

GCSE

Economics

General Certificate of Secondary Education **J320**

OCR Report to Centres June 2014

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

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A591 How the Market Works

General

It was pleasing to see that most candidates were well prepared in terms of knowledge, understanding and application for this paper across the specification. A small number of candidates either appeared to lack the necessary knowledge or ignored the wording of the question. Failure to properly read the question was a major cause of some candidates gaining fewer marks.

To achieve a high mark it is essential that candidates address the 'key word' such as 'explain' and 'discuss' and realise that these require different approaches. Failure to do so is likely to severely restrict the marks that can be gained. In part d questions just adding a brief conclusion to some limited application, without any supporting analysis, is not a way of achieving the highest level. Too many candidates seem to think that trotting out their notes will allow them to do well. Although good knowledge is essential this approach is likely to just give them knowledge and application marks. Analysis can be demonstrated in a number of ways one of which is using, correctly, clearly drawn diagrams; while another is to follow through logically an economic train of thought. Centres should emphasise this approach in their preparation. They also need to make sure that candidates understand that repeating the stem of the question will not gain them marks. To gain the top marks candidates must offer a supported conclusion. Centres are urged to spend time helping candidates on what is required to gain Level 4. Too often a promising answer failed to get full marks as a summary rather than a conclusion was appended or there was no analysis.

Although the paper was aimed at the whole ability range, there was little evidence that candidates, as a whole, could not try and answer every question. The best candidates often benefitted from the linear nature of the course to take a holistic approach to their economics by using concepts met in the rest of the specification.

It was good to see this year that the vast majority of candidates, who used the extra paper after the final question, indicated this in some way thus helping both the examiner and themselves.

Question 1

- (a) Candidates often seem confused by the terms production and productivity. While the majority identified the correct answers in both parts, too many chose 'average output' as the answer for production.
- (b) While the vast majority of candidates were able to correctly calculate the answers and showed their working out, which meant that if they got the wrong answer they could still be awarded a mark, there were still some who appeared to have no idea. The most common errors were in part (i) to subtract £300 and not £500 and in part (ii) to divide the number of units by the total cost.
- (c) Although many candidates attained full marks for this question a number failed to analyse the methods by which Clucas Industries could increase the productivity of their workers. Candidates needed to develop their answers fully with concrete analysis. The most common methods identified were education and training, higher wages and specialisation. The best answers showed clear analysis through a logical progression of ideas eg training to skills and then to increased efficiency. The weakest showed little understanding of productivity by suggesting the replacement of workers with machinery or hiring more workers. Others just repeated the stem of the question thus failing to gain the third mark.

- (d) The better answers usually focused on economies and diseconomies of scale with good reference to change in average costs. Some drew a diagram, although a few did not label it which meant it was meaningless. The best then reached an appropriate conclusion relating their analysis to the actual question: 'growing in size in a competitive market'. Others offered responses that simply focused on monopoly power and increased total costs showing reasonable application, but no analysis. Others showed good knowledge of economies of scale, but failed to look at average costs. The weaker answers were those that did not read the question carefully and instead focussed on the firm operating in a competitive market.

Question 2

- (a) The majority of candidates correctly inserted the words 'quantity' and 'price' in the right place, although too many candidates incorrectly inserted 'cost' instead of 'price'. A few candidates either inverted the correct words or chose 'productivity'.
- (b) Most candidates were able to state and explain two factors which could have caused the supply of plants to have increased, such as an increase in the number of firms in the market, the importance of good weather and the provision of subsidies by a government. Some candidates, however, ignored the question and wrote about a decrease in supply or an increase in demand. Others just repeated the stem of the question as development thus failing to gain the second mark.
- (c) This question was in three parts. The first part required understanding of 'price elastic'. While most realised that a fall in price would lead to an increase in quantity, relatively few correctly used 'price elastic' to state that it would lead to an increase in excess of ten per cent. Part (ii) asked candidates to 'draw and label a price elastic demand curve'. It was worrying to see a significant number of candidates who did not label the diagram. In addition, too many had given little thought to what an elastic line might look like. A few either did not attempt the question or drew an upwards sloping demand line. In part (iii) the vast majority gained both marks with own figure rule applying in terms of part (ii). Some who had not drawn a curve in part (ii) offered an answer here even though they had no line on which to base their response.
- (d) One positive aspect of candidates' answers was that nearly all were applied to a garden centre thus ensuring that they reached Level 2 on the mark scheme. It was disappointing, however, to find that only a small majority offered any analysis with most confining themselves to providing a range of factors affecting demand. Those that did correctly draw and explain diagram(s) and/or used elasticity did well, but many of these ignored then first three words of the question – 'to what extent'. A few candidates focused solely on supply as they had been taught that weather was a supply factor, but the large majority were able to show how weather could affect demand.

