Economics Practice sheets

A level

Past exam questions + Marking schemes + Examiner's report

Topics

1.	Resource allocation	2
2.	Utility income and substitution effect	10
3.	Labour markets	18
4.	Money and interest rate	26
5.	Macroeconomy and policy	30
6.	Growth and development	32
7.	National income determination	39
8.	National income accounting and measure	es
	of welfare	43
9.	Price system and the theory of firms	47
10.	Size of firms	51
11.	Objectives of firms	53

Resource allocation

February/march 2019

'Governments should use whatever methods they can to regulate monopolies because they are inefficient.' Consider whether monopolies are always inefficient and what methods might be used by governments to regulate them.

Explanation of the analysis of efficiency and an analysis of why monopoly might not achieve efficiency. Consideration of whether all monopolies necessarily cause inefficient production and what policy might be used by a government to deal with the inefficiency if it occurs.

L4 (18–25 marks): for a good analysis of productive and allocative efficiency; a comment on the possibility of benefits of monopoly through economies of scale, and a discussion of the likelihood of achieving this allocation through government policies.

L3 (14–17 marks): for a competent explanation of efficiency probably concentrating on productive efficiency and a more limited discussion of the possibility of achieving efficiency through government policies. Little mention of benefits of monopoly.

L2 (10–13 marks): for a limited account without a full analysis of efficiency and with a general comment on government policies.

L1 (1–9 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

October/November 2018

2 Discuss whether economic efficiency is always achievable in a market economy. [25]

2 Definitions and explanations of productive efficiency and allocative efficiency Price = MC. Use of perfect competition model to demonstrate market achievement of PE & AE. Discussion of circumstances in which economic efficiency is not attained e.g. imperfect competition, externalities, public goods, asymmetric information.

L4 (18–25 marks): For a thorough analysis of the two efficiencies and their application in perfect competition/monopoly, Analysis of either 2 forms of market failure in depth or more than 2 more briefly. There is a conclusion. Max 21 no conclusion.

L3 (14–17 marks): For a good analysis of one efficiency or a limited analysis of both efficiencies and a good analysis of 1 form of market failure. or A good analysis of 2 efficiencies and limited analysis of 1 form of market failure.

L2 (10–13 marks): For undeveloped explanation of both efficiencies or 1 undeveloped efficiency and 1 undeveloped market failure or 2 undeveloped market failures and limited reference to efficiency.

L1 (1–9 marks): For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory

<u>May/June 2018</u>

7 A free market economy operates to the benefit of both consumer and producer to achieve the most efficient outcome, and therefore there is no role for a government to play in controlling the market. Consider the extent to which this statement is correct. [25]

7 An explanation of productive and allocative efficiency. A discussion of the free market economy and its limitations. The role and limitations of government in controlling the market.

L4 (18–25 marks) For a discussion of both efficiencies which considers the effects of competition in achieving them. Two or more alternative forms of market failure and the application of government policies to reduce them. Maximum 21, if no conclusions.

L3 (14–17 marks) For a discussion of efficiency with a single form of market failure. A brief reference to the need for government.

L2 (10–13 marks) For an accurate though undeveloped explanation of efficiencies, market failure and/or government intervention.

L1 (1–9 marks) For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory.

February/ March 2018

3 (a) Explain what is meant by equity, allocative efficiency and Pareto

optimality. Consider whether they are linked. [12]

(b) Discuss whether a better use of resources is always achieved if there is a market structure in which firms remain small. [13]

3 (a) Equity – fairness; efficiency – making best use of available resources; Pareto – cannot make someone better off without making someone else worse off. Allocative efficiency and Pareto are linked. There is no link to equity – Pareto optimality does not necessarily imply equity.

L4 (9–12) for a clear explanation of all three terms and a conclusion about the links

L3 (7–8) for an explanation of two of the terms and a conclusion about one of the links

L2 (5–6) for a poor explanation of the terms or a clear explanation of only one of the terms with weak comment on the links.

L1 (1–4) for an answer that has some basic correct facts but includes irrelevancies and errors of theory

3(b) Discussion of the merits of small firms, which type of market makes them successful and a discussion of the merits of larger companies – economies of scale – with a conclusion about the relative strengths and weaknesses of both small and large firms. L4 (9–13) for a discussion of both types with positive and negative aspects; up to 10 with no conclusion

L3 (7–8) for a weaker discussion that concentrates on the merits of either large or small firms with little positive comment on the other type;

L2 (5–6) for a very undeveloped answer that briefly considers either the merits or disadvantages of one type of firm without a conclusion L1 (1–4) for an answer that has some basic correct facts but includes irrelevancies and errors of theory

Examiner's report

(a) Many candidates answered this question and were able to explain what was meant by allocative efficiency and Pareto optimality without any problems. The idea of equity did present a challenge to some who confused equity with equality. Equity is based on the idea of fairness, not necessarily equality. The discussion on the link between the three terms was often briefly explained and some confused the relation between Pareto optimality and equity. Pareto optimality does not necessarily have any link to equity. A competitive equilibrium, for example, is not necessarily equitable.

(b) Most candidates who answered this question presented a clear discussion. The weaknesses were that the discussion was sometimes not very well developed. It was hoped that candidates would discuss the merits of small firms, indicating which type of market makes them successful, and also discuss the merits of larger companies – for example, because of economies of scale – with a conclusion about the relative strengths and weaknesses of both small and large firms. The conclusion was often omitted and the reader was left to decide what the conclusion might be.

October/ November 2017

2 (a) A country moved from a point within its production possibility curve to a point on its production possibility curve. Explain what is meant by economic efficiency. Analyse what happened to economic efficiency in that country as a result of this movement. [12]

(b) Discuss whether government intervention in the economy is a necessary and sufficient condition for overcoming inefficiency in resource allocation. [13]

2(a) Explanation of meaning of economic efficiency and explanation of the analysis which ensures an efficient optimum may be reached. Productive efficiency will increase but it is not possible to tell whether this movement to the curve achieves allocative efficiency.

L4 for a thorough explanation dealing with productive and allocative efficiency and a comment on both efficiencies in relation to the PPC. 9–12

L3 for a competent but less developed explanation of both the terms or a developed explanation of one of the terms with accurate but limited discussion about the movement. 7–8

L2 for a correct but brief explanation with some attempt at analysis possibly with only one type of efficiency correctly elaborated. 5–6 L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory 1–4

2(b) Individual actions are not always best for society as a whole. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency. This could be by persuasion (nudge theory) rather than by enforcement. Nudge theory, originally an ethical idea not a government manipulative tool, involves designing choices to encourage decision making in wider positive interests of society. But it can be used in government context. Government intervention may thus be necessary, but it need not be sufficient to overcome inefficiency as there may be inefficiency in government through lack of information.

L4 for an accurate discussion of market failure, with examples and a conclusion about the need for government intervention and whether such intervention is necessary and sufficient. 9– 13

L3 for a more limited discussion of the reasons for market failure and the need for government but without a comment on whether such intervention is sufficient to overcome market failure 7–8

L2 for a brief analysis of market failure with few examples and no conclusion about necessity or sufficiency 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory

February/ March 2017

7 A society that says it cares about efficiency needs to abandon the notion of a market system to allocate resources. Markets only serve self-interest, they are never efficient. Discuss whether this opinion is supported by economic analysis. [25]

7 Explanation of meaning of efficient allocation and explanation of the analysis which ensures an efficient optimum may be reached. Distinction between productive and allocative efficiency. Discussion of reasons for market failure and necessity/desirability of government intervention to achieve efficiency. This could be by persuasion (nudge theory) rather than by enforcement. Nudge theory, originally an ethical idea not a government manipulative tool, involves designing choices to encourage decision making in wider positive interests of society. But it can be used in government context. Conclusion about efficacy of relying on market system.

L4 For a thorough explanation and a reasoned discussion dealing with both aspects of efficiency and possible reasons for government intervention. A conclusion should be drawn. 18–25

L3 For a competent explanation of the terms with accurate but limited discussion. Maximum 15 without a conclusion. 14–17

L2 For a correct but undeveloped explanation with some attempt at analysis but only brief discussion with no conclusion. 10–13

L1 For an answer that shows some knowledge but does not indicate that the

question has been fully grasped or where the answer is mostly irrelevant. 1–9

Examiner's report

This question was answered by many candidates, with clear explanations and with a good structure to their answers. It required an explanation of the meaning of an efficient allocation and an explanation of the analysis which ensures an efficient optimum may be reached. Candidates were expected to distinguish between productive and allocative efficiency. Further, they were expected to write an answer that included a discussion of the reasons for market failure and necessity/desirability of government intervention to achieve efficiency. As well as by direct intervention or fiscal and monetary policy, this could be by persuasion (nudge theory) rather than by enforcement. Nudge theory, originally an ethical idea not a government manipulative tool, involves designing choices to encourage decision making in the wider positive interests of society. But it can be used in a government context. The question required a conclusion to the comments made by candidates. Sadly, this was often lacking.

<u>May/June 2017</u>

7 The driving force of some governments is to bring the benefits of competition to formerly monopolised markets. (a) Explain the benefits that might occur in a more competitive market compared with a monopolised market. [12] (b) Discuss why competitive markets in the private sector are not always the most efficient means of deciding how to employ a country's resources. [13]

7(a) Potential benefits of a competitive market: lower prices, greater output,

greater allocative and productive efficiency, higher welfare, lower barriers to entry, reduced risk of price discrimination and predatory pricing, more internationally competitive. Potential limitations of monopolised markets: deadweight loss, inefficiencies Reward candidates who recognise the potential benefits of monopoly.

Level 4 (9–12 marks): for a sound explanation with good illustrations and a clear understanding of key features of market structures.

Level 3 (7–8 marks): for a competent comment but with limited elaboration or comment on all the elements.

Level 2 (5–6 marks): for a correct but undeveloped comment on two of the elements.

Level 1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

7(b) Explain the meaning of efficiency and consider forms of market failure with examples, merit / demerit goods, public goods, information failure, natural monopoly (but not monopoly).

Level 4 (9–13 marks): for a thorough explanation and a reasoned discussion dealing with productive and allocative efficiency and 3 possible reasons for market failure, together with a judgement.

Level 3 (7–8 marks): for a competent explanation and a reasoned discussion dealing with both aspects of efficiency and possible 2 reasons for market failure. Level 2 (5–6 marks): for a correct but undeveloped explanation with some attempt at analysis but only brief discussion.

Level 1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory

October/ November 2016

2 It has been said that the aim in the allocation of resources should be to achieve the greatest happiness for the greatest number of people.

Discuss whether economics has anything to say about the best way to maximise welfare from the use of resources. [25]

2 The answer should consider the initial proposition and comment on its validity. Economic theory uses the concept of efficiency to achieve maximum welfare. Candidates should then identify and describe the necessary conditions for efficient resource allocation and consider how/whether it can be achieved. [25]

L4 For a reasoned and clear discussion with accurate development of theory and good links to the statement together with a reasoned conclusion. [18–25] (max 20 no conclusion)

L3 For a competent comment together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive. There should still be a conclusion. [14–17] (max 16 no conclusion)

L2 For a brief explanation but weak or illexplained links to the statement. The explanation will be undeveloped with some attempt at analysis. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. [1– 9]

Examiner's report

Candidates were able to write fluently and at length on the definitions of efficiency and often correctly linked the definitions to the degrees of market competition and the concept of market failure. Explanations of further forms of market failure, such as externalities, public goods, imperfect knowledge, were forthcoming. On occasion public goods were confused with merit goods. However candidates often failed to link the failures directly to the determination of welfare. It was the ability to do so which distinguished the very best responses from the good responses

May/June 2016

2 'Government economic policy is based on the idea that people cannot be trusted to choose what is good for them but instead sometimes choose things that are harmful to themselves or detrimental to the environment (or both). Therefore a free market cannot allocate resources efficiently.'

Do you support this argument? [25]

2 The answer should consider the initial proposition and comment on its validity. It should then identify and describe the

necessary conditions for efficient resource allocation and consider whether it can be achieved by the market alone. [25]

L4 (18–25) For a reasoned and clear discussion with accurate development of theory and good explicit links to the statement together with reasoned evaluative comments and conclusions. Max 20 if no conclusion.

L3 (14–17) For a competent comment together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive.

L2 (10–13) For a brief explanation but weak or ill-explained links to the statement. The explanation will be undeveloped with some limited analysis.

