

**GCE**

**Economics**

Advanced GCE **A2 H461**

Advanced Subsidiary GCE **AS H061**

**OCR Report to Centres June 2015**

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This report on the examination provides information on the performance of candidates which it is hoped will be useful to teachers in their preparation of candidates for future examinations. It is intended to be constructive and informative and to promote better understanding of the specification content, of the operation of the scheme of assessment and of the application of assessment criteria.

Reports should be read in conjunction with the published question papers and mark schemes for the examination.

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**Advanced GCE Economics (H461)**

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## F581 Markets in Action

### General Comments:

Candidates performed well in the examination and the mean mark rose. There were signs of further improvement in a number of areas. Definitions were generally clear and formulae correct. Most candidates made good use of the data provided and many more integrated data into their answers. Analytical and evaluative skills had generally improved. The essay question on subsidies seemed accessible to candidates and many answers were focused and well structured. While these improvements might be expected in the later years of a Specification, credit is due to both candidates and teachers for the level of clarity achieved.

### Comments on Individual Questions:

- 1 The great majority of candidates scored 3 or 4 marks; where one mark was lost this was generally because there was only an example of one side of the economic problem rather than on both sides
- 2 Almost all candidates completed the diagram accurately to show a shift left of the supply curve or right of the demand curve and consequent rise in price. Fewer addressed the aspect of the question referring to price rising by ‘a significant amount’. Here, in a small development from most previous questions of this type, candidates had to link the ‘significant rise’ in price to a large shift in demand or supply, or to price-inelastic demand. In the event, more than three-quarters of candidates scored 3 or 4 marks.
- 3 Most candidates gave a clear definition of consumer surplus. Most of those who did not score full marks did not state clearly that consumer surplus is a difference between two prices.
- 4(a) As in previous years, where candidates stated the formula correctly they were awarded full marks. As in previous years, some candidates offered an incorrect or very confused explanation. Despite this, the presence of a correct formula earned them two marks. This is an issue for teachers to continue to address in the future as the ability to define price elasticity of supply will continue to be important.
- 4(b) (i) and (ii) Over 90% of candidates calculated the PES figures correctly.
- 4(c) Responses were spread almost evenly across the spectrum of marks. Two marks were available for interpretation of the figures. Many answered well; although, not all candidates were able to express themselves clearly and vague phrases such as “rice is inelastic” with no reference to the concept of PES were not credited. Four Comment marks were available. Many candidates gained credit for formulaic comments on aspects of reliability of estimates and on the possibility that other things might not be equal. There were some excellent responses where candidates earned four comment marks for looking at the differences in production of wine grapes and rice and how these impacted on PES.
- 5 The question referred to ‘the demand for some agricultural products’. For each of two reasons, one mark was available for identifying why demand for some products was more price-elastic than for others. To gain the explanation mark, candidates needed to reference agriculture in some way and many overlooked this. A noticeable minority of candidates answered on price elasticity of supply instead of price elasticity of demand.

- 6 The case study provided a clue to an analytical framework which candidates could use with its reference to ‘switching to grow biofuel crops which will meet the consumer demand...’ Responses to this question were stronger than in previous years and the best answers combined clear analysis of a movement towards allocative efficiency with interesting and sophisticated comment on the impact of such a change in biofuel production on other markets and on welfare.
- 7 This question, on whether open spaces could be considered public goods, was very well answered by the majority of candidates. One third of candidates achieved full marks and two thirds gained four or more marks. This illustrates the principle that, given a clear statement of the key characteristics of public goods, candidates connected this theory with the example in the data and were able to offer a balanced approach.
- 8 The question asked candidates to discuss ‘whether subsidies to producers always correct market failure.’ Most candidates were confident in their understanding of subsidies and were able to show the shift in the supply curve to the right and consequent fall in price and rise in quantity supplied and demanded. These candidates achieved Level 3 Band 1 and scored 10 marks. To progress, as in past series, candidates needed to show further analytical ability in addressing the question as to whether subsidies always correct market failure. Many candidates were able to do so, whether by looking at the correction of under-production or under-consumption or of a movement towards allocative efficiency. Though not required by the Specification, many answered using the more complex market failure diagrams, though they still needed to address the specific aspect of market failure being corrected.

Candidates who produced the best answers and accessed the highest marks were those who had been taught and who had taken on board methods for connecting the theory learned in the classroom with the context set by the specific wording of the question.