Question 3

- (a) It was good to see that the vast majority of candidates gained both marks. A small percentage did not understand what the question meant and wrote about unemployment, inflation, etc.
- (b) Again, the vast majority of candidates gained both marks. A few candidates either repeated their answers or did not know what objectives a firm might have and gave responses such as 'economies of scale'.

- (c) In part (i) while most candidates could offer either the textbook answer of ‘many buyers and many sellers’ or could give a characteristic of perfect competition such as prices set by the market instead of many buyers, some could only offer very vague answers such as ‘more than one firm’. In part (ii) there was a large variety of responses. Some candidates gained 2 marks for the advantage and application but were unable to develop their answer any further and failed to pick up the third mark. Better answers explained not only why firms competing would lead to an advantage to the consumer, but also how the consumer would benefit. Candidates who simply repeated the stated advantage in the explanation only got 2 out of 3 marks. Disadvantages tended to focus on the resource cost of too much choice, but answers were sometimes vague and lacked economic content. In addition many candidates did not apply this to the consumer and focused instead upon the firm. A small minority of candidates did not read the question carefully and answered it from the perspective of firms and not consumers and could not gain any credit.
- (d) This question demonstrated the need to read the question. Too many candidates wrote on the question they had hoped to be asked/had practised ie the business and not on ‘the effects on workers’. Those who solely did this could gain nothing, but most did manage to make the odd relevant point to get to Level 1 or the bottom of Level 2. Others were able to offer a number of points about skills, boredom, etc, but provided no analysis. Some candidates, however, gave very mature answers and focused on how specialisation could increase the skills of workers and increase their human capital, leading to increased wages and a better standard of living/quality of life. Other excellent answers stated that specialisation could lead to occupational immobility, as workers would find it difficult to find alternative employment, or considered how additional skills from specialisation could reduce the supply of labour to the firm or make the supply of skilled labour more inelastic. Those who were able to provide a supported conclusion such as ‘workers would benefit as better pay would outweigh the impact of boredom which was important as many people worked mainly to earn money to facilitate a certain standard of living’, gained full marks.

A592 How the Economy Works

General Comments:

It was pleasing to see that many candidates were well prepared in terms of knowledge, understanding and application across this part of the specification. Many candidates were able to demonstrate the skill of analysis within the higher tariff questions, although evaluation was sometimes lacking, even among the more able candidates (see below).

For the most part, the data which preceded each question was used accurately to answer lower tariff questions. Where this was not the case it was usually due to carelessness, for example expressing unemployment as a % when the graph showed millions. A minority of weaker candidates lose marks by not answering the question set, for example by defining direct and indirect taxes when asked to identify them from the data. This can be more of a problem on higher tariff questions when candidates write a prepared answer on the topic rather than a response to the specific question set. Similarly, some ignored the context in which the question was asked. In parts c and d, especially, regurgitation of learnt knowledge without addressing the actual question is unlikely to be well rewarded. For example, when the question is about low interest rates, the answer should not be about rising rates. On the other hand, many candidates did provide clear analysis in answers to part (c) and (d) of the questions to gain high marks, and the overall analytical abilities of candidates was significant. To achieve the highest marks on the longer answers to part (d) questions, evaluation is required; and candidates often failed to evaluate. Those who did demonstrated their ability to form judgements in a variety of economic situations. Further comments with regard to evaluation will be found in individual questions below.

Although the paper was aimed at the whole ability range, there was little evidence that candidates, as a whole, could not try and answer every question, with 2(b) sometimes being an exception.

This was a good paper for differentiating a range of abilities and many of the better candidates showed advanced levels of understanding of macroeconomic principles.

A final general point – candidates are often not stating when they have used pages 14 and 15 to extend answers (mostly to part d questions), and this does make it difficult for Examiners who are marking on computer screens. A simple 'cont' or 'see p14' is all that is required.

Comments on Individual Questions:

Question 1

1a Most were able to use the information to describe what happened to unemployment in the period shown in the graph, for both marks. Those who failed to achieve the second mark did so for three main reasons:

- failure to refer to the data,
- incorrect figures for unemployment especially at the start of the period (some used the March 2009 figure),
- references to percentages instead of millions, or millions omitted.