L1 (1–9) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

Examiner's report

The question had four elements to the answer: allocative efficiency, failures of the market, government policies to combat the failures, and the ability of the free market to allocate resources efficiently. The best responses recognised these different elements and made an attempt to address all of them. They covered in some depth a range of inefficiencies and possible government responses together with a conclusion which referred to the question set. To varying degrees other candidates reduced the number of aspects they dealt with. Many wrote extensively on productive efficiency which was not necessary, government policies were touched on briefly and their limitations ignored.

February/March 2016

2 'The best way to increase economic welfare is to encourage competition in a market system.'

Consider whether you agree with this view. [25]

The answer should consider the initial proposition and comment on its validity. Economic theory uses the concept of efficiency to achieve maximum welfare. Candidates should then identify and describe the necessary conditions for an increase in economic welfare and consider how/whether it can be achieved.

L4 For a reasoned and clear discussion with accurate development of theory and good links to the statement together with a reasoned conclusion. [18–25]

L3 For a competent comment together with limited elaboration of the analysis or imprecise links to the statement. There will be some discussion but the evaluation will not be fully developed or extensive. Reserve higher marks in this band for answers with a conclusion. [14–17]

L2 For a brief explanation but weak or illexplained links to the statement. The explanation will be undeveloped with some attempt at analysis but only limited evaluation. [10–13] L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

Utility income and substitution effect

February/March 2019

(a) Explain why indifference curves are usually drawn convex to the origin, are downward sloping and do not cross each other. [12]

(b) Consider, for an inferior good, the relationship between indifference curves, budget lines, price changes and demand curves. [13]

3 (a)Explanation of diminishing marginal utility, and how more of a good is preferred to less of a good so the curves cannot cross; they have an 'indifferent' response along them representing a constant level of utility.

L4 (9–12 marks): for a clear analysis of ICs and all three parts of the question.

L3 (7–8 marks): for a less competent explanation of at least two of the parts of the question or a weaker explanation of all three parts.

L2 (5–6 marks): for a competent explanation of one part or a weak explanation of two elements of the question.

L1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory. 3(b) Theory states that consumers maximise satisfaction and determine demand by relating utility to price; this is shown by indifference curves and budget lines. Income changes shift budget lines parallel, price change of one good cause budget line to pivot. Equilibrium is changed – the extent and direction depending on the type of good. Explanation of income and substitution effects for an inferior good.

L4 (9–13 marks): for a clear explanation of the links and correct analysis of income and substitution effects of price change.

L3 (7–8 marks): for a briefer explanation; no clear link to the demand curve, or link to demand but some confusion over income and substitution.

L2 (5–6 marks): for a poor explanation of the terms or a weak comment on the links.

L1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

May/June 2018

2 (a) Explain, with the aid of a diagram, diminishing marginal utility and its link to indifference curves. [12]

(b) Discuss, using indifference curve analysis, how the impact of an increase in indirect taxation on the quantity demanded of a good depends on whether it is a normal or inferior good. [13]

2(a) The marginal rate of substitution between two goods is the 'linking' concept. Explanation of utility theory and indifference curves. Because of diminishing marginal utility, the MRS is not constant and this explains the shape of the indifference curve.

L4 (9–12 marks) For a reasoned and clear explanation of the concepts together with diagrams to illustrate them. Explicit reference to the linkage required.

L3 (7–8 marks) For a competent comment but with a limited elaboration of the two concepts, or a reasoned and clear explanation of one concept and limited mention of the other.

L2 (5–6 marks) For a superficial explanation concentrating on general concepts with only limited relevant reference to the question.

L1 (1–4 marks) For an answer which has a few basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

2(b) Indirect tax increases the relative price of a good and there will be both income and substitution effects. These must be shown using indifference curves. Discussion of relative size of income and substitution effects for normal and inferior goods.

L4 (9–13 marks) For a thorough explanation of the impact of the indirect tax on both types of good together with relevant diagrams. A discussion on the substitution and income effects of the tax increase. Maximum 11 if no conclusion.

L3 (7–8 marks) For a competent explanation which does not fully analyse both types of goods. Full analysis of one type and limited analysis of the other. L2 (5–6 marks) For an accurate though undeveloped comment concentrating on only one type of good.

L1 (1–4 marks) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

February/March 2018

2 The UK Government has established a behavioural insight team known as the 'nudge unit,' which attempts to change consumer behaviour by persuasion. Explain how indifference curve theory predicts a consumer will react to changes in income and changes in the price of a product in order to maximise satisfaction. Consider whether the use of 'nudge' theory (persuasion) conflicts with this theory of maximising satisfaction. [25]

Theory states that consumers maximise satisfaction by relating utility to price; this is shown by indifference curves and budget lines. Income changes shift budget lines parallel; price change of one good causes a budget line to pivot. Equilibrium is changed – the extent and direction depending on the type of good. Nudge theory seeks to persuade. It could be represented by a change in perceptions or taste shown by the shape of the indifference curve. It does not invalidate the notion of equilibrium and maximising satisfaction according to the new shape of the curve.

L4 (18–25) for a clear analysis of ICs and an explanation of income and price changes, a link between nudge theory and with a concluding paragraph. L3 (14–17) for a clear analysis of either price or income changes or a weaker analysis of both but still with an attempt to consider the link to nudge theory, although not so conclusively.

L2 (10–13) for a less developed analysis of the IC theory and a poor attempt at discussing the persuasive effect of nudge theory on the shape of the curve.

L1 (1–9) for an answer that has some basic correct facts but includes irrelevancies and errors of theory

Examiner's report

The theory states that consumers maximise satisfaction by relating utility to price; this is shown by indifference curves and budget lines. Income changes shift budget lines parallel to the original line; a price change of one good causes the budget line to pivot. Equilibrium is changed - the extent and direction of that change depends on the type of good. It was usual that candidates explained the theory and presented the information with the help of diagrams. There were still some candidates who made the diagrammatic presentation very difficult to follow by making the diagram too small. Others confused the direction of the change of the income and substitution effects.

Nudge theory seeks to persuade consumers rather than dictate by means of legislation or regulation. Most candidates presented a good explanation of nudge theory. This could be represented by a change in perceptions or taste shown by a change in the shape of the indifference curve. It could be argued that this would not invalidate the notion of equilibrium and maximising satisfaction according to the new shape of the curve. The better answers presented a clear argument about the link of nudge theory to consumer satisfaction.

October/November 2017

3 (a) Analyse how indifference curve theory explains why a consumer will normally buy more of a good at a lower price than at a higher price. [12]

(b) Discuss why there might be exceptions to this normal response, distinguishing the income effect from the substitution effect. Consider the relevance of these exceptions to firms and the government. [13]

3(a) Explanation of indifference curves, equilibrium point, b) link between indifference curves and demand curve c) discussion of how reduced price can affect equilibrium/demand for a normal product, shift of budget line.

L4 for a reasoned answer with a conclusion illustrating all the points, shape of curve, equilibrium, construction of demand curve, change in price, change in demand, 9–12

L3 for a competent answer that deals with part of the analysis, probably only briefly linking equilibrium to demand. 7–8

L2 for a less developed answer referring to indifference curves and budget lines. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory 1–4

3(b) Discussion of inferior, (negative income does not outweigh positive substitution for price fall) Giffen goods, (negative income outweighs positive substitution for price fall). Effect on likely revenue to the firm, on tax revenues to government, relevance of price, income elasticity.

L4 for a sound explanation and discussion with good illustrations and a clear understanding of the principles involved with accurate links and a reasoned evaluation referring to firms and government.. 9–13

L3 for a competent explanation of the terms with accurate but limited discussion with some analysis of the links. 7–8

L2 for a correct but undeveloped explanation with some attempt at analysis but only brief discussion. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory

February/March 2017

2 (a) Explain what is meant in economic theory by consumer equilibrium. [12]

(b) Discuss the conditions that would cause the demand for a good to

 (i) increase and (ii) fall as a result of a fall in the price of the good. Use indifference curve analysis to support your answer.
[13]

2(a) Explanation of utility, assumption of given tastes, income, condition of equilibrium for one product, and for a

number of products with different prices. Alternatively the equilibrium can be explained with indifference curves.

L4 For a clear explanation, logically presented dealing with each point. 9–12

L3 For a fair but undeveloped explanation either dealing with a single product or dealing with a number of products but not explaining the equation properly. With indifference curves the reasons for the slopes of the curves will probably not be given. 7–8

L2 For a briefer explanation, probably not fully explaining the equilibrium in relation to price, or not explaining more than one product. Or with indifference curves just baldly mentioning the tangent without an explanation. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory

2(b) Giffen goods would result in a different outcome when prices change from the outcome of a normal good. Indifference theory can show more precisely why the difference occurs using income and substitution effects. Normal good, substitution increases demand, income increases demand, overall increase. Giffen good, substitution increases, income decreases to a greater extent, overall decrease in demand.

L4 For a reasoned and clear discussion, logically presented dealing with income, substitution, normal, Giffen. 9–13

L3 For a fair but undeveloped discussion probably with correct normal good but errors on Giffen good. 7–8 L2 For a briefer discussion with minor errors either in income/substitution or in Giffen good. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

Examiner's report

(a) The question required an explanation of utility that is based on the assumption of given tastes, prices and income. Candidates were expected to explain the condition of equilibrium for one product, and for a number of products with different prices. Alternatively the equilibrium could have been explained with indifference curves. This part of the question was relatively well done and a clear analysis of consumer equilibrium was given.

(b) This part of the question appeared to present more challenges than part (a). The question required an analysis of the change that might occur for a normal good and for a Giffen good. Indifference theory can show more precisely why the outcome is not the same by using income and substitution effects. With a normal good a price fall would cause the substitution effect to increase demand and the income effect would further increase the demand. There would be an overall increase. For there to be an overall decrease in demand as a result of a price fall, as asked in the question, the good must be a Giffen good. The price fall would cause the substitution effect to increase demand but the income effect would decrease demand to a greater extent resulting in an overall decrease in demand. Candidates were often able to explain the normal good, but did not give accurate accounts of the Giffen good

<u>May/June 2017</u>

2 Choice is an essential part of economics. Sometimes consumers change their choices either when shops have special offers on previously very expensive luxury products, or when advertising persuades them to change their preferences. Analyse how the economic theory of indifference curves can be used to construct a consumer's demand curve. Discuss whether this theory can explain the above changes in choice. [25]

(i) Explanation of indifference curves, equilibrium point,

(ii) link between indifference curves and demand curve,

(iii) discussion of how reduced price can affect equilibrium/demand for a luxury product, shift of budget line, income substitution effects,

(iv) advertising, change in tastes would change the shape of the indifference curve.

Level 4 (18–25 marks): for an answer illustrating all the 4 elements of the question, equilibrium, construction of a demand curve, change in demand, and change in shape of indifference curve and a conclusion. No conclusion max. 22, 18–19 marks if 3 elements well done with a conclusion.

Level 3 (14–17 marks): for a less developed answer that deals with 3 points. Level 2 (10–13 marks): for a limited answer that deals with only 2 points.

Level 1 (1–9 marks): for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.

October/November 2016

3 (a) A number of consumers are deciding whether to buy a product. How far does economic theory explain the determination of the market demand curve for that product? [12]

(b) Discuss whether that theory is still valid if the producer decides to advertise the product, and consider the effects of the advertising on the demand curve for the product. [13]

(a) Explanation of DMU and its link to equilibrium price and through changes in price to the demand curve for the individual. Accept Indifference Curve analysis. Market demand is derived from summation of individual demand curves. [12]

L4 For a sound explanation of the analysis and a clear understanding of the link to individual and then market demand. Need to provide some evaluative comment for L4. [9–12] (max10 no ref to Market Demand)

L3 For a competent comment but with limited development of the analysis, maybe with weak link to the market demand, or weak link between utility and demand. [7–8] L2 For a brief explanation of utility but no link between DMU, changes in price and hence the demand curve. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

(b) Advertising would alter the demand curve in two possible ways. It could cause an increase in the quantity demanded, represented by a shift of the curve outwards to the right. Also, it might make the demand for the product more inelastic. This would change the shape of the demand curve. The theory of diminishing utility is still valid. [13]

L4 For a sound discussion with good explanation of the analysis and a clear understanding of how advertising can both change the shape of the demand curve and also the shift of the demand curve, with a conclusion. [9–13] (max 11 no conclusion)

L3 For a competent comment but with limited development of the analysis of both or deals with only one. [7–8]

L2 For a brief explanation and with a weak explanatory link between advertising and the demand curve. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

Examiner's report

Candidates divided between those who approached the question from the utility perspective or the indifference curve approach. The former were able to distinguish between total and marginal utility and to explain the equi-marainal equilibrium. However, many of these candidates failed to consider a change in the price of one of the products and how this would impact on the level of demand for that product. Those who chose the indifference curve approach were also able to reach the point of equilibrium between an indifference curve and the budget line. However, only a minority progressed to explaining the effect of a change in price on the budget line and the effect this would have on the point of tangency. There needed to be an explanation either of the effect of the changing ratio of marginal utility to price, or of the changing slope of the budget line in indifference curve analysis with changes in price, to show the effect of price changes on the demand for a good. Even those whose analysis went this far usually did not consider the market demand aspect of the question.