This year, few candidates went to a default position of redefining the question and offering a standard answer on indirect tax and regulation. A good number did integrate knowledge of these means of correcting market failure with the question by comparing how subsidies address a market failure of unrealised positive externalities and cannot correct a market failure around negative externalities for which an indirect tax might be appropriate - thus earning evaluation marks.

Around a quarter of candidates reached the highest evaluative level, showing that they have developed the full range of skills in their study of microeconomics.

## F582 The National and International Economy

### General Comments:

As in recent sessions, most candidates attempted all the questions and allocated their time appropriately. Indeed, there was little or no evidence of candidates running out of time and the time devoted to each question very largely reflected the marks available.

Also as in recent sessions, there was good use of aggregate demand and supply analysis with most candidates producing accurate diagrams. This time, however, there was some confusion with microeconomic terms and analysis, something that had previously been on a downward trend.

Most candidates found the last question relatively accessible and the vast majority of candidates wrote at some length. Not all candidates, however, established relevant analysis on which to base attempts at evaluation. The need for relevant analysis was also required in questions 2(b) and 3(b). Most candidates did seek to provide relevant evaluation in their answers to these questions. The strength of the evaluation largely reflected the analysis which underpinned it. A number of candidates found some of the earlier questions relatively challenging. There was some imprecision in the use of economic terms and some use of micro concepts. As on the June 2014 paper, a number of candidates confused a current account deficit with a budget deficit. On this paper, confusion was also shown by a small proportion of candidates over the meaning of investment.

Most, but not all candidates made good and appropriate use of the information given in the case study. Some candidates, however, did not draw on information from the case study in their answers to Q2(a)(ii). Indeed, some candidates did not pay sufficient attention to the wording of the questions. This shortcoming applied not just to Q2(a)(ii) but also to questions 2(a)(i), 3(a) and 5(b).

Due in part to not reading the questions carefully enough and in part possibly due to a determination to put down some pre-learned material, some answers lacked focus. As previously mentioned, it is important that candidates answer the specific question set and that their answers maintain focus.

### Comments on Individual Questions:

- 1(a)** A number of candidates appeared to be uncertain about the nature of the price level. Some answered in micro terms and others revealed a confusion between prices and cost. Others defined inflation rather than the price level.
- 1(b)** There were some strong answers to this question. These often referred to items that are not included in the CPI, particularly housing costs, and that some purchases can be made in the informal economy. A number of candidates, whilst identifying a relevant reason, did not go on to describe why this would result in an inaccurate estimate. Others wrote in very vague terms and some sought to describe why measures of economic growth might be inaccurate.
- 2(a)(i)** A pleasing number of candidates answered this question accurately. Some, however, did not follow the instruction to calculate in US\$ and others, whilst arriving at a figure of 20.25, did not recognise it was in billions.

- 2(a)(ii)** The strongest answers to this question tended to focus on higher government spending in Argentina arising from having to cope with an ageing population and from the government seeking to promote economic growth. A small number of candidates did not use information from the case study and rather more candidates just focused on an increased ability to spend more as a result of higher tax revenue.
- 2(b)** The performance on this question was generally pleasing. There was some good analysis provided with the links between higher government spending and inflation being lucidly set out. Only a very small proportion of candidates failed to build on the analysis by evaluating. There were some strong comments made especially in terms of the influence of the level of spare capacity in the economy. A number of candidates, however, wandered off the central point of the question by considering policy measures to reduce inflation.
- 3(a)** There was a mixture of responses to this question. There were some perceptive comparisons of the trend in unemployment rates in the two countries. Answers were also given which just stated what happened in each year and some which provided no comparison.
- 3(b)** The performance on this question was not as strong as on Q2(b). This partly reflected a confusion over the nature of investment and partly a lack of depth of analysis. Those candidates who provided strong answers often considered the influence of confidence and whether firms were initially making full use of their capital stock.
- 4** Most candidates coped well with this question although a few wrote about why a government would want to avoid a decrease in aggregate demand. A number of candidates stated that a decrease in aggregate supply would result in a deficit on the current account of the balance of payments without establishing the point.
- 5(a)** This was generally well answered, although a few candidates gave an example of a method of protectionism rather than a definition. A small proportion of candidates seemed to have no awareness of the term.
- 5(b)** Most candidates were able to state at least two non-tariff methods of protection. A number, however, did not read the question and gave tariff as an example. Some may have misunderstood the term 'tariff' and gave a tax on imports as an example. Others provided answers that were too vague such as 'make domestic products more competitive'.
- 6(a)** It was pleasing to note that most candidates were able to identify three components of the current account of the balance of payments. Some candidates showed up to date awareness of the new terms 'primary income' and 'secondary income'. There was a small proportion of candidates who gave three components of aggregate demand or the three macroeconomic policies.
- 6(b)** There was a spread of performance on this question. Some candidates produced good analysis, identifying a relevant cause and then analysing how the cause would affect the price of exports and imports, the demand for exports and imports and export revenue and import expenditure. The two most common causes explored were a higher exchange rate and higher domestic costs of production, sometimes linked to a relative fall in labour productivity. Some candidates wrote in static terms, analysing why a current account deficit on the balance of payments might occur rather than why there might be an increase in the deficit. A number just wrote that an increase in a deficit would arise from an increase in exports or a fall in imports without exploring further what might cause these changes. These last two approaches did show some awareness of the nature of a