Most did read the graph accurately, but some did not.

- 1bi Candidates were asked to identify ‘claimant count’ and ‘labour force survey.’ Most could do this for both marks, while others identified one of these. Quite a few wrote ‘claimant account.’ There were quite a lot of vague answers such as ‘a survey’ or ‘those getting JSA,’ while others put answers such as ‘CPI,’ or ‘GDP.’
- 1bii Most candidates knew what is meant by seasonal unemployment and were able to explain for both marks. Many used an example to aid their answers, so examiners often read about santas, ski instructors, ice cream sellers, life guards, tour guides and so on. In some answers the unemployment was implied rather than stated as they concentrated on seasonal employment.
- 1c Candidates were asked to explain two policies which could be used to increase employment.

There was often a bit of a problem with categorisation of policies. For example, giving subsidies to firms was a supply-side policy according to many candidates, while cutting direct taxes to increase incentives was not. Nevertheless, this was generally answered well, with fiscal policy budget deficit, monetary policy cutting interest rates, supply-side policy increasing education and training, cutting benefits and cutting direct taxes all popular. The policies most likely to gain all three marks with accurate explanations were the first three above, and many competent candidates achieved all six marks in total, with sound economic analysis.

- 1d Is unemployment always a problem for an economy? There were a wide range of responses to this question. Weak candidates tended to confuse the government’s budget with the economy as a whole and implied that less tax was less money in the economy. Another weakness was where candidates mentioned ‘productivity’ (falls) when they really meant output. Some ‘went overboard’ on social problems of unemployment without mentioning other effects. A lot did recognise the consequences for the unemployed themselves, and many wrote about the implications for social protection benefits, taxation and the government’s budget. Other problems which were discussed included the waste of human capital, the danger of long term unemployed becoming unemployable, and regional problems. Rather fewer candidates analysed the cyclical effect through a multiplier in reverse, and those who did so usually reached at least level 3, analysing the effect of less disposable incomes, less economic growth and more unemployment. Many did recognise that unemployment may keep the lid on inflation. Some candidates considered the type of unemployment, with frictional being particularly relevant as it can benefit an economy. As is the case with all part (d) questions, candidates had to evaluate / make a judgement for level 4. Those who considered the type of unemployment or how close the economy is to full capacity or the need for a pool of unemployed to cater for changes in demand tended to reach this level. There were some excellent evaluations around the level of unemployment and balancing this against other government macroeconomic objectives.

Question 2

- 2a The large majority were able to calculate the difference in the Bank rate as 4.5%. Those who gave an incorrect answer did so by using wrong figures from the graph.
- 2b Many candidates were unable to identify or explain two factors which affect the rate of interest on loans; they seemed unfamiliar with this part of the specification. This 4 mark question was the most likely one to be not attempted. Some wrote about savings rather than loans. There were quite a few dubious suggestions which were macroeconomic variables, such as ‘inflation,’ ‘exchange rate,’ and ‘growth.’ ‘Length of time’ or ‘size of loan’ were often given. The most popular correct suggestions were the level of risk and security offered, followed by competition between banks.

- 2c i Savers would not benefit from the trend shown in the graph, and the great majority were awarded both marks for this question. There were a few, however, who equated saving with borrowing and stated savers would benefit.
- 2c ii Why would the trend in the graph encourage spending? This was a fairly straightforward question. Weak answers restated information already in the question about falling interest rates and increased spending. The most common way to achieve all four marks was to explain that as the reward for saving had fallen, people would reduce savings, and as the cost of loans fell, more people would take out loans; and many candidates did this. Some candidates also explained that the disposable income of mortgage holders would rise, or more firms would borrow to invest.
- 2d Does the UK economy benefit from a period of low interest rates? There were a wide range of responses to this question. Some equated ‘the economy’ with the government, and wrote only about the government’s finances (extra consumer spending leads to more taxes etc). However, the majority recognised that spending would be encouraged, leading to increased aggregate demand, output, economic growth and employment. Many also recognised the possible danger of demand-pull inflation. Many reached at least level 3 by explaining the effects on these macroeconomic variables. The effect on the exchange rate, imports and exports was sometimes considered. There were, however, quite a few candidates who confused the balance of payments with the government’s budget balance. Evaluation required for level 4 was shown by those who considered the conflict between macroeconomic objectives or the current state of the economy; so, for example, inflation was less likely to be a problem if there was plenty of spare capacity. Often the evaluation was that a low interest rates was good in the short run but if it went on for too long it could result in demand-pull inflation.