(b) The better answers identified both the rightwards movement of the demand curve and the change in price elasticity of the good or service. They also identified that advertising is able change a consumer's marginal utility in line with the theory of diminishing utility. Very few discussed whether the theory continued to be valid. Weaker answers identified only the increase in demand for the product and some wrote unnecessarily of the problems of advertising

<u>May/June 2016</u>

3 With the help of diagrams, use indifference analysis to:

(a) explain what is meant in economic theory by consumer equilibrium and how

it is related to a consumer's demand curve. [12]

(b) discuss how this equilibrium might be affected by a government fiscal policy that raises taxes on goods. [13]

3 (a) Explanation of consumer equilibrium, using indifference curves and budget lines, as point of maximum satisfaction with given income and given prices. Derivation of a point on the demand curve from the equilibrium point. The rest of the demand curve is only obtained by a change in the equilibrium. [12]

L4 (9–12) For a sound explanation of both budget lines and indifference curves and a clear link to the demand curve with accurate clear diagrams and a clear understanding of the principles involved.

L3 (7–8) For an accurate reference to the question but with a more limited explanation, includes a link to the demand curve, or with minor errors in the analysis or in the diagrams.

L2 (5–6) For a explanation of the equilibrium position but with no link to the demand curve; or with inaccurate diagrams and weak explanation.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

(b) Taxes on goods would be likely to raise the price. A price rise of one or more goods is reflected in a change in the budget line (pivot from point on axis of good with no price change) with a subsequent change in equilibrium. The equilibrium change involves substitution and income effects. Substitution effect would be in the opposite direction to the price change. The income effect represented by a parallel shift of the budget line is in the same direction as the substitution effect for the normal good but in the opposite direction as the substitution effect for the inferior good. Candidates may analyse the effect of tax changes on the price of two goods. [13]

L4 (9–13) For a reasoned and clear discussion, logically presented dealing with income, substitution effects, normal, inferior goods.

L3 (7–8) For a fair but undeveloped discussion probably concentrating on income, substitution effects without mentioning different types of goods or vv with either a brief comment about the individual demand curve or no discussion about the market demand curve.

L2 (5–6) For a limited discussion with a lack of development of both income/substitution and normal/inferior goods.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

Examiner's report

(a) The candidates who read the stem of the question and recognised the need to use indifference curve analysis had the right approach to the answer. The better responses included an analysis which extended to show not only the point of equilibrium of an indifference curve and the budget line but also the effect on demand if the price of one of the goods changed and identified the substitution and income effects.

(b) Candidates who read the question fully and wrote about the effect of an increase in indirect taxation on the demand for a good or goods, and went on to discuss the substitution effect, the income effect and how they might affect the overall impact on demand for the good were rewarded.

Unfortunately, some candidates only used marginal utility analysis rather than the indifference curve

Labour markets -Wage determination, trade union, minimum wage and wage differentials

February/March 2019

5 (a) According to economic theory, what is the significance for a firm in a perfectly competitive labour market of a worker's marginal product and average product? [12]

(b) Discuss the economic conditions that might make it possible for a trade union to increase the wages of its members without reducing the number of workers employed. [13]

5(a) Candidates need to explain the MRP theory and the equilibrium position of the firm comparing MRP with supply. Question specifies marginal product so the answer should not just mention demand with no reference to MRP. MRP and supply determine wage; AP is used to construct the ARP which is significant in determining level of profit for the firm.

L4 (9–12 marks): for a clear analysis of the MRP theory; an explanation of the equilibrium position and a comment on relevance of ARP for profit. L3 (7–8 marks): for a weaker but correct analysis of the theory probably with a poor attempt to deal with the ARP and profit levels. L2 (5–6 marks): for a limited attempt at both the MRP and ARP/profit element of the answer.

L1 (1–4 marks): For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

12

5(b) Not possible for a trade union to increase wages in perfect competition. Discussion of imperfectly competitive market; of monopsony (can increase wage up to point where MC=MR); or possible increase in productivity; or when labour is a small element of cost; or when there is an increase in demand for the product; or when there is an increase in price (and thus MR) of product.

L4 (9–13 marks): for recognition of the difference between perfect and imperfect competition and a clear analysis of the imperfectly competitive case recognising different possible outcomes.

L3 (7–8 marks): for a competent analysis, without a clear distinction between the two types of market structure and without recognising the different possible outcomes in imperfect competition.

L2 (5–6 marks): for an answer that concentrates on one of the market structures or considers both structures but with poor analysis.

L1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

October/November 2018

4 Consider whether wages are only determined by the market forces of supply and demand. [25]

4 The use of supply and demand to explain the determination of wages. The demand for labour explained through the marginal revenue productivity theory. Consideration of elasticities of supply and demand on wage level. A discussion of the impact of minimum wage levels, government, the intervention of a Trade Union, and monopsonistic employers.

L4 (18–25 marks): For an analysis of the determination of wages showing differing level of supply and demand and a consideration of the impact of elasticity on wages. 2 examples non-market forces are analysed, such as government and trades union. An analysis of MRP. A conclusion is required. Max 21 no conclusion

L3 (14–17 marks): For an analysis of the determination of wages showing differing level of supply and demand and a consideration of the impact of elasticity on wages, with 1 example of analysis of non-market forces

L2 (10–13 marks): For an explanation based on only supply and demand, lacks consideration of non-market forces.

L1 (1–9 marks): For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

<u>May/June 2018</u>

4 (a) Explain how a firm derives its demand curve for labour and consider how the structure of the product market in which the firm operates affects the firm's demand curve for labour. [12]

(b) Discuss whether it is possible for a trade union to negotiate higher wages and more employment. [13]

4(a) The demand for labour is derived from MRP (MPP X MR). The MRP includes the MR of selling the product so it is important to consider whether the firm is a price-taker (and hence facing a constant MR) or has a downward sloping MR curve.

L4 (9–12 marks) For an explanation of the derivation of the demand curve for labour and a comment on the effect of the difference of MR in 2 different types of product market.

L3 (7–8 marks) For an explanation of the derivation of the demand curve for labour and its link to one type of product market.

L2 (5–6 marks) For an explanation of the derivation of the demand curve for labour.

L1 (1–4 marks) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

12

4(b) Discussion of whether TU negotiations lead to

(i) rising unemployment (ii) the circumstances in bilateral monopoly where a TU with sufficient power can negotiate both higher wages and higher employment or (iii) closed shop. L4 (9–13 marks) For a thorough discussion of both situations. Maximum 11 no conclusion.

L3 (7–8 marks) For a competent explanation a full analysis of one situation or a partial analysis of two sides.

L2 (5–6 marks) For an accurate though undeveloped explanation concentrating on only one side.

L1 (1–4 marks) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

13

February/March 2018

4 In 2016, a country's largest yacht builder said it would have to make 350 people redundant. The company, which builds luxury yachts, said demand had decreased in the recession.

(a) Explain, with the help of a diagram, how this situation could be incorporated into the marginal revenue productivity theory of wage and employment determination. [12]

4(a) Candidates need to explain MRP theory and the equilibrium position of the firm. It is a large company so it can be presumed that the market is imperfectly competitive. Demand decreases are reflected in shifts of AR and MR in the product market, which in turn affects the MRP in the factor market.

12

L4 (9–12) for a clear analysis of MRP theory; an explanation of the equilibrium and a comment on how that will change if the MRP curve shifts

L3 (7–8) for a weaker but correct analysis of the theory and a poor attempt to explain how the MRP curve might shift to create a new equilibrium

L2 (5–6) for a limited attempt at MRP theory maybe not recognising the imperfect market and no attempt to consider the shift of the curve

L1 (1–4) for an answer that has some basic correct facts but includes irrelevancies and errors of theory

Examiner's report

Candidates needed to explain the marginal revenue productivity theory and the equilibrium position of the firm. The information stated that the company was large so it could be presumed that the market was imperfectly competitive. Candidates were able to give a good presentation, according to the theory, of the initial equilibrium position. A common error was to say that the marginal revenue productivity was calculated by multiplying the marginal physical product by the average revenue, rather than by the marginal revenue. The former is only the case, by default, in perfect competition because the two revenue curves are the same.

The challenging part of the question involved an understanding of the link

between what happens in the product market when demand decreases and the equilibrium in the factor market. In imperfect competition if demand decreases, the demand (average revenue) curve shifts. This would also cause a shift in the marginal revenue curve. This, in turn, would result in a different marginal revenue product curve in the factor market. The analysis of these links was often not well presented

October/November 2017

5 The merit of the economic theory of wage determination is that it clearly shows what the best level of wage rates should be and thus is evidence that there is no need for either the government or trades unions to fix wages. Discuss this assertion. [25]

Analysis of wage determination and employment levels. Consideration of perfect and imperfect markets. Discussion of meaning of 'best level' – for whom? (worker, employer) with relation to what? (Employment levels, wages, productivity, efficiency of firm, safety issues?) For whom?

L4 for a thorough critique of the statement and an explanation of the analysis of wage determination with a clear comparison of perfect and imperfect markets. A sound discussion about meaning of 'best'. Max 21 no conclusion. 18–25

L3 for a weaker critique of the statement but a competent explanation of imperfect market wage determination and a consideration of the meaning of 'best'. Max L3 if no MRP. 14–17 L2 for a correct but undeveloped analysis with only a brief comment and recognition of the range of relevant issues to consider. 10–13

L1 for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant 1–9

February/March 2017

4 A politician remarked that the absence of trades unions would necessarily lead to an improvement in all labour markets. To what extent does economic analysis support this remark? [25]

5

4 Analysis of wage determination and employment levels. Consideration of perfect and imperfect markets. Discussion of meaning of 'improvement'. In what? (Employment levels, wages, productivity, efficiency of firm, safety issues?) For whom? (worker, employer, general public – no strikes)

L4 For a thorough critique of the statement and an explanation of the analysis of wage determination with a clear comparison of perfect and imperfect markets. There should be a conclusion and a well-structured answer. 18–25 (14–17 D&S)

L3 For a weaker critique of the statement but a competent explanation of imperfect market wage determination. Max 15 no conclusion. 14–17 (10–13 D&S)

L2 For a correct but undeveloped analysis with only a brief comment and recognition of the range of relevant issues to consider. No real conclusion. 10–13 (6–9 D&S)

L1 For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant. 1–9 (1–5 D&S)

Examiner's report

This question required an analysis of wage determination and employment levels. Candidates should have considered both perfect and imperfect labour markets. Part of the answer should have discussed the meaning of 'improvement'. There is an implicit judgment being made in the statement - what form would the improvement take, and for whom? Employment levels, wages, productivity, efficiency of firms and worker health and safety are all possible areas for improvement in labour markets. Workers, employers, the general public and the government are all possible agents who could benefit from changes in labour markets, depending what these changes are. Candidates certainly understood the analysis - although there were familiar errors in the diagrams drawn. However they were less expansive in discussing whether there might be an improvement in the labour market.

<u>May/June 2017</u>

4 (b) In 2016 the Trade Unions called a strike of bus and train drivers after a demand for higher wages was rejected. Use the economic theory of wages to discuss whether a demand for higher wages is likely to be successful. [13]

4(b) Analysis of the theory of wages distinguishing between perfect and

imperfect markets and recognising that the success of a higher wage claim will depend on where the original wage level was and how much extra the claim was for. There is a bigger scope for wage claim success in imperfect competition.