current account deficit. In contrast, a small proportion of candidates wrote about the possible causes of a budget deficit.

- 7(a)** The performance on this question was generally good. The strongest answers provided clear analysis which examined how a cut in taxation could affect aggregate demand and aggregate supply and so economic growth. These considered the impact of a reduction in different forms of taxation on the components of aggregate demand and on how aggregate supply might be affected by changes in investment and the incentive to work. Providing strong analysis makes it easier to evaluate. By making clear the likely links between changes in economic variables, it is then relatively straightforward to explore in a critical manner, for instance, the factors influencing the likelihood of these links occurring and possible conflicting effects. In this case, there was some strong evaluation provided particularly in terms of the level of economic activity that may have been occurring before the tax reduction, what the tax revenue might have been used for and the different effects on economic growth in the short and long run. A few candidates provided some very perceptive comments in terms of distinguishing between the impact of a reduction in taxation on national output and on the rate of increase in national output.

Some evaluation was rather sketchy and some attempts at evaluation were not successful. A number of candidates asserted points without establishing them. Some candidates did not focus on 'always' and rather focused on a different question, that is the extent to which a reduction in taxation would increase a country's economic growth rate. Some sought to answer which policy measure is the most effective in stimulating economic growth and wrote at some length particularly on the merits and demerits of supply-side policy measures. Other candidates wandered off the point by discussing the costs and benefits of economic growth.

The strength of analysis varied. Some candidates did successfully analyse how a cut in taxation could increase investment but then did not recognise that a rise in investment could increase both aggregate demand and aggregate supply. Other candidates provided analysis that lacked depth. In some cases, candidates failed to establish analysis. These stated points rather than analysing them. For instance, some wrote that a reduction in taxation would increase aggregate demand, without exploring why this may occur.

## F583 Economics of Work and Leisure

### General Comments.

The overall standard was very encouraging with candidates finding the paper accessible and showing a clear command of analysis and evaluation skills which were applied in the appropriate context. The material in Section A provided a good base for candidates to display their understanding of National Minimum Wage related issues, the impact of Trades Unions on the labour market and the impact of a wage freeze in one sector of the economy. The numeracy skills continue to be a challenge to some candidates and a significant number failed to calculate a basic percentage change.

The Section B questions were evenly spread and allowed candidates to demonstrate good analytical skills on part (a). The questions did ask for either examples or diagrams and some candidates ignored this element of the question. Candidates must read the questions carefully. The part (b) of the Section B questions were generally well done with two sided analysis which was often supplemented by insightful evaluation.

### Comments on Individual Questions

- 1(a)** Some candidates were unable to calculate percentage change. The change in real value was usually correctly identified but fewer were able to provide a clear and coherent explanation of why the real value had increased. The OFR rule was used on 1a(ii).
- 1(b)** Well answered by most candidates although a significant number did not read the question carefully and decided to compare Greece with the UK rather than focus on different age groups.
- 1(c)** Well answered by most candidates. Most adopted a straightforward demand and supply for labour diagram. Others started from the position of a monopsonist employer. Both approaches were acceptable.
- 1(d)** A number of candidates failed to focus on the two sided element of a 'comment' question. Also candidates lost sight of the specific impact on the labour market.
- 1(e)** This question produced some good answers with knowledge of the arguments for and against a National Minimum Wage being used in the context of the question to good effect.
- 2(a)** Most candidates attempting this question were able to clearly consider the market failure caused by economic inactivity. Unemployment as a cause produced more problems but many candidates were able to produce good analysis, many using the idea of hysteresis as a basis for the market failure. Unfortunately, some candidates were held back by a lack of examples.
- 2(b)** The question gave the opportunity for some wide ranging answers which demonstrated a strong analysis of a whole range of government interventions along with the problems associated with each policy. A smaller number were prepared to consider the philosophy behind government intervention and a free market approach in their evaluation.

