02**

**Structured Questions**

## General comments

There were some excellent answers to the paper, and the candidates who produced them are to be congratulated on their hard work. However, there are several points that might be helpful in enabling other candidates to achieve higher marks by using the information they know in a more effective way.

- As has been mentioned many times in these reports, candidates should be encouraged, when using diagrams, to present them clearly and accurately with correct labels. The diagrams should be of a size that can easily be seen. It is surprising how many answers present diagrams squashed up in the corner of the page and without correct labels.
- Candidates should also be given clear guidance that when a question asks for an explanation or a discussion, a simple list of points is not sufficient. The indicators must be presented in the form of sentences and paragraphs, with at least a brief comment on each point.
- To gain the highest marks in questions that ask for a discussion, candidates should present more than one side of an argument and then come to a conclusion. They should also be prepared to present their own view of the matter. Many present the case for or against, the advantages and the disadvantages, but then leave the matter without a conclusion. This is a pity and prevents the candidate achieving the highest marks. Candidates should be encouraged to realise that their view of the matter is significant and, having presented the evidence required by the question, should not be afraid to indicate what weight should be given to that evidence. They should decide whether, for example, the advantages outweigh the disadvantages, or the case for a given change mentioned in the question is greater than the case against. They should then clearly state what they conclude.

- It is also good practice to encourage candidates to leave a space at the end of each question in case they wish to add some material at a later stage. Many candidates think of extra information and then add this, almost randomly, throughout the script. This makes accurate marking more difficult. There is a danger that such presentation will not receive due credit. Candidates should also check that the pages that they present are in the correct order and that each question or section is clearly shown. It is foolish to be careless over these matters.
- Sometimes, candidates produce answers that are very sophisticated and which use concepts that are more advanced than are expected in the syllabus. It is worth stating that such answers are treated on their merits and can score the highest marks. It is recognised that it may be appropriate to teach beyond the standard of the syllabus at this level, particularly if the candidates are very able and are likely to continue their studies of economics.

### **Comments on specific questions**

#### **Question 1**

- (a) Many candidates were able to identify two or three measures of the size of an industry, such as its total turnover, the value of its assets or the number of people that were employed in it. The main problem came with candidates who misread the question and considered a firm rather than the industry. Many also claimed that if a firm exported it must be large without appreciating that many small firms export.
- (b) In this part candidates needed to discuss the relevant information available to decide whether the UK computer game industry was large or small. Many answers discussed the size of the workforce, the value of sales or the share of the European market, or made a comparison with the film and music industry and the home video market. Most candidates went on to draw a sensible conclusion from the information they had used, usually saying they thought that the industry was a large one. Weaker candidates simply repeated the information they had given in (a) and ignored the detail given in the article.
- (c) Candidates were required to explain specialisation in terms of concentration on a particular product or in a particular area and by explaining division of labour. Most candidates considered specialisation in terms of individual skills only, rather than in a region or country, and there were too many answers that simply gave a rather detailed account of division of labour without any mention of comparative advantage.
- (d) Candidates were expected to explain that there was specialisation by area or region by mentioning the number of studios within the 30-mile area. Some credit was given for identifying that the design of computer games is an example of specialisation. Only a minority of candidates identified regional specialisation, while many identified the computer industry as an example of specialisation. Those candidates who focused on division of labour in part (c) were unable to find an example of specialisation in this section.
- (e) The best answers considered specialisation and large size separately. In the latter many included excellent analysis of economies of scale. Many assumed uncritically that large size was an advantage, although the best candidates did consider diseconomies of scale. A number of candidates submitted quite sophisticated answers commenting on the effect of economies of scale on unit costs and on the benefits of specialisation and division of labour.

#### **Question 2**

- (a) In this part candidates were expected to explain how demand and supply interact to produce equilibrium in the market. The best answers were able to define demand and supply and then describe their interaction to set an equilibrium price and quantity. They also made good use of accurate diagrams and explained points of disequilibrium where demand exceeded supply (or vice versa) followed by a move towards equilibrium.
- (b) This question expected candidates to explain that the fall in income would shift the demand curve to the left, leading to a fall in the equilibrium price and in the quantity bought and sold on the market. The question also required a diagram. It has been mentioned before in these reports that candidates should present clear diagrams with correct labels. Marks are awarded for properly labelled axes and curves and, in this case, for showing a shift to the left of the demand curve. Many candidates did not show or explain the final equilibrium. (See also the general comment at the start of this report.)