Level 4 (9–13 marks): for an analysis of wage determination including a clear analysis of MRP and a clear comparison of perfect and imperfect markets recognising the comparison of the initial and the final wage level. There should be a conclusion. (Without MRP cannot reach L4)

Level 3 (7–8 marks): for a weaker analysis and critique of the possibility of wage increases but a competent explanation of imperfect market wage determination.

Level 2 (5–6 marks): for a correct but undeveloped analysis with only a brief discussion.

Level 1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

13

October/November 2016

6 (a) Some occupations that do not have pleasant working conditions, such as rubbish collection, receive low pay, while those with pleasant conditions, such as senior managers, receive high pay.

How far does economic analysis explain this situation? [12]

(b) Discuss what influence a trades union and a government can have in determining wage rates. [13] 6 (a) Explanation of the theory of wages which deals with both supply and demand factors. Given a similar demand, (mrp), the wage level would change if mrp changes (increase in productivity) supply (and elasticities) were different in different occupations, similarly the wage level would be different with different demand (and elasticity) schedules trade unions [12]

L4 For a sound explanation of the analysis and a clear understanding of the principles involved in perfect markets. [9– 12] (D/S only, no mrp, 7–8)

L3 For a competent comment in a perfect market but with a limited development of the analysis. [7–8] (D/S only, no mrp, 5–6)

L2 For a correct explanation of a limited part of the analysis – perhaps concentrating on supply. [5–6] (D/S only, no mrp, 3–4)

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4] (D/S only 1–2)

(b) Analysis of wage theory in imperfectly competitive labour market. Trade unions and government may influence wage rates. The fixing of a higher wage may lead to unemployment depending on its level compared with the original wage and the extent of 'exploitation' in the fixing of the original wage. [13]

L4 For a sound explanation of the analysis and a clear understanding of the principles involved in imperfect markets. with a conclusion. [9–13] (D/S only, no mrp, 7-8) (max 11 no conclusion)

L3 For a competent comment of an imperfect market but with a limited development of the analysis or a recognition of only one possibility. [7–8] (D/S only, no mrp, 5–6)

L2 For a correct explanation of a limited part of the analysis. [5–6] (D/S only, no mrp, 3–4)

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4] (D/S only 1–2)

Examiner's report

(a) A strong response required the combination of a number of aspects. A discussion of the role of the marginal revenue product (MRP) in determining demand, the factors which affect the supply of labour and the elasticities of the demand and supply of labour were all required to produce a well explained response. Some comment on whether this fully explains the differences in pay was also required. Many did not consider the relevance of MRP at all and thus could only access the lower bands of marks available.

(b) Candidates could consider the impact of a range of alternative forms of intervention both by a trades union and a government, and the effect that may have on wage rates. Trades unions influence the wage rate directly and the supply of labour is reflected through the MRP which many candidates did not comment upon. The role of a trades union when faced by a single buyer of labour or monopsonist was often analysed and explained well, which helped to boost marks.

May/June 2016

4 (a) 'In perfect competition in the short run, wage rates in some occupations will be higher than in others.'

Explain the economic analysis underlying this. [12]

(b) Do you agree that in an imperfect labour market any activity by trades unions designed to increase wage rates would inevitably lead to unemployment in that market? [13]

4 (a) Explanation of the theory of wages which deals with both supply and demand factors. In the short run given a similar demand, (mrp), the wage level would change if supply (and elasticities) were different in different occupations, similarly the wage level would be different with different demand (and elasticity) schedules. [12]

L4 (9–12) For a sound explanation of the analysis and a clear understanding of the principles involved in perfect markets, A link between the firm and market is required. (D/S only, no mrp, 7–8)

L3 (7–8) For a competent comment in a perfect market but with a limited development of the analysis. (D/S only, no mrp, 5–6)

L2 (5–6) For a correct explanation of a limited part of the analysis – perhaps concentrating on either demand or supply. (D/S only, no mrp, 3–4)

L1(1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (D/S only 1– 2)

(b) Analysis of wage theory in imperfectly competitive labour market. The fixing of a higher wage may lead to unemployment depending on its level compared with the original wage and the extent of 'exploitation' in the fixing of the original wage. [13]

L4 (9–13) For a sound consideration of the analysis and a clear understanding of the principles involved in imperfect markets. (D/S only, no mrp, 7–8)

L3 (7–8) For a competent comment of an imperfect market but with a limited development of the analysis or a recognition of only one possibility. (D/S only, no mrp, 5–6)

L2 (5–6) For a correct consideration but limited to part of the analysis. (D/S only, no mrp, 3–4)

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. (D/S only 1– 2)

Examiner's report

(a) Candidates split into two groups: those who used marginal revenue product theory (MRP) together with relevant diagrams in their answers and gained the higher level of marks shown in the mark scheme, and those who only used supply and demand analysis. Those who went on to discuss why differences existed between wages in perfect competition were rewarded at the highest level, though many answers only referred to the equilibrium wage level in perfect markets.

(b) This part of the question was generally answered well with candidates receiving high marks. This answer called for an understanding of trade union activity on wages and employment levels. Marks reflected the ability of the candidates to recognise the significance of 'inevitably' in the question. Those who went beyond the effect of a trade union imposed minimum wage to explore monopsony buyers and monopoly suppliers of labour gained good marks.

February/March 2016

4 (a) Discuss how wage rates are determined in a perfect market. [12]

(b) If the labour market is imperfect, is the determination of wage rates still better left to that market? [13]

4 (a) Explanation of the theory of wages which deals with both supply and demand factors in perfect competition.

L4 For a sound explanation of the analysis and a clear understanding of the principles involved in perfect markets. [9– 12]

L3 For a competent comment in a perfect market but with a limited development of the analysis. [7–8]

L2 For a correct explanation of a limited part of the analysis – perhaps concentrating on either demand or supply. [5–6] L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

(b) What may apply in perfect competition is not the case in imperfect competition. Analysis of what happens to wages if the market is imperfect. Wages could be lower than perfect competitive situation because of monopolistic elements in the product market or monopsonistic elements in the factor market. Monoposonistic 'exploitation' may possibly be removed by trade union bargaining. However, the negotiating a higher wage may lead to unemployment depending on its level compared with the original wage and the extent of 'exploitation' in the fixing of the original wage.

L4 For a sound explanation of the analysis and a clear understanding of the principles involved together with a judgement to the question. [9–13] (D/S only, no mrp, 7–8)

L3 For a competent comment of the analysis but with a limited development but still with a judgement on the question asked. [7–8] (D/S only, no mrp, 5–6)

L2 For a correct explanation of a limited part of the analysis with no conclusion. [5–6] (D/S only, no mrp, 3–4)

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

Money and interest rate

February/March 2018

5 (a) Distinguish between the transactions demand for money and the speculative demand for money. Consider which is likely to be more important for a consumer in a modern economy. [12]

(b) Some economists argue that large budget deficits will increase the demand for money while others argue that large budget deficits will decrease the demand for money. Discuss whether it is possible to reconcile these views. [13]

5(a) Transactions demand is a demand for an active balance. It depends upon the level of income and the frequency of income payments. It is interest inelastic. Speculative demand for money is determined by expectations of the future rate of interest of long term government securities. These are known as idle balances and closely related to changes in the rate of interest. Importance will vary depending upon the state of economy, the level of income and the rate of interest.

12

L4 (9–12) for an answer that attempt to discuss the relative importance of each type of demand in an economy. For example, in a recession when incomes are low and interest rates are low, it is likely that the speculative demand for money would be more important than the transactions demand. L3 (7–8) for an answer that provides a detailed account of the key differences between the two types of demand for money and which attempt to analyse the link between different changes in an economy and their impact on both the transactions and speculative demand.

L2 (5–6) for answer that explains the difference between the transactions demand and the speculative demand for money but is not fully developed

L1 (1–4) for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant

5(b) Answers should explain the meaning of a budget deficit. The potential effects of large budget deficits on an economy should be identified. A distinction should be made between the short run effects associated with financing a budget deficit and the potential long run effects of deficits on national income. Links should then be established between these effects, ie changes in interest rates and changes in the level of income and how they might affect the demand for money. It is likely that in the short run the speculative demand will fall due to rising interest rates while in the long run transactions demand will rise due to a rise in the level of income.

13

L4 (9–13) for an answer that focuses upon the difference between the two positions in the statement. Responses will recognise the short run interest rate changes might affect the speculative demand for money but this will depend whether existing interest rates are already high. Also there will be some attempt to evaluate whether the income effect will significantly increase the demand for money. References to the existing state of the economy might be made. A conclusion should be provided which recognises that both claims can be reconciled .

L3 (7–8) for an answer that distinguishes between the short run effect of a budget deficit and the potential long run effect on the level of national income and which attempts to link both these effects to the motives for demand for money

L2 (5–6) for an answer that describes a budget deficit, how it might be financed and how it might affect the national income

L1 (1–4) for an answer that has some basic correct facts but includes irrelevancies and errors of theory

Examiner's report

(a) This question required candidates to explain that the transactions demand is a demand for an active balance. It depends upon the level of income and the frequency of income payments. It is interest inelastic. The speculative demand for money, by contrast, is determined by expectations of the future rate of interest of long term government securities. These are known as idle balances and can be closely related to changes in the rate of interest. The importance of the two demands for money will vary depending upon the state of economy, the level of income and the rate of interest. The question was popular and the answers were clear and accurate. Weaker responses did not develop the speculative demand to show the relevance of interest rates or did not give an opinion as to which type of demand was more important - as asked in the question.

(b) It was expected that candidates answering this question would explain the meaning of a budget deficit and then

identify the potential effects of large budget deficits on an economy. Many answers did this very well and made the distinction between the short-run effects associated with financing a budget deficit and the potential long-run effects of deficits on national income. Some candidates were clearly able to suggest how budget deficits might affect national income or government policy towards interest rates. These in turn could affect the demand for money. It is likely that in the short run the speculative demand will fall due to rising interest rates while in the long run transactions demand will rise due to a rise in the level of income. A few candidates confused government budget deficits with deficits on the balance of payments.

February/March 2017

6 (a) Consider how significant the level of income is in determining people's demand for money, according to liquidity preference theory. [12]

6(a) Description of transactions, precautionary and speculative with comment on the significance of income. Determining factor in transactions, less so in precautionary, residual only in speculative.

L4 For a sound description and a clear understanding of the principles involved together with a reasoned comment on significance of income. 9–12

L3 For a competent comment with limited development, brief mention of the significance of income. 7–8

L2 For a correct description but undeveloped comment with no attempt to decide on significance of income. 5–6 L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

Examiner's report

(a) It was expected that candidates would give a description of the transactions, precautionary and speculative demands for money with comment on the significance of income. It could be suggested that income is a determining factor in the transactions demand, less so in precautionary and only residual in speculative. Candidates spent time explaining the three motives but did not give enough weight in their answers to the consideration of the role of income for each of the motives. This was a weakness in the responses

<u>May/June 2017</u>

4 (a) Explain why people demand money according to the liquidity preference theory. [12]

4(a) Description of transactions, precautionary and speculative motives.

Level 4 (9–12 marks): for a sound description and a clear understanding of the principles involved for all three motives

Level 3 (7–8 marks): for a competent comment with limited development of 3 motives, or a fuller development of two motives,

Level 2 (5–6 marks): for a correct but brief description

Level 1 (1–4 marks): For an answer that has some basic correct facts but includes irrelevancies and errors of theory

<u>May 2017</u>

5 Economic models have little practical relevance. Discuss whether this is true of the analysis of how a fall in interest rates might affect an economy's GDP. [25]

5 Explanation of meaning of GDP; analysis of effect of interest rates on investment, saving, spending, and link between these variables and GDP. Understanding of leakages and injections. Multiplier / accelerator.

Level 4 (18–25 marks): for a sound explanation and discussion with good illustrations and a clear understanding of the principles involved with accurate links and a reasoned conclusion referring to the question, explicitly. No conclusion max. 22.

Level 3 (14–17 marks): for a competent explanation with an accurate but limited discussion without a full analysis of the links.

Level 2 (10–13 marks): for a correct but undeveloped explanation with some attempt at analysis but only brief discussion.

Level 1 (1–9 marks): For an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.

February/March 2016

6 (a) Assess how changes in interest rates might influence investment. [12]

6 (a) Explanation of comparison of changes in interest rates against prospective yields of investment, shortterm v long-term considerations.