Question 3

- 3a Most correctly identified a direct tax and an indirect tax from the pie chart, with income tax and VAT being the most popular choices. Most of those who failed here did so by defining direct and indirect taxes instead of identifying them. A small minority stated VAT as direct and income tax as indirect.
- 3b i Most correctly identified corporation tax as the tax on company profits. The most frequent incorrect answer was business rates. Most correctly identified VAT as the tax on goods and services. The most frequent incorrect answer was excise duties.
- 3bii The great majority of candidates correctly calculated the budget deficit at £91billion. Some wasted time by adding up the revenues when the total was already given in the data. A few were careless and gave the answer as £91. This is somewhat short of £91bn.
- 3c This concerned how progressive taxes and transfer payments could be used to reduce income inequalities. A lot of candidates understood that progressive taxes meant the ‘rich’ pay more. The more able candidates were more detailed, and explained that the higher income groups paid a larger percentage or proportion of their income as tax. Many, however, did not make clear that the rate of tax was higher referring only to that richer groups paid more tax. Some referred directly to income tax. Some candidates did not recognise the term ‘transfer payments’ and either ignored it or treated it as some kind of tax. There was some evidence that the meaning of transfer payments may have been overlooked in teaching in some centres. However, most were familiar with this, and explained that benefits would raise the income of the lower income groups and reduce the gap between them and higher income groups. Overall, there were a wide range of answers but most reached at least level 2, and many did reach level 3 for an accurate analysis.

- 3d Would increases in taxes on tobacco products benefit the economy? Most candidates understood the basics behind this question: that the tax would increase the price and demand may therefore fall. A few candidates concentrated their answers on effects on the tobacco industry rather than on the economy as a whole. Many, however, went on to say that demand is inelastic for a habit forming good, so consumption would not fall much, while tax revenues would rise. Note that too many candidates stated that an inelastic demand meant that demand would not fall at all. An important consideration was that this was a demerit good, so cutting its consumption would reduce negative externalities. Some good candidates explained this very well, sometimes referring to third party effects, overconsumption and market failure. Another issue sometimes raised was the regressive nature of the measure. Examiners read a lot of responses containing sound economic analysis, and so level 3 was reached by many candidates. Those who reached level 4 came to a judgement; for example that the inelastic nature of the demand meant that the effectiveness of the tax rise in reducing negative externalities was limited.

A593 The UK Economy and Globalisation

General Comments:

The focus of this year's examination paper was upon the changing face of UK trade with a particular focus upon the relationship between the UK and the EU. For example, a long answer question on the UK's membership of the EU Single Market was asked for the first time.

In addition, there was a slight variation in the style of the other three longer answer questions, which required candidates to discuss the effectiveness of specific items. This slight change of style seemed to catch out some candidates as they failed to consider the specific concepts in sufficient detail, but were all too willing to write about areas of the specification that did not directly address the questions set. It is worth pointing out that questions of this style require candidates to explore the required items, such as tariffs or exchange rates, directly. So candidates are required to demonstrate a sound understanding and the ability to analyse the theoretical economics that underpins the use of such measures by governments.

The question paper seemed accessible to the vast majority of candidates and it was rare to see candidates who failed to answer all of the questions. However, some weaker candidates did not attempt any of the longer answer questions (Q.1(d), Q.2(d), Q.3(c) or Q.5) and there was a minority who made no attempt at one or more of Q.3(a)(ii), Q.3(b), Q.4(b) and both parts of Q.4(c). This, therefore, seems to demonstrate a lack of candidate knowledge on those aspects of the unit specification.

The level of candidate understanding of the pre-release case study was considered to be good. Clearly, the issue of the UK's position in the EU was a highly topical issue for most of this year due to the prominence of the elections to the European Parliament. However, it is important that candidates do not use their answers to examination questions as opportunities to disparage individuals, political parties and/or institutions. Equally, there is no room for xenophobic comments that could be misconstrued by the reader. Europe does cause feelings to run high, but candidates are required to stick to the economic arguments and issues.

Candidates seemed to be well-prepared for the examination and examiners saw some very good responses. However, there was evidence that some candidates had a weak understanding of the subject material and the stimulus material and so, as a result, struggled to put across relevant economic ideas or to demonstrate any real economic understanding. There was some evidence of candidates appearing to run out of time, but the majority answered all of the questions.