- 3(a)** This question allowed candidates to approach from either a basic supply and demand analysis with the supply curve assumed to be shifting to the right or an analysis using traditional market structures. A popular approach was to consider the range of market structures ranging from monopoly to structures with a large number of firms. Analysis was based on areas such as price, elasticity of demand or profit and efficiency. Unfortunately, some candidates were held back by a lack of examples.
- 3(b)** Contestability questions continue to produce responses which simply substitute competition for contestability. However, an increasing number of candidates can analyse their chosen market in terms of the defining conditions of a highly contestable market. This framework allowed them to produce strong responses.
- 4(a)** This was the least popular question but did produce some good answers with candidates able to explain both the backward sloping supply curve using the relative strength of the substitution and income effects and the impact of wages on the supply of labour. Diagrams were used well.
- 4(b)** Candidates had more difficulty in explaining the impact of training provided by an employer on the supply of labour than being able to look at alternative influences on the long run supply of labour. A common problem when analysing the private sector was to focus on government provision rather than employer provision.

## F584 Transport Economics

### General Comments:

The vast majority of candidates answered all of the questions set and timing did not appear to be an issue. The quality of scripts did vary but there were pleasingly few of a very weak nature.

There was clear understanding of APD from the case study with some good preparation in centres. A high proportion of candidates sought both to analyse and to evaluate in Q1(c) and Q1(d), the two comment questions. It is important, however, that candidates provide links between cause and effect. In terms of questions which require comment or evaluation, it is important that the comment is linked to previous good analysis. Simply referencing 'time' or 'size' as comment / evaluative factors will not gain higher level marks unless supported by clear and relevant underpinning analysis. Similarly, candidates gaining the highest judgement marks were subsequently clear on the extent to which an issue depended upon the factors that had previously been clearly analysed, a simple final summary of previously made points will not gain judgement marks.

The quality of written communication was generally very good and in the main there was little wasted effort with irrelevant material. The two questions where a small number of candidates wasted some time and effort were Q1(d) and Q4(a). In the case of Q1(d), some candidates wrote about why the competition may have increased in the first place, which was unnecessary. In the case of Q4(a), a number of candidates used GDP as a factor and more-so 'income' neither of which were allowed. Diagrams were generally well used particularly for Q2(a), Q3(a) and Q4(b).

Q2 proved popular amongst the weaker candidates, possibly attracted by Q2(b) which actually proved difficult to answer well. There is also room for improvement in candidates preparedness to tackle questions that require a contextual analysis of natural monopoly in (Q2(a)) or avoiding confusion between terms such as contestable and competitive in (Q3(b)) and regulations and taxation in Q4(b).

### Comments on Individual Questions:

#### Section A

- 1(a)** A relatively easy opening question with the majority able to develop a 2 mark explanation drawing on a fairly wide variety of reasons as to why air passenger numbers fell e.g. recession where the fall in income meant that flights were less affordable. Those who only scored 1 did not develop a reason.
- 1(b) (i)** This question discriminated well; most scored 4 but a large minority got the diagram wrong and shifted demand. Labelling was generally better than in previous years. A large number gave a more sophisticated answer linked to market failure and using the concept of marginal private costs rising which was well explained. Too many stated the supply curve 'shifted left' but failed to explicitly quantify the nature of the shift.
- 1(b) (ii)** Many candidates understandably focused on the reduction in the negative externalities, some bringing in the notion of social costs / sustainability for the second mark. Many were also able to offer some idea of improving the allocation of resources.