L4 Explanation of the analysis and a clear understanding of the principles involved. [9–12]

L3 For a competent comment but with limited elaboration of the analysis. [7–8]

L2 For a correct explanation of part of the analysis. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial

Macroeconomy and macroeconomic policy

February/March 2019

7 'Keynesian policies to solve the problem of unemployment will not work because they will conflict with the attainment of other key macroeconomic aims.' Assess the accuracy of this statement.

7 A detailed explanation of Keynesian demand management theory and how associated policies might be used to solve the problem of unemployment. Evaluative comment should be provided to consider whether such policies are likely to work. Candidates should ensure that they discuss the extent to which these polices will conflict with the attainment of other key macroeconomic goals. For example, deficit spending might cause inflation, it might lead to higher interest rates and lower growth, it might increase balance of payments deficits.

L4 (18–25): for a response which combines detailed analysis with clear examples of evaluative comment. Good responses will identify at least two potential conflicts and use economic theory to assess the accuracy of the statement under consideration.

L3 (14–17): for a clearly set out analysis of the links between budget deficits, the multiplier and the final effects on income, output and employment with some attempt to examine why this might make the achievement of alternative economic goals more difficult. L2 (10–13): for an answer that demonstrates some limited understanding of how Keynesian policies might be used to solve the problem of unemployment. Answers are likely to be descriptive rather than analytical. L1 (1–9): for an answer that shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies.

October/November 2016

5(b) Discuss whether government macroeconomic aims of full employment, economic growth and price stability are likely to conflict with each other. [13]

(b) Discussion of the potential conflicts between the aims. Full employment and growth may be possible, but either may cause increased demand and may cause inflation/balance of payments problems. [13]

L4 For a sound discussion with clear debate about the potential conflicts with a conclusion. [9–13] (max 11 no conclusion)

L3 For a competent comment but with limited development of the analysis. [7–8]

L2 For a brief explanation and general description of the potential conflicts. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Three combinations of aims were possible from the alternatives given. Good responses analysed how conflict may or may not occur using aggregate demand and supply, the Phillips curve or the production possibility curve. These accessed the full range of marks. Many did not explore the full range of aims and often did not employ an analytical approach.

<u>May/June 2018</u>

6 In 2016, governments in some countries were concerned about inflation, whilst the governments of other countries were concerned about recession. (a) Consider how the causes of recession may differ from the causes of inflation. [12]

(b) Examine the view that 'recession can only be solved by monetary policy'. [13]

6(a) Explanation of the causes of both terms and a consideration of how their causes may differ.

L4 (9–12 marks) For a sound explanation of two causes of recession and two causes of inflation and reference to how they may differ.

L3 (7–8 marks) For a competent explanation of two causes of one term and one cause of the other.

L2 (5–6 marks) For an explanation of one cause of each term or two causes of one term.

L1 (1–4 marks) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

12

6(b) A discussion of the role of monetary policy in correcting a recession and of alternative approaches.

L4 (9–13 marks) For a thorough discussion of monetary policy and at least one

alternative. Maximum of 11, if no conclusion.

L3 (7–8 marks) An analysis of monetary policy and awareness of another policy.

L2 (5–6 marks) For an accurate though undeveloped explanation concentrating on only monetary policy.

L1 (1–4 marks) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

Growth and development

October/November 2018

7 (a) Explain how developing countries differ from developed countries. [12] (b) Assess the extent to which a multinational company's investment in a developing country leads to economic growth. [13]

7(a) A consideration of a number of different factors: GDP, GDP per capita, the likely age structure, the structure of the economy, access to capital, the type and quantity of investment, the ability of the labour force, the state of the balance of payments.

L4 (9–12 marks): For an analysis which shows how a factor differs depending on the different stages of development. 3 different factors considered.

L3 (7–8 marks): For an analysis of the 2 different factors.

L2 (5–6 marks): For an explanation of 1 well-developed factor or 2 with limited development.

L1 (1–4 marks): For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. 12

7(b) The role of a multinational corporation (MNC) in bring investment to a country. The impact of investment as a component of AD. Multiplier effects of investment. Consideration of the size of the multiplier. Recognition that unemployment exists but labour skills may be inadequate. Impact on the other elements of AD, government, imports, exports and consumption.

L4 (9–13 marks): For an analysis of MNC Investment on the GDP of a developing country. Impact of 3 factors on economic growth with positive and negative comments. A conclusion is required. Max 11 if no conclusion L3 (7–8 marks): For an analysis of Investment on the GDP of a developing country. Impact of 2 factors on economic growth.

> L2 (5–6 marks): For an explanation of the effect of investment on GDP. Impact of 1 factor on economic growth

L1 (1–4 marks): For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

May/June 2018

5 (a) Explain the difference between actual growth and potential growth. [12] (b) To what extent do you agree that the costs of economic growth are greater than the benefits? [13]

5(a) Actual growth is an increase in the volume of goods and services produced. Firms increase their output, while consumption, investment and exports are increasing. Potential growth is an increase in the capacity of an economy to produce goods and services. Reference to short run and long run and comment on link to production possibility or aggregate demand.

L4 (9–12 marks) For a sound explanation of both terms and a clear understanding of the differences. L3 (7–8 marks) For an accurate explanation on one term and limited explanation of the other.

L2 (5–6 marks) For an accurate explanation of one term or a weak explanation of both terms.

L1 (1–4 marks) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

12

5(b) A discussion of the benefits of economic growth e.g. rising GDP, improving standard of living, better health, longer lifespans. A discussion of the costs of economic growth e.g., pollution, congestion, increase in working hours.

L4 (9–13 marks) For a thorough discussion of both sides of the issue. Maximum11 if no conclusion.

L3 (7–8 marks) For a competent comment which does not fully analyse both sides. An analysis of one side and limited analysis of the other.

L2 (5–6 marks) For an accurate though undeveloped comment concentrating on one side.

L1 (1–4 marks) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

February/March 2018

7 Some developing countries pursue export-led growth and argue that the overall growth of the economy can be generated not only by increasing the amounts of labour and capital but also by expanding exports. Other developing countries prefer to promote growth by encouraging investment by foreign multinational corporations. Compare these approaches and assess which is likely to be the more effective. [25]

7 A clear explanation of the export-led growth hypothesis should be provided. Alternative ways of achieving growth should be explained and the difference between achieving growth by internal means should be clearly established. The main part of the discussion should relate to specific problems that might face developing economies which attempt to achieve export-led growth. This should be compared with the costs and benefits of stimulating growth internally using policies to promote direct investment carried out by multinational companies.

25

L4 (18–25) for an answer that evaluates the relative success of each type of policy by using a cost/benefit approach in each case. It is important to recognise the specific conditions required for success in each case and the extent to which this is likely to be achieved in an developing economy. A clear comparison should be in evidence and a conclusion provided based upon the preceding discussion.

L3 (14–17) for an answer that analyses the problems faced by a developing economy when attempting to generate export-led growth. The response will also consider the analysis which underpins the promotion of foreign direct investment by multinational companies

L2 (10–13) for an answer that discusses policies that can be used to promote economic growth but does not explain export-led growth and does not distinguish between export led growth and internal methods of achieving growth. Also there would be no attempt to put into the context of a developing economy.

L1 (1–9) For an answer that has some basic correct facts but includes irrelevancies and errors of theory

Examiner's report

This was a very popular question for which candidates produced well-reasoned answers with good development of the topic with clear explanations. Answers considered the alternative ways of achieving growth by internal means or by encouraging external foreign investment. The policies that might be used by developing economies in attempting to achieve export-led growth were mentioned. These were compared with the costs and benefits of stimulating growth using policies to promote investment by multinational companies that might include the displacement of local labour or the loss of funds as finance was returned to the multinational's home country.

February/March 2017

5 (a) How might the employment composition and age structure of a developing country differ from those of a developed country? [12] (b) Apart from the employment composition and age structure, discuss what changes are likely to occur in a developing country if it progresses towards developed status. Consider whether these changes are always beneficial. [13]

5(a) Comment on differing importance of agriculture/industry/services. Balance or rural/urban occupations. Comment on

birth rates, death rates, infant mortality, migration.

L4 For a sound explanation with good illustrations and a clear understanding of the principles involved. 9–12

L3 For a competent explanation of the principles but with fewer illustrations or a concentration on either employment or on age structure and only brief mention of the alternative aspect of the question. 7–8

L2 For a correct but brief explanation with undeveloped comment on both aspects, or an explanation of one aspect only. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory. 1–4

12

5(b) Discussion of changes in social factors, health, education, housing, incomes, sanitation, environmental change, resource use, distribution of income,

L4 For a reasoned and clear evaluative comment with a conclusion about desirability. 9–13

L3 For a comment on a limited range of changes or a wider range with less development – max 7 without a conclusion on whether beneficial. 7–8

L2 For a limited but acceptable attempt to consider the possible results of development but with no conclusion. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

Examiner's report

(a) This, and Question 3, were the two most popular questions. Candidates commented on differing importance of agriculture/industry/services. They mentioned the balance of rural/urban occupations. Sadly, some candidates stopped there and did not read the rest of the question. There was, therefore, no comment on birth rates, death rates, infant mortality and migration.

(b) This question required a discussion of changes that might occur as a country develops. Candidates gave examples of changes in social factors, health, education, housing, incomes, sanitation, environmental change, resource use and the distribution of income. All were relevant. This was another example of where many candidates did not read the whole of the question. Their answers remained as descriptive accounts of the changes and did not consider whether such changes were beneficial. Their mark was, as a result, not as high as it might have been if some evaluative comment had been added.

<u>May/June 2017</u>

6 (a) Developed countries sometimes prevent investment in rural areas while developing countries often encourage rural development. Consider why this might be so. [12] (b) Why is it important to use qualitative data as well as quantitative GDP data when considering whether a country is developed or developing? [13]

6(a) Developed countries: explanation of why they prevent development, e.g. protection of environment, costs of development. Developing countries: explanation of encouragement of development of rural areas, e.g. to increase employment, raising GDP. Level 4 (9–12 marks): for a sound explanation and a clear understanding of the different issues involved in both circumstances.

Level 3 (7–8 marks): for a competent comment but with limited elaboration of one side of the question.

Level 2 (5–6 marks): for a correct explanation of some of the issues involved.

Level 1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

12

6(b) Discussion of the weakness of using GDP can be partly overcome by using real GDP per capita but it omits social issues – education, health, sanitation, working hours – doesn't include unpaid work, informal economy, quality of goods, types of goods, environmental issues, distribution of income, sustainability. These qualitative factors are considered with other indicators.

Level 4 (9–13 marks): for a sound explanation and discussion with good illustrations and a clear understanding of the relevance of both types of data and a relevant judgement.

Level 3 (7–8 marks): for a competent comment with limited development and discussion, brief recognition of importance of social factors.

Level 2 (5–6 marks): for a correct explanation but undeveloped comment.

Level 1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

October/November 2016

7 (b) Norway and New Zealand are classified as developed countries. Make a judgement on what are the important distinguishing differences between a developed country and a developing country. [13]

(b) Candidates should present a reasoned argument about what they consider to be the most important, or main differences. Look for a direct comparison, for example, in terms of population structure, employment, production, growth rates, income distribution, consumption patterns rather than a simple list of characteristics. [13]

L4 For a reasoned discussion and clearly structured answer mentioning at least four differences together with a conclusion. [9–13] (max 11 no conclusion)

L3 For a discussion, but without such a full development or with three major differences. [7–8]

L2 For a limited but acceptable attempt to discuss a couple of differences. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

Examiner's report

Typically, good responses identified how the developed and developing economies differ. The better ones were able to form links between, for example, health, education and productivity – with increases in productivity leading to higher levels of saving and investment, which leads to economic growth and development. Some responses struggled to distinguish between a high birth rate/population growth and a high population

May/June 2016

7 (a) Explain how the age and employment structure of a population in a developing country may differ from those of a developed country. [12]

(b) Consider whether a developing country is likely to experience different types of unemployment compared with a developed country. [13]

7 (a) Explanation of the differences between the birth rates, death rates, migration and between the proportion in primary, secondary and tertiary sectors in developed and developing countries. [12]

L4 (9–12) For a sound explanation of the analysis and a clear understanding of the possible differences between countries.

L3 (7–8) For a competent comment but with limited direct comparison.