There were some specific issues that were highlighted in this paper:

- i It was pleasing to see many candidates trying to answer questions in an analytical and an evaluative manner. However, it was apparent that candidates' attempts were not always successful, particularly in their attempts to evaluate. Evaluation is a difficult skill to master and there are no short cuts. Just using words such as 'However', or phrases such as 'In the long run' is not enough to clearly demonstrate an ability to analyse and evaluate. Candidates need to demonstrate that they have analysed a range of issues (sometimes both sides of an issue) and then to evaluate often with a reasoned conclusion being reached. All too often it was disappointing to see that a candidate's attempt to reach a conclusion simply meant a repeat of many of the points that had already been raised earlier in the answer. Once again, it should be remembered that examiners are looking for an ability to weigh up issues or to make a supported judgement or justification and not simply to repeat points written earlier on in the answer.

- ii Candidates do not always seem to understand the distinction between production and productivity. As a result, this meant that a number of candidates were misusing the terms, particularly in the context of Q.2(d) and Q.5. So, for example, a supply-side policy such as improvements in education and training might increase productivity by increasing output per worker per time period and so lower unit labour costs/average costs of production and, hence, lead to lower prices and/or increased profit margins. However, it was apparent that some candidates were writing about measures that result in the production of more output, ie increasing supply, which then leads to lower prices in order to clear the market.
- iii Many candidates appear to struggle to make accurate comparisons using graphical data. For example, Q.2(c) required a comparison between data showing the UK's balance of trade in goods and its balance of trade in services in 2010 and 2011. Candidates should approach such questions by thinking comparatively, so that, for example, they are thinking whether either data item has improved or worsened or remained the same.
- iv Some candidates were prone to a rather indiscriminate answering technique, which led to the inclusion of significant amounts of irrelevant content. For example, in answering Q.3(c) it was not uncommon for candidates to write about other forms of protectionism such as quotas, regulations, standards etc. despite the question being about the use of tariffs. Not only did this use up valuable time, it also rarely achieved any reward.
- v Some candidates failed to structure their answer to the longer questions by the use of paragraphs. This often made the answer more difficult to read, but also meant that the impact of some very good points made was almost lost. Despite being under pressure in the examination, it is important that candidates remember the importance of using paragraphs when they start each new aspect of their answers.

Comments on Individual Questions:

Question 1

- (a) In contrast to previous sittings of this examination, this question required that candidates used a specific Fig. contained within the pre-released stimulus material in order to correctly identify a member of the European Union. The vast majority of candidates were able to identify either of the two EU countries mentioned in Fig. 2, but some candidates did not read the question carefully enough and identified other members of the EU such as France.
- (b) Most candidates were able to provide sufficient information to indicate that they understood what is meant by 'capital' as a factor of production. This usually included reference to 'machinery' or 'machines'. However, where mistakes were made it was often because candidates were drawing on a business usage of the term and referred to capital as 'money'.
- (c) Most candidates were able to correctly identify the two correct features of the Single Market. However, where mistakes occurred it was often due to candidates either incorrectly reading or misinterpreting the question as referring to the Single Currency and opting for options 2 and 3.
- (d) Due to the nature of the pre-released stimulus material, most candidates were able to identify features of the EU Single Market. However, there were fairly frequent references to a common external tariff and/or the amount that the UK has to contribute financially to the EU on a daily or yearly basis, neither of which relate to the UK's membership of the Single Market but are wider issues relating to a customs union and membership of the EU itself. Nevertheless, many candidates were able to go on to identify and/or explain what the possible costs and/or benefits of the Single Market might be for the UK. Indeed, there were

many good answers that went on to analyse the costs and/or benefits by considering issues such as effects upon (un)employment, the balance of payments and international competitiveness. However, in order for candidates to be credited for an evaluative answer it had to be based upon analysis of at least one cost and one benefit as the question directed them to discuss whether or not the UK has benefited from being a member of the Single Market.

There was some confusion among candidates over the difference between production and productivity with some candidates answering that increased productivity leads to more jobs. Also, some weaker candidates wrote about costs and benefits to the EU and not the UK.

Better candidates were able to evaluate and to provide a justified conclusion to their discussion often by referring to the importance of the EU to the UK's sales of exports and its role as a key supplier of financial services within the Single Market.

It is worth pointing out that the pre-released stimulus material included reference to the fact that 'economists disagree over the exact impact of the Single Market on the UK economy'. However, it was noticeable that some candidates appeared to be in complete agreement that the Single Market was not of benefit to the UK because of mass immigration of foreign workers and their associated desire to receive large quantities of state benefits. It is important that candidates do not let whatever personal opinions they might hold about the UK's place in the EU to pre-judge their responses. Answers should be objective and reflect the economic arguments related to the topic.