- (c) Candidates needed to explain that a fall in the general price level may, if incomes remain stable, induce greater spending and less saving. If incomes have fallen, then the effect on saving may be uncertain.

Some good answers were submitted that predicted the effect of a fall in prices on savings, sometimes with relevant consideration of the elasticity of demand. However, too many candidates were unwilling to accept that the impact was unpredictable and that in some circumstances savings would increase but that in others savings would fall.

- (d) Candidates were expected to discuss a range of factors that might affect consumers' spending or saving, such as incomes, tastes, the level of interest rates, life styles, specific savings targets and long-term and short-term considerations on saving.

There were a number of good explanations that covered a range of issues, though some answers were brief and lacking in detail and without any conclusion as to which factors might be the most important.

### Question 3

- (a) Most candidates were able to identify the birth rate, the death rate and net migration as the factors that determine the size of a country's population. Some, however, forgot to mention net migration, while others wrote at great length when the question carried only three marks.

- (b) Candidates were expected to contrast the differences in relative birth and death rates in developed and developing countries and then to compare the relative proportions of young and old people in each type of economy, possibly using typical pyramid diagrams. Credit was also given to candidates who compared the occupational structures or the regional structures between the two types of country.

The answers usually showed a good understanding of the issues, though there were a number of unusual diagrams. It was also common for even the more accurate diagrams not to have correct labels on the two axes showing precisely what was being measured. Weaker candidates did not understand what was meant by "population structure".

- (c)(i) This sub-section required a discussion of the effects of an ageing population on the provision of services such as health, education, pensions and transport and the raising of tax revenues.

Most candidates were able to describe at least some of the extra resources required with an ageing population but did not always discuss these in depth.

- (ii) In this sub-section candidates needed to discuss the effects of a changed population structure on the pattern of employment. For example, there might be more employment opportunities in occupations dealing with the elderly and more employment opportunities generally for school leavers.

Very few candidates understood the term "pattern of employment" and in consequence wrote rather general and sometimes confused accounts of the effects on the labour market. There was also a widespread misconception that the larger number of retired people would increase the level of unemployment.

### Question 4

- (a) Many candidates understood the difference between fixed and variable costs but did not always mention the significance of the short and the long run. Better candidates gave clear definitions and relevant examples, while weaker answers did not always relate variable costs to changes in output.

- (b) Candidates needed to discuss how flight cancellations might have affected fixed and variable costs. For example, the variable costs of fuel, aircrew overtime and aircraft maintenance, might be reduced while the fixed costs of aircrew salaries and solving technical problems would not be reduced.

The answers to this section of the question were not always well developed, and candidates were often content to dismiss fixed costs by saying that they would not change without identifying any specific examples of such costs. Most answers identified some examples of variable costs, most commonly the cost of providing food for passengers.

- (c) This section required candidates to explain “the principle of profit maximisation” in terms of trying to get the greatest profit from sales or maximising the difference between total costs and total revenue.

Candidates often produced poor answers that merely restated the intention to obtain the greatest level of profits and with no mention of revenue or costs. There were, however, a few excellent answers that went beyond the level of knowledge required in the syllabus and explained profit maximisation in terms of producing at an output where marginal cost was equal to marginal revenue.

- (d) It was expected that answers to this section would analyse the effects of the airline’s problems on the levels of its profits, such as the fall in total revenue due to cancelled flights and poor publicity for the airline or the rise in total costs due to extra maintenance and the need to compensate passengers for the disruption involved in flight cancellations. Overall, the total profits of the airline might well have fallen.

There was a great variety of answers from those who described most of the relevant issues to those that stated that profits fell but then were not able to show the relationship between changes in revenues and costs.

### Question 5

- (a) Nearly all candidates were able to identify two possible advantages for an economy if unemployment fell. The most common advantages identified were higher incomes, lower welfare payments to the unemployed, higher tax revenues and increased output.

- (b) First, candidates needed to define inflation as a persistent increase in the general level of prices, or words to that effect. They then needed to describe the construction of a consumer price index including the use of expenditure surveys, a base year, a basket of goods, price relatives and weightings. There were some very good definitions of inflation but the construction of a consumer price index was often less well done. Some candidates spent a lot of time explaining the causes of inflation but the best answers understood all of the issues involved and obtained full marks.