L2 (5–6) For either a brief explanation of both the population structure and the employment composition or a competent comment on either population or employment with little comparison between different countries.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

(b) Consideration of the different causes of unemployment with a comment on the significance of the causes for the different types of development. [13] L4 (9–13) For a clear consideration with accurate development of at least three causes of unemployment and a developed comparison for at least 1. A conclusion is drawn for max marks.

L3 (7–8) For a clear consideration of at least two developed causes of unemployment or more than two with undeveloped explanation or lack of comparison.

L2 (5–6) For a limited attempt with little development of either causes or significance.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omission of analysis will be substantial.

Examiner's report

(a) Candidates who were able to explain the difference in shape of the population pyramid in developing and developed countries and why they were so and who also discussed the differing employment structures split between primary, secondary and tertiary sectors gained good marks. Candidates divided into three broad bands: those who discussed the population, those who discussed the structure of employment, and those who wrote about development generally.

(b) Generally this part of the question was answered well. Candidates were well prepared on types of unemployment. The best answers discussed how and why the differing types applied in developing and developed countries, while others ignored this element of the question.

February/March 2016

5 (a) Consider whether the main cause of economic growth is an increase in population, and hence in labour supply. [12]

(b) Do you agree that a country should try to increase its rate of economic growth?[13]

5 (a) Explanation of economic growth in terms of increases in output per head over a time period, and comment on the causes of growth. Increases in the factor labour might help, but so would other factor increases especially advances in technology – which might replace labour.

L4 For a sound explanation of the analysis and a clear understanding of the principles involved [9–12]

L3 For a competent comment but with a limited development of the analysis. [7–8]

L2 For a correct explanation of a limited part of the analysis – perhaps concentrating on one factor of production. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

(b) Candidates should consider what benefits it might bring in terms of employment, incomes, standards of living, trade and wealth. They should also comment on possible drawbacks in terms of environmental change, resource use, distribution of income.

L4 For a sound explanation of the analysis and a clear understanding with a conclusion [9–13] L3 For a competent comment but with limited development and a weaker conclusion. Up to 7 with no conclusion. [7–8]

L2 For a brief explanation of the meaning of growth and a one-sided presentation of its effects and results with no conclusion. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

National income determination

February/March 2019

6 (a) Distinguish between leakages and injections in the circular flow of income and consider how they might be related. [12]

(b) Critically evaluate a central bank's use of interest rates to increase injections into an economy. [13]

6(a) Answers should identify each of three leakages and each of three injections into the circular flow of income. The key distinction should focus on the autonomous nature of the injections and the endogenous nature of withdrawals. A diagram might be used to demonstrate this distinction. Some attempt should be made to show how an injection might affect a leakage or vice versa. For example, an increase in investment (injection) might lead to an increase in savings (withdrawal).

L4 (9–12 marks): for a detailed explanation of the differences between leakages and injections and a clear attempt to discuss whether, or in what circumstances, changes in one might cause changes in the other. Good answers will refer to at least two examples of situations which might arise which support the idea that leakages and injections are related. L3 (7–8 marks): for an answer which clearly identifies leakages and injections and makes some attempt to establish differences. A diagram might be provided. A limited attempt might be made to show how these might be related. L2 (5–6 marks): for an answer which identifies each leakage and each injection but does not fully explain the key distinction between the two.

L1 (1–4 marks): for an answer that shows some knowledge but does not indicate that the question has been fully grasped or where the answer is mostly irrelevant.

6(b) Candidates should be able to link interest rate changes to each of the three injections. A diagram might be used to demonstrate this understanding. Answers should focus on why injections might rise. For example, a decrease in interest rates might lead to a fall in exchange rates which in turn might lead to a rise in exports (injection). Good responses will attempt to critically evaluate this policy. For example, discussing why a fall in exchange rates might not affect exports in the short run. A similar approach can be adopted for each of the three injections.

L4 (9–13 marks): for an answer that recognises that the impact of interest rate changes on injections will depend upon a number of related variables and that the potential changes will differ in the short run compared with the long run. Good responses will attempt to critically evaluate the impact. For example, a reduction in interest rates might have a limited effect on investment if in a recession investor confidence is low. There should be at least two examples of similar critiques.

L3 (7–8 marks): for an answer that attempts to analyse the links between a fall in interest rates and changes in each injection. A positive impact should be identified. The analysis might be supported by a diagram and some comment might be made on the impact of these changes on income, output and employment.

L2 (5–6 marks): for an answer that is limited to a descriptive explanation of the relation between interest rate changes and changes in each injection.

L1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

October/November 2018

6 A country with an open economy has an increasing demand for its exports and a fall in the supply of labour.

(a) Explain the effects of these changes on the general price level and national output in that economy. [12]

(b) Consider the effectiveness of using only monetary policy in this situation. [13]

6(a) Identify the components of aggregate demand/supply affected by the two economic factors. Effect of increased demand for exports on aggregate demand. The effect of a labour shortage on costs of production and aggregate supply. Analysis of the effect on output and prices using aggregate demand and aggregate supply analysis.

L4 (9–12 marks): For an analysis of the two changes on AD and AS and their impact on price level (increases) and output might increase/decrease or remain unchanged (uncertain). L3 (7–8 marks): For an analysis of the two changes on AD and AS and their impact on either the price level or output.

L2 (5–6 marks): For an explanation of the changes on AD and/or AS.

L1 (1–4 marks): For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

12

6(b) Accept a response based on the stem of the question e.g. answers that discuss the effectiveness of monetary policy in causing the original shifts in the AD/AS. or Alternatively accept a response that discusses the effectiveness of monetary policy to address the changes resulting from the shifts that have taken place in 6a.

Definitions of MNC and economic growth. Explanation and analysis of the role of monetary policy in changing AD/AS. The monetary transmission mechanism and its impact. A consideration of alternative policies. Explanation and analysis of the roles fiscal policy and supplied side policies could play in reducing the impact of the two factors.

L4 (9–13 marks): For an analysis of the role of monetary policy, the monetary transmission mechanism and its impact. Candidates should also discuss an alternative policy fiscal or supply-side. A comment on the limitations of the chosen policies. A conclusion is required Max 11 No conclusion

L3 (7–8 marks): For an analysis of the role of monetary policy. A brief reference to fiscal policy or supply-side policies.

L2 (5–6 marks): For an explanation of monetary policy or a descriptive

approach to monetary policy and 1 more policy.

L1 (1–4 marks): For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

February/March 2018

6 (a) Explain the difference between autonomous investment and induced investment. Consider whether there is a link between these two types of investment. [12]

(b) 'Governments should concentrate upon providing favourable conditions for investment by firms in the private sector. This would allow all investment in an economy to be carried out by firms in the private sector.' How far would you support this view? [13]

6(a) Responses should distinguish clearly between autonomous investment and induced investment, recognising that the former will come from outside the circular flow of income while the latter will depend upon changes in the level of income. There should be some discussion whether a link can be established between the two types of investment. This link should rely upon the relationship between the multiplier effect on income and the accelerator effect on investment.

12

L4 (9–12) responses attempt to show how the multiplier and accelerator might interact and to evaluate key factors which will determine the extent of the interaction. For example the level of autonomous investment's impact on the level of income will depend upon the multiplier which, in turn will be influenced by leakages from the circular flow. This in turn will determine the level of induced investment which will also depend upon the capital/output ratio. L3 (7-8) for an analysis of how autonomous investment can impact on the level of income through the multiplier effect and for analysis of the relationship between changes in income and changes in investment through the accelerator effect. L2 (5-6) for an answer that provides a clear description of the difference between the two types of investment and which also links both types to income and changes in the level of income L1 (1-4) for an answer that shows some knowledge but does not indicate that the question has been fully arasped. The answer will have some correct facts but include irrelevancies.

6(b) Answers should identify and explain the key conditions introduced by governments which might promote investment in the private sector. These might include low interest rate policy, favourable taxation, direct government support. Discussion should then focus upon whether the private sector should be solely responsible for investment. This might look at circumstances in which public sector investment might be needed, for example providing public/merit goods. A conclusion should then be provided based on the preceding discussion

13

L

4 (9–13) for an evaluative answer which discusses whether ALL investment should be carried out by firms in the private sector. Candidates to recognise that some investment, for example relating to merit/public goods or in natural monopolies should be left to governments. A conclusion addressing both parts of the statement should be provided.

L3 (7–8) for an answer that identifies a range of possible conditions created by governments which will have a positive effect on the level of investment by firms in the private sector.

L2 (5–6) for an answer that provides a superficial description of the conditions which governments might create to promote investment but does not fully develop the links between these conditions and subsequent investment

L1 (1–4) for an answer that has some basic correct facts but includes irrelevancies and errors of theory

Examiner's report

(a) This was not a popular question but those who answered it were able to distinguish between autonomous investment and induced investment, recognising that the former will come from outside the circular flow of income while the latter will depend upon changes in the level of income. The weaker part of the answer was that which dealt with the link between the two types of investment. It was expected that candidates would explain the link by commenting on the relationship between the multiplier effect on income and the accelerator effect on investment.

(b) The main focus of this question was to discuss the opinion that all investment in an economy should be carried out by private sector firms. Candidates were able to identify and explain the key policies introduced by governments which might promote investment in the private sector. These included low interest rate policy, favourable taxation and direct government support. The subsequent discussion on whether the private sector should be solely responsible for investment was the weaker part of many answers. It was hoped that there might be a discussion of the circumstances in which public sector investment would be needed, for example providing public/merit goods. It was expected that a conclusion would be provided based on the preceding discussion.

February/March 2016

6 (b) Some argue that increases in investment cause national income to increase. Others argue that the reverse is true: an increase in national income brings about investment.

Discuss whether both these seemingly contradictory statements can be true. [13]

(b) Discussion of link between investment and output via the multiplier and subsequent effect on further investment via the accelerator.

L4 For a sound discussion with good explanation of the analysis and a clear understanding of the principles involved with a reasoned conclusion. [9–13]

L3 For a competent comment concentrating on one element – probably the multiplier. [7–8]

L2 For a limited discussion of the analysis but with only very brief development of the ideas. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial

National income accounting and measures of welfare

October/November 2018

(b) Discuss whether GDP is always a good measure of living standards. [13]

5

(b) The role of real GDP per capita (pc) as a measure of living standards. Limitations of real GDP pc such as unemployment, distribution of income, education/health/cultural change/hours worked, do the statistics produced reflect economic activity. Use of PPP for international comparisons. Alternative measures of economic welfare: e.g. MEW, HDI, MPI.

L4 (9–13 marks): For analysis of the real GDP pc as a measure of living standards and 3 limitations, an explanation of 1 alternative measure of living standards. A conclusion is required. Max 11 if no conclusion.

L3 (7–8 marks): For analysis of real GDP or GDP pc and 2 limitations of the measure. L2 (5–6 marks): For an explanation of GDP and 1 limitation.

L1 (1–4 marks): For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

October/November 2017

6 Whether a country can be classified as developed depends on the value of its GDP and the higher the GDP the better it is for the country. Consider this opinion. [25]

Candidates should consider the assertion. First they should comment on the merit of using the value of GDP as an indicator of development, then they should consider whether a high GDP is always beneficial for a country. Real GDP per capita. Alternative measures e.g. HDI. Positive and negative effects of growth.

L4 For a clear explanation of GDP and comment on the merits and limitation of using GDP, comment on the merits and limitation of growth of GDP, a clear assessment of the assertion in the quote and a reasoned evaluation. 18–25

L3 For a competent explanation which does not fully analyse the merits and limitations of using GDP or does not comment on the possible positive/negative effects of growth. There will be some discussion but the evaluation will not be extensive. 14–17

L2 For an accurate though undeveloped explanation of the use of GDP but with little evaluation of its limitations or of the negative side of growth. 10–13

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial. 1– 9

February/March 2017

6 (b) Discuss whether an increase in the national income of a country is a reliable indication of an improvement in the

standard of living for the people in that country. [13]

6(b) Discussion of the weakness of using GDP as a measure of standard of living. Partly overcome by using real GDP per capita but it omits social issues – education, health, sanitation, working hours – doesn't include unpaid work, informal economy, quality of goods, types of goods, long run v. short run, environmental issues, distribution of income, sustainability. These qualitative factors are considered with other indicators

L4 For a sound explanation and discussion with good illustrations and a clear understanding of the principles involved and a reasoned conclusion. 9–13

L3 For a competent comment with limited development and discussion, brief recognition of importance of social factors; max 7 without a conclusion. 7–8

L2 For a correct explanation but undeveloped comment or elaboration. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory

Examiner's report

(b) The question required a discussion of the weakness of using an increase in national income as a measure of standard of living. Its weakness could be partly overcome by using real GDP per capita but that still omits social issues such as education, health, sanitation or working hours. GDP per capita also doesn't account for unpaid work, the informal economy, quality of goods, types of goods, long run versus short run, environmental issues, distribution of income or sustainability. These qualitative factors are considered with other indicators. This question concentrated on whether an increase in national income could indicate an improvement in standards of living within a country. Some candidates wrote about whether it might be used as a comparison of different countries and thus were not answering the question asked.