- 1(b) (iii)** Another question that discriminated well. A limited number of candidates gave the reason for the tax as the reason against it i.e. it was bad for passengers because prices increased, which was interesting but got no credit. However, there were a wide range of valid responses from across the mark scheme varying from the possible negative impact on the UK tourist industry to difficulties in deciding on the correct level of tax and that the tax was not targeting correctly i.e. on passengers rather than use of aviation fuel.
- 1(c)** Most candidates got the link between GDP and household disposable income and the derived demand for air transport. Fewer made the additional link between increased economic activity in goods and increased demand for air transport to move these goods to market. Counter analysis focused mainly on data inaccuracy and external shocks with many candidates picking up 1 or 2 marks. A pleasing number managed a reasonable comment, but weaker candidates rarely scored more than two in total with only a basic understanding of forecasting and that it could be inaccurate.
- 1(d)** Generally, this final question of Section A was answered much better than in previous years. Some candidates made a long winded start with a discussion about the changing market structure to achieve the increased competition but the vast majority got the marks for falling prices and increased quality, linking well in some cases to increased productive and allocative efficiency and more choice and increased consumer surplus. Counter analysis focused mainly on losses in dynamic efficiency and economies of scale and external shocks with many candidates picking up marks here. Some attempted to reverse the question to be about a lack of competition through the inevitable collusion etc. which was not the question set, although it could score as a judgement in terms of how long the competition would last. A pleasing number of candidates managed a reasonable comment with some very good judgements by those who clearly appreciated that this was required in both this and the previous question.

## Section B

- 2(a)** This was the least popular question attracting many weaker candidates and in too many cases poorly answered with limited knowledge of the defining characteristics of natural monopoly or its application to transport markets. Some were clearly aware of what a monopoly was but not a natural monopoly. Better answers were aware of natural monopolies and could repeat the diagram and describe some characteristics but did not explain why they were natural monopolies. This needed some development in terms of 'wasteful duplication of resources' if competition existed therefore resulting in productive and/or allocative efficiency. It appeared that many chose question 2 in the misguided hope of Q2(b) being easier from which to access marks.
- 2(b)** A tricky question to answer with difficulty experienced in clearly getting to grips with what 'high quality service' is or indeed precisely why it would be the main objective of firms. Many simply compared high quality with low prices in transport. Better answers developed the idea of how high quality could result in increased demand/brand loyalty/increased market share and then further developed the benefits. The counter analysis was often better following the traditional alternative objectives with comparison such as profit maximisation or why high quality wasn't always a good objective. The main problem candidates experienced was how to use their understanding of different market structures to answer the question set. Many simply went through each model with reference to objectives making the judgement marks especially hard to come by.

- 3(a)** This was the second most popular question and produced some good answers with candidates able to explain economies and to a lesser extent diseconomies of scale. The main differentiator was the ability to give a really full analysis, for example by referring to the strong negotiating position afforded through making large scale purchases. Too many failed to get higher marks by not linking their analysis clearly and precisely to falling / increasing long run average costs.
- 3(b)** Contestability questions continue to produce responses from weaker candidates who simply substitute competition for contestability. However, a pleasing number of candidates in this session used the framework of the question to show an awareness of the difference; strong candidates applied their understanding to different freight markets using ideas such as sunk costs, predatory pricing, intimidation, economies of scale, leasing and deregulation. There was also some good evaluation in terms of short and long run, different freight markets (road, rail, air, sea) and also between local, national and international markets.
- 4(a)** The most popular question by far with a wide range of alternative factors reasonably well analysed. Some still answered through GDP itself and others used some notion of income, neither of which were allowed. The better candidates looked at substitutes, population, fuel prices and government policy. Again, the main differentiation was in terms of quality of analysis of how these factors could be used to aid forecasts of future demand for bus transport. Many wasted time by considering the problems of forecasting whilst some gave too much focus to geographic location and others lacked the focus on the issue of forecasting itself.
- 4(b)** This question was popular but required analysis and counter analysis of both regulation and subsidies to gain the top mark bands of L4. It appeared that candidates had been well prepared for a question on these topics but possibly not for the dual policy approach. Thus although many achieved L4, a lot were capped at 12 by missing one of the four areas of analysis. Often, this was by using examples of tax and forms of road pricing as regulation which was not accepted (but could have been used as a judgement in comparison once regulation and subsidies had been fully covered). There was good use of well annotated diagrams to support analysis. Judgement marks were often awarded at the lower end with weaker candidates missing out due to an unbalanced or poorly argued analytical approach. Stronger candidates provided some excellent judgements mainly using the idea of a more integrated transport policy.

