

**GCE**

**Economics**

Advanced Subsidiary GCE **AS H060**

**OCR Report to Centres June 2016**

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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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## H060/01 Themes in Microeconomics

### General Comments:

Candidates coped well with the new format for this examination. Most candidates attempted all of the questions and allocated their time appropriately. There was some evidence that a small number of candidates ran out of time when completing Section B and C questions.

A number of candidates found the quantitative element of this examination challenging. This issue was particularly evident within Section A, the multiple-choice questions. The lack of precision in the use of economic terms and calculations within some answers lost candidates marks. This was notable in questions 16b(i), 16b (ii) and 16 c (i). A number of candidates found the area of economies and diseconomies of scale challenging having chosen the essay, which focussed upon this aspect of the specification.

Most candidates recognised the need for both careful analysis and evaluation in the longer questions, 16e and the final essay question. A small number failed to provide evaluative elements in each of these questions and therefore struggled to progress to the highest mark bands. It is important that candidates attempt to both analyse and evaluate before reaching a justified conclusion in such questions.

### Comments on Individual Questions:

1 -15 Candidates generally found the multiple-choice questions accessible. The majority of candidates correctly answered questions that related to definitions and characteristics of key terms, such as questions 2, 3, 4 and 13. Candidates found more difficulty in answering questions focussing upon the quantitative aspects of the specification. Questions 8, 12, 14 and 15 proved difficult for a number of candidates. Question 14 was particularly challenging for candidates - very few were able to recognise how supply would change and so did not correctly identify the new equilibrium price.

16a The great majority of candidates correctly defined this term. A small number of candidates wrote very lengthy answers with developed examples that went far beyond the requirements of a 1-mark question.

16b(i) Many candidates gave a clear and complete definition of price elasticity of demand. As in previous years, some candidates offered an incorrect or very confused explanation. Most of those who did not score full marks provided a formula rather than the requested explanation. This is an issue for teachers to continue to address as the ability to understand and explain elasticities correctly is an important skill.

16b(ii) Most candidates correctly calculated the PED figure but a notable proportion of candidates omitted the negative sign.

16c(i) Many candidates were able to give a clear and precise definition illustrating the two aspects of this concept. Most of those who did not score full marks used words from the stem of the question rather than explaining the meaning of the term. The negative aspect was often not explained clearly.

16c(ii) The question required candidates to identify both the cause of a relevant externality and the third party impacted. A number of third parties were highlighted in the case study material. The strongest candidates made effective use of the case study and explained precisely how the third party would be affected. Weaker candidates struggled to differentiate between private and external costs. A number simply provided direct quotes from the case study with no interpretation and development.

16d The question required candidates to identify the trend from the data and then explain a reason for the trend. The case study provided an analytical framework which candidates could use with reference to two possible reasons, a fall in relative prices and increased income. Stronger candidates correctly identified the increased consumption and its cause but only the most able attempted to establish a chain of analysis using the concept of a normal good or the inverse relationship between price and quantity demanded. A noticeable minority of candidates failed to state, or incorrectly identified, the trend.

16e This question differentiated well between candidates. Many candidates had a strong understanding of the subject matter and scored highly. Such candidates drew complete and well-labelled diagrams, clearly illustrating the impact of a minimum price set above equilibrium price. The supporting analysis showed a logical chain of reasoning that referenced points on the diagram. Evaluations considered the impact of PED and the relative size of the price change on the contraction in demand. A number of candidates were confused by this topic area. Such candidates were unable to correctly draw the appropriate diagram or shifted either demand or supply rather than illustrate the contraction and extension. A small minority, discussed a buffer stock system.

17 This was by far the most popular of the essay questions answered by the majority of candidates. Most candidates were confident in their understanding of subsidies and were able to show the correct shift in supply and consequent impacts upon price and quantity consumed illustrating good analytical skills. Stronger candidates made effective use of market failure diagrams to illustrate how such actions would reduce welfare loss or increase allocative efficiency. To progress to higher marks candidates also need to display their ability to provide supported evaluation the effectiveness of subsidies to correct market failure in the context given. This aspect of answers was frequently less well developed.

The strongest candidates effectively applied the theory they had been taught to the situation outlined in the question. Such answers displayed a strong understanding of the problems associated with changing consumer's behaviour through the market mechanism. Analysis was provided of the impact of subsidies but also of the limitations imposed by PED and opportunity cost. Only the most able students attempted to develop a supported conclusion and to consider alternative policies in any detail.

Weaker answers identified how the markets fail and explained the impact of subsidies but did not link the two aspects in any meaningful way to address the question set. Such answers frequently listed counter arguments rather than providing an analysis of their impacts. Such answers could not gain marks in the higher mark bands.