October/November 2016

7 (a) Conventional estimates of national income indicated that average income per head between 2009 and 2013 was US\$98 780 in Norway and US\$36 900 in New Zealand. Consider whether this means that the standard of living in Norway is nearly three times as high as in New Zealand. [12]

7 (a) The question gives a comparison of income per head. The figures do suggest a divergence in the standard of living but they conceal the point that certain factors should be taken into account before an exact comparison can be made. The distribution of income is an important factor, others are nonmonetary income from subsistence agriculture and home production, the use of income for consumption and for other purposes and the different consumption patterns, the different climates. [12]

L4 For a sound comment with clear understanding of the difficulties of comparison, expect alternative measures and a clear conclusion. [9–12] (max 10 no conclusion)

L3 For a competent comment but with limited development. [7–8]

L2 For a general description of only some of the factors. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial. [1–4]

Examiner's report

Question 7

(a) The limitations of comparing national income per head between different countries, even those of high income countries, were discussed. The main differences between answers were in the range and depth of the responses. It should be remembered that a range of measures are used that attempt to overcome the limitations of conventional measures, and reference to these are also relevant to answers.

May/June 2016

6 Imagine you have been asked to produce a report about the quality of life in your country. Discuss what would be important to include in your report and what economic indicators you would use in order to reach a conclusion. [25]

Candidates should explain what they would consider to be important to include – for example, output, health, housing, education, crime, income distribution. They should comment on the merit of using the value of GDP as an indicator of quality of life and discuss other possible indicators. [25]

L4 (18–25) For an clear discussion of the merits and drawbacks of using GDP, a comment on alternative indicator(s) and reasoned evaluation and conclusions. (Max 20 if no conclusion.)

L3 (14–17) For a competent explanation which does not fully analyse the

drawbacks of using GDP or does not provide a developed comment on an alternative indicators. There will be some discussion but the evaluation will not be extensive.

L2 (10–13) For an accurate though undeveloped discussion of the use of GDP with very brief mention of its limitations – any reference to an alternative indicators would be a passing remark.

L1 (1–9) For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

Examiner's report

This question was very popular and many candidates made a comprehensive response which discussed the concept of the quality of life, and how it might be measured via the use of gross domestic product (GDP) and its limitations. Candidates are showing a much greater awareness of the alternative measures to GDP and the elements which they include, for example, Multi-dimensional Poverty Index and Net Economic Welfare (NEW)/Measurable Economic Welfare (MEW). Candidates showed an awareness of other non-economic aspects which may contribute to the quality of life. It was the extent of the discussion which gave rise to the range of marks this question attracted. Candidates often wrote movingly of the circumstances in their home country

February/March 2016

7 Governments want to increase the standard of living in their country.

Discuss whether the indicators used to measure the standard of living are reliable and consider what policies a government might use to try to increase the standard of living in its country. [25]

Candidates may write about the use of GDP, GDP per capita, HDI, MEW but they should comment on the reason why they have chosen the indicator they use. They should also comment on the effectiveness of the indicator. They should also give reasons why they have chosen the policies they mention, how they relate to the standard of living and why those policies would influence the standard of living most effectively.

L4 For a sound comment with clear understanding of the usefulness of the indicators, an analytical comment on the value of government policy and a reasoned discussion of the link between that policy and the standard of living. There should be a sound structured answer with a conclusion. [18–25]

L3 For a competent comment but with more limited development of both the usefulness of the indicators and the link between the policy and the standard of living; or a fuller account of either the indicator or the policy. Reserve the higher marks in this band for answers with a conclusion. [14–17]

L2 For a more general account but with more of a descriptive account rather than a discussion of both aspects of the question or a concentration on one of the aspects of the question but with a very moderate discussion with no conclusion. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

Price system and the theory of firms

February/march 2019

(a) Analyse whether there is a link between the marginal cost of a firm and

(i) its variable cost;

(ii) the supply curve of the industry to which the firm belongs. [12]

Marginal cost changes with the variable cost change; MC is firm's supply curve in perfect competition, sum of firm's supply curves gives industry supply. Does not apply with imperfect competition.

L4 (9–12 marks): for a clear explanation of the links and correct analysis of both parts.

L3 (7–8 marks): for a clear analysis of one part – probably the link to variable cost – with confusion over the second part.

L2 (5–6 marks): for a briefer explanation of one part and omission of the second part.

L1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

October/November 2018

3 (a) Analyse the factors which determine the price of a firm's product and its output in monopolistic competition. [12] (b) Assess the effect on output and price if a monopoly firm maximises its sales revenue rather than its profit. Consider who will benefit the most from this change. [13]

3(a) Analysis of the role of marginal costs and marginal revenue in determining profit maximising output and how the price is determined on the downward sloping demand curve. Reference to the short term and the long term equilibrium positions.

L4 (9–12 marks): For an analysis of the role of marginal costs and marginal revenue in determining the profit maximising output and price. Short term (ST) and long term (LT) equilibrium positions are analysed.

L3 (7–8 marks): For an analysis of the role of marginal costs and marginal revenue in determining the profit maximising output and price and analysis of either ST or LT equilibrium.

L2 (5–6 marks): For a brief explanation concentrating on one aspect or limited reference to the equilibrium position

L1 (1–4 marks): For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

3(b) An explanation of the sales revenue maximisation model (SRM). How SRM means that both price must be lower and quantity must be greater than in profit maximisation. Consumers gain through lower prices and greater output, managers gain if salaries linked to revenue not profits and shareholders lose as profits are reduced. Reference to the separation of ownership and control allowing SRM. L4 (9–13 marks): For discussion of the SRM model which identifies the separation of ownership and control. Identifies the higher output and lower price of SRM compared with profit maximising model. Identifies who gains and who loses. There is a conclusion. Max 11 no conclusion.

L3 (7–8 marks): Equilibrium output and price are identified which does not fully analyse the outcomes of the SRM model.

L2 (5–6 marks): For a descriptive explanation.

L1 (1–4 marks): For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

<u>May/June 2018</u>

3 A businessman claimed it was difficult to make decisions as his business was subject to uncertainty and interdependence. Discuss the methods used by oligopoly firms to reduce uncertainty and interdependence and the extent to which these methods exploit the consumer. [25]

3 Explanation of oligopoly market structure, which gives rise to uncertainty and interdependence. Discussion of methods used to reduce these problems (Collusion, Non-price competition or Other) and the impact of these on the consumer.

L4 (18–25 marks) For discussion of the methods used in oligopolistic competition to reduce uncertainty and interdependence and which considers the likely impact on the consumer. Maximum 21 if no conclusion. L3 (14–17 marks) For a competent analysis and a more limited discussion of the methods used and their impact on the consumer.

L2 (10–13 marks) For accurate though undeveloped explanation.

L1 (1–9 marks) For an answer which shows some knowledge but does not indicate that the question has been fully grasped, or where the answer contains irrelevancies and errors of theory.

February/march 2018

4 In 2016, a country's largest yacht builder said it would have to make 350 people redundant. The company, which builds luxury yachts, said demand had decreased in the recession

(b) The price of the company's product was above the average total cost. Discuss whether in an imperfectly competitive market structure a firm's aim would necessarily mean it would stop production if the price has to fall because of reduced

demand.

4(b) If price is above ATC it will be making supernormal profit. It need not stop production either because it still makes normal profit, or reduced supernormal profit in the long run or even if the price is still above the AVC in the short run. This assumes an aim of profit maximisation. The firm may have other aims apart from profit maximisation and these, such as satisficing, may also mean production does not have to cease. L4 (9–13) for an accurate analysis distinguishing between supernormal and normal profit and for a correct discussion of the significance of the AVC in the short and long run, and a comment on possible alternative aims together with a conclusion L3 (7-8) for a weaker analysis probably concentrating on the supernormal/normal profit with no mention of the role of the AVC, or no mention of alternative aims L2 (5-6) for an undeveloped explanation of the supernormal profit position but with no recognition that the firm can continue either because profits are still normal, or because, in the short run price is still above AVC, or because it had alternative aims L1 (1-4) for an answer that has some basic correct facts but includes irrelevancies and errors of theory

Examiner's report

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b) Most candidates recognised that if price were above average total cost then the firm would be making supernormal profit. Candidates often accurately contrasted that position with a situation where the price might fall and the firm made normal profit. Here average total cost would be equal to average revenue. What many did not do was to consider what might happen if the price (average revenue) fell further and was lower than the average total cost. In the latter situation the significance of the average variable cost becomes important. All this assumes that the firm is wishing to maximise profits. The firm might have other aims besides profit maximising and the better answers presented and discussed these aims. The different aims might result in different decisions about the viability of the firm should price fall below total average cost.

3 (a) Explain the difference between price leadership and price discrimination. [12]

3(a) Motives for price leadership and/or price discrimination. Price leadership refers to a situation where prices and price changes are established by a dominant firm which other firms in the industry adopt and follow. When price leadership is used to facilitate collusion, the price leader will generally tend to set a price high enough so that the least cost-efficient firm in the market may earn some return above the competitive level. Price discrimination is the charging of different prices for the same product with same production costs. Conditions for price discrimination.

Level 4 (9–12 marks): for both terms explained, sound elaboration of both terms given

Level 3 (7–8 marks): for both terms explained with briefer comment and elaboration

Level 2 (5–6 marks): for an answer that concentrates on one term, with only brief mention of second term.

Level 1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

12

October/November 2016

4 Explain what is meant by the 'equilibrium of a perfectly competitive firm' and consider the view that equilibrium is always achieved in perfect competition but never in a monopoly market. [25]

<u>May/June 2017</u>

Explanation of the meaning of equilibrium in perfect competition and monopoly. Comparison of equilibrium in perfect competition and monopoly in both short run and long run. Both structures will be in equilibrium in the short run and long run, however perfect competition can only make normal profits in the long run. [25]

L4 For a reasoned and clear explanation of the concept of equilibrium applied to both perfect competition and monopoly with accurate development of theory and good comparison between short run/long run, and perfect competition and monopoly together with a reasoned conclusion. [18–25] (max 20 no conclusion)

L3 For a competent comment together with a more limited elaboration of the analysis or imprecise comparisons. Short run and long run analysis is limited. There should still be a conclusion. [14–17] (max 16 no conclusion)

L2 For a brief explanation but weak or illexplained comparisons. The explanation will be undeveloped with some limited analysis. [10–13]

L1 For an answer which shows some knowledge but does not indicate that the question has been fully grasped. The answer will have some correct facts but include irrelevancies. Errors of theory or omissions of analysis will be substantial.

Examiner's report

Responses generally demonstrated a good understanding of the point of equilibrium in both perfect competition and monopoly. However, they often did not consider the role of profit maximisation and the rule that marginal revenue = marginal cost in determining how or why the point of equilibrium was reached. When considering perfect competition, most were able to consider the role of abnormal profits or losses on the firm but usually did not identify that in both these cases short-term equilibrium existed and how the market moved to long-term equilibrium. Many thought that as the monopolist had continuing abnormal profits they were not in equilibrium.

Size of firms

October/November 2017

4 For some products there has been an increasing dominance of large firms in the last five years. For example, in the telecommunications industry most countries now have four or five operators, some have only two. In other markets many small firms exist.

(a) Explain possible reasons why in some markets there are many small firms while in others the market is dominated by a few large firms. [12]

(b) Discuss who might benefit and who might lose when a market becomes dominated by a few large firms. [13]

4(a) Reasons for growth of firms, reasons for existence of smaller firms.