## F585 The Global Economy

### General Comments:

The paper differentiated well and there was a pleasing level of engagement with the economic issues raised in the pre-released stimulus material. Candidates who were able to deploy the economist's toolkit of theories, concepts and techniques were rewarded appropriately. There was good knowledge of a range of economic terms, both when directed to explain them and in the analysis and evaluation offered by candidates on the higher tariff questions.

There were three main areas in which candidates could have improved their performance:

- (i) Careful reading of the question  
This was most evident in Qs 1(b) and 2(a). In Q 1(b) few candidates picked up on the words "potential output" in the question and showed this on an AS diagram. In Q 2(a), many candidates *described* economic integration in the EU and another regionally integrated area but did not draw direct *comparisons* between the two.
- (ii) Development of discussion  
This particularly applied to Q 3, but also to the comments offered in Qs 1(c) and 2(c). Weaker candidates have a tendency to write a list of points in evaluation of an issue rather than taking time to develop in greater depth a smaller range of points. In Qs 1(c) and 2(c), this prevents candidates achieving the highest marks in Level 4 where two developed comments or one comment with two points of development are required for full marks. In Q 3, the lack of development of the discussion traps candidates in Band 1 of the mark scheme, since judgements are expected to be made on developed discussion (Band 2). Consideration of cause and consequence and the use of connectives would allow candidates to achieve the necessary development and avoidance of the "it depends" list.
- (iii) Providing supported judgements  
The best candidates do this by careful planning of the direction of travel of their response. They know from the beginning what they want to conclude. So, for example in Q 3 it was clear from planning seen at the start of responses that some candidates wanted to argue that globalisation is largely beneficial for only some types of developing economies. The analysis and discussion clearly led the examiner in this direction, by consideration of the benefits of trade, the problems of primary product dependency and finally, then, the need for changes in economic structure to maximise the benefits of globalisation. Weaker candidates simply provide a summary of what they have said in the body of the response and not making the leap to a considered and fully developed conclusion. This is a skill that Centres can encourage candidates to practise.

Overall, performance on the paper was pleasing. Explicit use of analytical frameworks was much more in evidence and greater care was taken to integrate diagrams into the written analysis and evaluation than has been the case in the past. It was also pleasing to see a wide range of examples of regionally integrated areas in Q 2(a), suggesting a creative approach to teaching the specification content by Centres and to the willingness of candidates to engage in independent research.

### Comments on Individual Questions:

- 1(a)(i)** This question was answered well by the majority of candidates who could name two stages of the economic cycle other than recovery.
- 1(a)(ii)** Most candidates recognised that unemployment would fall in the recovery stage of the economic cycle and attributed this to the need to employ more labour to meet the higher demand for goods and services. Alternative impacts of a recovery on the level of unemployment were accommodated by the mark scheme.
- 1(b)** Responses to this question were, in the main, well focused on the problems of long term unemployment on the supply side of the economy. However, weaker candidates approached the question from a demand side perspective gaining few, if any, marks. Better candidates recognised that long term unemployment would result in a de-skilling of the labour force and were able to analyse the effects on the potential output of the economy through a leftward shift of the Long Run Aggregate Supply (LRAS) curve. There was a good understanding of hysteresis and the impact this would have on the quantity or quality of the labour force. Only the best candidates showed the impact diagrammatically by explicitly identifying the full capacity level of output. A common approach was to show, instead, the impact on the equilibrium level of real GDP.
- 1(c)** It was surprising to see a common misconception in some responses about the impact of a reduction in the rate of corporation tax. Many candidates thought that this would reduce production costs, rather than increasing the level of retained profits. The consequent analysis was, therefore, flawed. Those who recognised that retained profits would rise, correctly stated that this might facilitate an increase in investment. The best candidates specified the nature of this investment and were able to justify why this would lead to a reduction in unit costs or an increase in the quality of UK goods and services. There were also misconceptions about the nature of investment allowances, with weaker candidates arguing that this increased retained profits or allowed firms to make untaxed profits up to £250,000 rather than reducing the cost of investment by enabling firms to offset investment against corporation tax liabilities.