- (c) This part required candidates to discuss full employment in terms of its relative importance as compared to other aims of macro-economic policy such as stable prices, a sound balance of payments and economic growth. There needed to be a reasoned conclusion to support the points made in the discussion.

Most candidates were able to discuss why a reduction in unemployment should be a major aim, but the better answers went on to consider fully whether it should be the **main** aim as compared with other possible aims. Some answers dealt only with the evils of unemployment, without reference to other aims of policy.

- (d) Candidates were required to explain how a reduction in unemployment might increase incomes and lead to pressure on production and to price rises.

There were some very good answers to this part of the question. The majority of answers recognised that there was potentially a trade-off between the level of unemployment and the rate of inflation, with a reduction in unemployment possibly increasing the level of incomes leading to an increase in aggregate demand in excess of aggregate supply. Better answers were able to explain this idea through the idea of the Phillips Curve and to explain how a tighter labour market might lead to cost inflation.

### Question 6

- (a) Most candidates were able to give a correct definition of Gross Domestic Product as the value of all goods and services produced within a country in a given period of time.

- (b) Candidates were expected to explain the effects of increased exports on the balance of payments of a developing country, such as the benefit of higher revenues from goods and services sold overseas for the current account. Assuming no increase in imports, there would be an improvement in the balance of payments, but this could lead to increased imports later.

Most candidates recognised that an increase in the level of exports was likely to have a positive effect on the balance of payments of a developing country, with the higher revenue from the increased goods and services sold abroad appearing in the current account and helping to bring about a surplus in the balance of payments, assuming there was no increase in the level of imports.

- (c) This part required candidates to explain how an increase in Gross Domestic Product might improve living standards through extra income, extra spending, more consumer products, more saving, more government revenue and more public sector services together with better health, education, housing and infrastructure.

There were some very good answers to this part. Most candidates recognised that an increase in Gross Domestic Product would be likely to improve the standard of living in a country through extra income and spending, higher savings, which would provide funds for investment and higher government revenue to finance additional, spending.

- (d) Candidates needed to discuss the relative importance of the primary, secondary and tertiary sectors with examples of each. They might also discuss the change of emphasis between sectors as a country develops. The primary sector would become less important as the secondary sector developed until this too would begin to be less important as there was increased development of the tertiary or services sector.

The more able candidates produced answers that showed a good understanding of the changes but weaker candidates were sometimes confused as to what industries contributed to GDP and also they did not describe the types of industries in developing or developed industries at all.

#### Question 7

- (a) Most candidates were able to explain correctly the meaning of a subsidy as a payment made by the government to a producer or supplier that possibly reduced the price to the consumer.
- (b) The majority of candidates were able to draw a correct supply and demand diagram showing the effect of a subsidy, shifting the supply curve down to the right and so reducing the price. Some answers did not gain full marks because they did not label the diagram correctly or they did not show the change in the equilibrium price and quantity positions.
- (c) Most candidates had a basic idea of what is meant by an external cost but some of the answers were rather general and imprecise. The external cost is the difference between the social cost and the private cost, i.e. any cost not borne by the producer or consumer causing it. The question did ask for an example and most candidates gave some kind of pollution, noise or congestion as their examples.
- (d) In this section candidates were expected to begin by explaining the links between private, external and social costs and benefits. After this they needed to discuss the relative benefits and costs of private cars and public transport. In particular, they should have explained how taxes and subsidies could reduce the negative effects and increase the positive effects of the use of the two forms of transport. The negative effects of private cars might include noise, atmospheric pollution, congestion and accidents causing death, injury and damage to vehicles. The positive aspects of public transport would include the reduction of all of the external costs arising from the use of private cars.

There were some good answers, with many candidates showing a clear understanding of the costs and benefits involved. Better answers also considered the implications of the strategies described in the question and attempted to consider the likely success of such an approach, pointing out that it is actually very difficult to persuade people to use their cars less and public transport more. The best answers came from those candidates who had a clear understanding of the theory underlying the question.

The theory and application of private, external and social costs and benefits seems to be an area of the syllabus that causes greater problems for the majority of candidates than many other syllabus topics.