18 This question tested internal and external economies of scale. This proved a challenging topic for many of the candidates who attempted the question.

Candidates who produced the best answers and accessed the highest marks recognised that the choices offered illustrated the differing impacts of an increase in output and an increase in the concentration of an industry within an area on a firm's costs. Such candidates considered the benefits and costs of the two locations given using the concepts of internal and external economies and diseconomies of scale before coming to a justified conclusion as to the best choice. Relevant diagrams supported the analysis presented.

The majority of candidates who attempted this question however did not understand the focus for the question. The answers presented often-repeated elements of the question or presented very general discussions with little reference to economic theory and concepts. Some candidates attempted, without success, to use the concepts of market failure or cost benefit analysis to formulate an answer.

## H060/02 Themes in Macroeconomics

### General Comments:

The majority of candidates seemed to access the paper reasonably well. The multiple choice questions tested candidates' knowledge across a wide range of topics. The final essay question was often well answered, demonstrating the range of skills expected. Candidates seemed to have sufficient time in which to complete the paper. In the final question, candidates with time to spare tended to continue at length with general macroeconomic theory where focused detail on the question would have gained them higher marks.

The data question, 16, proved challenging in parts, notably in 16(a) and 16(e).

The Levels approach to marking has enabled marks to be spread in the essay question, rewarding candidates appropriately.

### Comments on Individual Questions:

Question No.

Among the multiple choice questions, the following proved the most challenging to candidates:

6 Many candidates found were unable to identify the correct answer D which identified an item of current government expenditure – teachers. To meet this very applied approach in the new specification teachers are encouraged to refer often to examples.

8 The calculation of the CPI is one of a number of areas where the specification expects candidates to have knowledge of the mechanics of deriving economic indicators. Such detail lends itself to testing in this type of question.

10 This question proved a good discriminator with its focus on the difference between (price) level and the rate of change (of prices), a point which many candidates find difficult.

12 Despite being a ratio between two indices, centres need to remember that the Terms of Trade are normally expressed as  $\frac{\text{Export Prices}}{\text{Import Prices}} \times 100$ .

16(a) The majority of candidates seemed perplexed in the face of this question on the three approaches to measuring GDP. A very wide variety of incorrect answers prevailed over 'income' and 'expenditure'.

16(b) Here a large number of candidates simply spelt out GDP as 'Gross domestic product' and 'per capita' as per head. The command word "explain" led the expectation that the concept of GDP would be explored, e.g. 'total output' and the mechanics of dividing by the population.

16(c) The calculation of the rate of unemployment produced a wide range of solutions with around half the candidates answering correctly. Centres may wish to develop candidates' understanding of how the economic data from countries is derived.

16(d) Many candidates seemed not to read this question carefully. They were asked to “compare how Germany and the UK are likely to be affected”. The mark scheme expected this comparison. The most successful answers were the most succinct, with candidates achieving full marks in a few lines, with a brief reference to falling exports, falling investment and whether the UK or Germany would be impacted more. Vague phrases from the text such as ‘affected more’ or ‘negatively affected’ did not answer the question.

16(e) This question found over half the candidates drawing AS/AD diagrams. A minority correctly showed the demand for the renminbi shifting to the right with appropriate axes. A range of hybrid answers also appeared with various axes and curves.

16(f) This was very well answered.

16(g) Many candidates seemed unclear about the nature of direct tax and a significant minority confused this with a change in indirect tax. The expected focus of candidates’ answers was the process of how increased retained profit allowed higher investment and how greater disposable income allowed higher consumption and thus the need for firms to invest to expand output. Analysis marks were awarded for the transmission processes involved rather than for general AS/AD explanation.

17 This was the more popular choice of question. Candidates who had some understanding of unemployment and policies but a weak understanding of the AS/AD framework offered applied answers. There were relatively few attempts to link unemployment policies into logical AS/AD analysis. Candidates who approached the question primarily through demand side policies fared much better than those who went down the education/skills route. There was some confusion regarding the effects of supply-side policies on skills, employment and price levels, largely a result of imprecise understanding of the difference between labour force and employment. There was also misunderstanding that cutting the minimum wage would solve unemployment and a number of controversial solutions.

18 Generally, analysis marks proved straightforward to access but it was less obvious how to evaluate, especially when needing to make a judgement. Surprisingly few candidates developed the idea that the outcomes depended on what areas of government spending were cut or what types of tax were raised. A surprising number of candidates focused on fewer subsidies for firms and concentrated on this with a disregard for any other policies. Pleasingly few confused budget deficit with the current account.

It is worth noting that some students focus excessively on subsidies. In both 17 and 18 many answers included subsidies as a key Government policy (or even the only policy) and these candidates were often among the minority who offered micro analysis instead of macro analysis.

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