A number of comments was offered by candidates, some of which did not have 'legs'. A decision was made by examiners not to award marks for the comment that the effectiveness depended on the size of the investment allowances or the reduction in corporation tax as these were clearly stated in the stimulus material. Better candidates recognised that higher retained profit might not increase investment if a decision was made to reward shareholders with higher dividends and that investment incentives might not be strong enough at a time of uncertainty about the future level of demand or when firms had significant levels of spare capacity.

- 2(a)** Most candidates were able to name a regionally integrated area in addition to the EU. Some candidates failed to pick up marks because they chose to describe economic integration in the EU and the other regionally integrated area without making direct comparisons. To achieve full marks, all that was required was to name another regionally integrated area, state whether the level of integration was higher or lower than that in the EU and to provide two comparisons of similarities or differences. It was pleasing to see such a wide range of examples of regional economic integration, suggesting that Centres had encouraged candidates to engage in independent research. The most common examples remained NAFTA and ASEAN.

- 2(b)** Those who had a good understanding of trade creation and trade diversion were able to score well on this question. Starting with an accurate definition of both concepts, these candidates went on to explain how joining a customs union would lead to domestic production being replaced with trade with customs union partners and how the common external tariff would divert trade from outside the union. Although the question did not require the use of a diagram, better candidates used one or more diagrams to explain the effects of trade creation and diversion. Weaker candidates did not have a secure grasp of the two concepts but were able to pick up some marks for showing an understanding of the effects, albeit in some respects an inaccurate understanding.
- 2(c)** Candidates showed a good understanding of the theory of comparative advantage and were able to summarise the main trends in the pattern of trade shown in Extract 4. Weaker candidates did not provide any analysis of how the theory of comparative advantage might explain the patterns of trade identified. For example, they would say that the rise in the proportion of trade between developed and developing economies reflected the fact that developed economies were losing comparative advantage to developing economies without offering a reason why this might have happened. Better candidates provided reasons such as changes in factor endowments. Without analysis of how comparative advantage might explain the patterns of trade, weaker candidates were unable to access Level 4 of the mark scheme. There were many valid comments about why comparative advantage might explain the patterns of trade, including the effects of regional economic integration, exchange rates and transport costs. Where these were developed the top marks in Level 4 were accessible to candidates.
- 3** Most candidates were able to provide a balanced discussion of the impact of globalisation on developing economies which was underpinned by economic analysis. The impact of greater trade and FDI was supported by explicit use of AD/AS analysis, with better candidates able to develop the analysis in terms of specific benefits for developing economies. Often, this was rooted in a good understanding of the process and measurement of development. In Level 4 of the mark scheme, it was possible to differentiate between candidates who provided a basic discussion (Band 1) and those who were able to develop their points (Band 2) and reach a judgement whether the impact of globalisation on developing countries is “largely beneficial” (Band 3). For example, many candidates made the point that globalisation exposes developing economies to external economic shocks because of their greater integration into the global economy. Without development, this point would be awarded a mark in Band 1 of Level 4. An explanation of the consequences of greater integration into the global economy allowed better candidates to access Band 2. For example, the volatility of export revenue caused by changes in global demand for primary commodities, whose supply is price inelastic, and the consequences of a reduction in Aggregate Demand of a global recession were good developments of the basic point about exposure to external shocks. Similarly, discussion of the employment effects of FDI was developed by better candidates by consideration of the capital intensive nature of extractive industries and the small multiplier effects as a result of multinationals who do not foster supply chains within developing economies. Again, profit repatriation was identified by many candidates as a drawback of globalisation. Only better candidates developed this point by considering how this might cause the increase in GNP to be smaller than the increase in GDP from FDI.

It was common for many candidates to conclude their response with a summary of the benefits and drawbacks of globalisation. Such an approach did not allow candidates to access marks in Band 3 of the mark scheme. It is important that candidates know how to make and develop judgements and how this is different to summarising the issues discussed in the main body of the response. Candidates should be aware that access to Band 3 requires that the preceding discussion has been developed and rewarded in Band 2. A judgement uses the discussion to arrive at a supported conclusion which

provides a considered viewpoint on the issue. For example, the best candidates argued that globalisation has been largely beneficial only to those developing countries that have been able to change their economic structure and so avoid the development trap of primary product dependency. Such a judgement arose out of a discussion of the problems of primary product dependency which included analysis of the volatility of primary product prices and reasons for the declining terms of trade of some developing economies. It was clear that these candidates had planned the concluding judgement at the start of their response – an approach to be recommended to all candidates.

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