L4 for a sound explanation with good illustrations and a clear understanding of the principles involved 9–12

L3 for a competent comment with limited development. One sided approach max 7. 7–8

L2 for a limited but acceptable attempt to consider differences or reference to different market structures only. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory 1–4

4(b) Discuss who might benefit and who might lose when a market becomes dominated by a few large firms

Discussion of effects of larger firms in terms of reduced output, higher prices, higher profits, but possibly more research, innovation, product branding, economies.

L4 for a sound explanation with good illustrations and a clear understanding of the principles involved 9–13

L3 for a competent comment with limited development. One sided discussion max 7. 7–8

L2 for a limited but acceptable attempt to consider differences 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory

February/March 2016

3 (a) 'If a firm is experiencing diminishing returns and diseconomies of scale, it means that its output must be decreasing.'

Explain whether this statement is true. [12]

3 (a) Explanation of the Law of Diminishing Returns and of diseconomies of scale. Diminishing returns occur in the short run and diseconomies of scale in the long run. Both occur as output increases.

L4 For a good explanation of the analysis and a clear understanding of the differences and link between the two concepts, and a conclusion about output. [9–12] L3 For a competent comment but with more limited explanation of the link between the two and not such a clear comment about output. [7–8]

L2 For a brief descriptive explanation and with no link to the question of output. [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial

Objectives of firms

February/march 2019

4 (b) Discuss how the objective of a firm in an oligopolistic market might differ from the objective of a firm in a perfectly competitive market. [13]

Perfect competition assumes profit maximising. Oligopoly usually assumes collusion and a less volatile price. It still can assume profit maximising. However, with collusion the profit maximising output/price can be for the industry and each firm is given an output quota which is not necessarily the profit maximising output for that firm. A firm can compete by non-price competition or break the agreement.

L4 (9–13 marks): for a clear analysis with a good structure on the oligopoly section.

L3 (7–8 marks): for a clear analysis of perfect competition but less competent analysis and development of oligopoly. Profit maximising stated, but collusion not fully developed.

L2 (5–6 marks): for a weaker answer of the differences and links.

L1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory. 3 (a) Some firms have power over their market. Explain what this means and consider why this power might change in a contestable market. [12]

(b) Discuss the different aims a firm might have in order to continue with production. [13]

3(a) Market power enables firm to fix price, rather than take market price. Occurs in imperfect competition. It is possible to maintain price above competitive levels for a period, usually above cost. Market power can also have an influence on quality of product, service, extent of innovation. Usually occurs when firm has dominance of market or is fairly large or there are few substitutes for product. Contestable market means a potential threat of competition because of limited barriers to entry which might prevent firm charging excessive prices if they wish to stay in the market. Buyers would then be able to switch suppliers with consequent effect on firm's revenue.

L4 For a sound explanation with good illustrations and a clear understanding of the economic principles involved. 9–12

L3 For a competent comment with limited development probably with weak reference to contestable market. 7–8

L2 For a brief explanation with very little development. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory. 1–4

3(b) Discussion of the various aims of the firm, profit maximising, behavioural, managerial, satisficing, following a price leader, pricing to ensure at least average variable cost is covered, sales maximising, revenue maximising.

L4 For a reasoned and well-argued discussion with clear explanation of different aims. 9–13

L3 For a clear but undeveloped discussion of a range of aims or a concentration on profit maximising with brief mention of alternatives. 7–8

L2 For a limited attempt to consider the question but without a balanced approach. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

Examiner's report

(a) This was a very popular question. Market power enables firm to fix price, rather than take market price. Such a power occurs in imperfect competition. It is possible to maintain price above competitive levels for a period, usually above cost. Market power can also have an influence on the quality of product, on the service and on the extent of innovation. It usually occurs when a firm has dominance of a market, or is fairly large, or there are few substitutes for the product. Contestable markets mean a potential threat of competition because of limited barriers to entry which might prevent a firm from charging excessive prices should they wish to stay in the

market. Buyers would be able to switch suppliers, with a consequent effect on the firm's revenue. Candidates were able to explain the idea of market power and understood the significance of the existence of barriers to entry and exit.

(b) This part of the question was not as well answered as part (a). Many candidates were able to describe different aims of the firm – including profit maximising, behavioural, managerial, satisficing, sales maximising and following a price leader. The descriptions of the different aims were well presented. The answers, however, were mainly descriptive and did not always deal with the crucial phrase in the question: in order to continue with production. The change in aim had to be one that enabled production to continue. In the long run this would mean that any price had to be sufficient to ensure that at least average variable cost was covered

<u>May/June 2017</u>

(b) Discuss whether firms always want to maximise profits and are able to do so in the way suggested by economic theory. [13]

3(b) Discussion of the various aims of the firm, profit maximising, behavioural, managerial, satisficing, and a consideration of whether profit maximising is the main aim and whether it is possible to calculate mc and mr.

Level 4 (9–13 marks): For a reasoned and well-argued discussion with clear explanation of a range of aims and comment on possibility of using mc=mr rule in reality together with a conclusion. Max. 11 if no critique of mc = mr rule.

Level 3 (7–8 marks): For a clear but undeveloped discussion of profit

maximisation plus one alternative developed in depth or 2+ briefly.

Level 2 (5–6 marks): For a limited attempt to consider the question which concentrates on profit maximisation with limited reference to alternative aims.

Level 1 (1–4 marks): For an answer that has some basic correct facts but includes irrelevancies and errors of theory.

May/June 2016

5 The traditional theory of the firm assumes a single objective for the firm, namely the maximisation of profit.

(a) Explain whether a firm with this objective necessarily always makes a profit. [12]

(b) Discuss how the objective in the traditional theory may be varied in different market structures. [13]

5 (a) Explanation of maximum profit rule. Candidates should consider how a firm might move towards the point of maximum profit but also consider the meaning of normal profit and the possibility of less than – or more than – normal profit. The 'maximum' profit point is the best potential but does not always result in profits. A mention of alternative market structures would be valid. [12]

L4 (9–12) For a good explanation of the maximum profits rule, a consideration of super/normal and sub-normal profits; a mention of the situation in different market structures. (Max 10 if only 1 market structure) L3 (7–8) For a competent analysis but with a weaker structure to the answer. A clear indication of the maximum profit position should be given but probably no mention, or very brief mention of alternative market structures.

L2 (5–6) For a more limited analysis with weak explanations.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevance. There will be errors of theory or omissions of analysis.

(b) Discussion of the alternative objectives, influence in the market, behavioural theories, managerial theories, balancing of aims of different parts of the company, pricing

according to other firms in the market rather than according to profit maximisation. [13]

L4 (9–13) For a sound discussion with clear understanding of the principles involved. 2 or more alternative objectives are explained with analysis of one of them. Different market structures may be implied by diagrams.

L3 (7–8) For an accurate reference to the question with discussion of 2 alternative objectives. Different market structures may be implied by diagrams.

L2 (5–6) For a discussion which contains minor errors or an undeveloped comment, not necessarily logically presented. Examines market structures not aims.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

Examiner's report

5 (a) Explanation of maximum profit rule. Candidates should consider how a firm might move towards the point of maximum profit but also consider the meaning of normal profit and the possibility of less than – or more than – normal profit. The 'maximum' profit point is the best potential but does not always result in profits. A mention of alternative market structures would be valid. [12]

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L2 (5–6) For a discussion which contains minor errors or an undeveloped comment, not necessarily logically presented. Examines market structures not aims.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

February/March 2016

3(b) 'It is certain that firms maximise profits where marginal cost equals marginal revenue, and that this is what all firms seek to do.'

Discuss this assertion. [13]

(b) Candidates should consider the statement. It may be true that maximum profits occur where mc=mr but it is not necessarily true that firms seek to achieve this output. Alternative aims should be discussed.

L4 For a sound explanation of the analysis and a clear discussion with a conclusion [9–13]

L3 For a competent comment but with limited evaluation and a weaker

conclusion. Up to 7 if there is no conclusion. [7–8]

L2 For a brief explanation of the idea of maximum profit but relatively little evaluation of alternative aims and no conclusion [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.

February/march 2019

4 (b) Discuss how the objective of a firm in an oligopolistic market might differ from the objective of a firm in a perfectly competitive market. [13]

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L4 (9–13 marks): for a clear analysis with a good structure on the oligopoly section. L3 (7–8 marks): for a clear analysis of perfect competition but less competent analysis and development of oligopoly. Profit maximising stated, but collusion not fully developed.

L2 (5–6 marks): for a weaker answer of the differences and links.

L1 (1–4 marks): for an answer that has some basic correct facts but includes irrelevancies and errors of theory.

February/march 2017

3 (a) Some firms have power over their market. Explain what this means and consider why this power might change in a contestable market. [12] (

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L4 For a sound explanation with good illustrations and a clear understanding of the economic principles involved. 9–12

L3 For a competent comment with limited development probably with weak reference to contestable market. 7–8

L2 For a brief explanation with very little development. 5–6

L1 For an answer that has some basic correct facts but includes irrelevancies and errors of theory. 1–4

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Examiner's report

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May/June 2017

(b) Discuss whether firms always want to maximise profits and are able to do so in the way suggested by economic theory. [13]

3(b) Discussion of the various aims of the firm, profit maximising, behavioural, managerial, satisficing, and a consideration of whether profit maximising is the main aim and whether it is possible to calculate mc and mr.

Level 4 (9–13 marks): For a reasoned and well-argued discussion with clear explanation of a range of aims and comment on possibility of using mc=mr rule in reality together with a conclusion. Max. 11 if no critique of mc = mr rule.

Level 3 (7–8 marks): For a clear but undeveloped discussion of profit maximisation plus one alternative developed in depth or 2+ briefly.

Level 2 (5–6 marks): For a limited attempt to consider the question which concentrates on profit maximisation with limited reference to alternative aims.

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May/June 2016

5 The traditional theory of the firm assumes a single objective for the firm, namely the maximisation of profit.

(a) Explain whether a firm with this objective necessarily always makes a profit. [12]

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5 (a) Explanation of maximum profit rule. Candidates should consider how a firm might move towards the point of maximum profit but also consider the meaning of normal profit and the possibility of less than – or more than – normal profit. The 'maximum' profit point is the best potential but does not always result in profits. A mention of alternative market structures would be valid. [12] L4 (9–12) For a good explanation of the maximum profits rule, a consideration of super/normal and sub-normal profits; a mention of the situation in different market structures. (Max 10 if only 1 market structure)

L3 (7–8) For a competent analysis but with a weaker structure to the answer. A clear indication of the maximum profit position should be given but probably no mention, or very brief mention of alternative market structures.

L2 (5–6) For a more limited analysis with weak explanations.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevance. There will be errors of theory or omissions of analysis.

(b) Discussion of the alternative objectives, influence in the market, behavioural theories, managerial theories, balancing of aims of different parts of the company, pricing according to other firms in the market rather than according to profit maximisation. [13]

L4 (9–13) For a sound discussion with clear understanding of the principles involved. 2 or more alternative objectives are explained with analysis of one of them. Different market structures may be implied by diagrams.

L3 (7–8) For an accurate reference to the question with discussion of 2 alternative objectives. Different market structures may be implied by diagrams.

L2 (5–6) For a discussion which contains minor errors or an undeveloped comment, not necessarily logically presented. Examines market structures not aims.

L1 (1–4) For an answer which has some basic correct facts but includes irrelevancies and errors of theory.

Examiner's report

5 (a) Explanation of maximum profit rule. Candidates should consider how a firm might move towards the point of maximum profit but also consider the meaning of normal profit and the possibility of less than – or more than – normal profit. The 'maximum' profit point is the best potential but does not always result in profits. A mention of alternative market structures would be valid. [12]

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February/March 2016

3

(b) 'It is certain that firms maximise profits where marginal cost equals marginal revenue, and that this is what all firms seek to do.'

Discuss this assertion. [13]

(b) Candidates should consider the statement. It may be true that maximum profits occur where mc=mr but it is not necessarily true that firms seek to achieve this output. Alternative aims should be discussed.

L4 For a sound explanation of the analysis and a clear discussion with a conclusion [9–13]

L3 For a competent comment but with limited evaluation and a weaker conclusion. Up to 7 if there is no conclusion. [7–8]

L2 For a brief explanation of the idea of maximum profit but relatively little evaluation of alternative aims and no conclusion [5–6]

L1 For an answer which has some basic correct facts but includes irrelevancies. Errors of theory or omissions of analysis will be substantial.