Question 2

- (a) (i) The vast majority of candidates were able to identify Germany as the country which was the largest export market for UK goods from the data provided.
- (ii) The vast majority of candidates were able to identify China as the country with the largest percentage rise in exports from the UK from the data provided. However, there was a minority who did not read the question carefully enough and selected Belgium, which was the country with the largest percentage rise in imports to the UK from the data provided.
- (b) (i) Most candidates seemed to have a clear understanding as to what a 'trade deficit' meant. However, weaker responses referred to imports being greater than exports without any reference to values or monetary amounts. Responses that only refer to volumes of imports and exports cannot achieve full marks.
- (ii) While most candidates were able to calculate the correct value in answer to this question, it was surprising so many failed to achieve full marks because they either omitted the currency (£ sterling) and/or the relevant units (millions) and/or indicated that the answer was a deficit or failed to use a minus sign. Full marks could only be achieved if all of those were present with the correct numerical value.
- (c) Unfortunately, this question was often poorly answered and the main reason was a failure of candidates to undertake any form of comparison between the UK's balance of trade in goods, which was in deficit and worsened between 2010 and 2011, and the UK's balance of trade in services, which was in surplus and improved over the same period. So overall, this left the resulting deficit on the balance of trade slightly improved.

Weaker answers simply repeated the numerical values by describing what the data showed for 2010 and followed this with the data for 2011. Such an approach is very unlikely to lead to any relevant form of comparison and so no marks could be awarded.

Also, a significant minority of candidates misinterpreted the information in Fig. 5 to suggest that in 2010 and 2011 the balance of trade in services was in deficit while the balance of trade in goods was in surplus.

However, those candidates who were able to use the data to compare the balance of trade in goods to the balance of trade in services, even if they did not explicitly refer to a respective deficit and/or surplus, were often able to pick up some marks.

- (d) This question was the first of three longer answer questions in this year's examination that required candidates to discuss the effectiveness of specific measures or policies in achieving a particular outcome. As a result, candidates were expected to demonstrate that they understood what the measure or policy was and how it operated and then to go on to analyse why the measure or policy may or may not be effective, before, hopefully, going on to evaluate and provide a reasoned conclusion as to whether the measure or policy would achieve the particular outcome.

As in previous years, there was an issue for weaker candidates who became confused between a 'trade deficit' and a 'budget deficit'. In addition, there was evidence of definite confusion or lack of understanding as to what were an import and an export. Some said that the UK imported its goods to other countries, which got them confused later on in their answer.

Exchange rates are a 'tricky' area for candidates and it was pleasing to see that so many were able to correctly identify the appropriate effects upon import and/or export prices of a weaker or stronger currency. Then many candidates were able to analyse how the changes in prices and the relevant changes in quantity demanded would impact upon the overall balance of trade deficit. However, better responses were able to analyse a range of possible issues such as the importance of price elasticities of demand for imports and/or exports; elasticity of supply; the importance of a fall in the exchange rate as opposed to a rise; and the possibility of a reduction in interest rates in order to lower the exchange rate leading to higher inflation that might offset the benefits of a falling exchange rate. Many of these better answers were able to go on to produce some insightful evaluative comments that helped candidates to achieve marks in Level 4 of the mark scheme.

Question 3

- (a) (i) The vast majority of candidates were correctly able to identify the two correct answers from the four arguments provided.
- (ii) Most candidates were able to demonstrate that they had some understanding of the term 'absolute advantage', which usually related to some aspect of lower costs of production or the use of fewer resources and so were able to gain some reward. However, it was less common to see candidates achieving full marks. Some weaker candidates referred to countries producing at a lower price and this was not credited.
- (iii) This was an accessible question and most candidates were able to link free trade with some aspects of increased competition and then go on to explain how this might lead to lower prices, improved quality, wider consumer choice or product innovation. Unfortunately, some weaker answers failed to link their answers to the benefits to UK consumers and so wrote about employment gains for the economy or lower costs and higher profits for businesses, which received no credit. This once again demonstrates the importance of reading the question carefully.

- (b) The majority of candidates recognised that a quota would affect the supply of an imported product, but they were not always able to show this in the most appropriate fashion diagrammatically. This required a shift of supply to the left of the original, but to a vertical (perfectly inelastic) supply curve. While it was pleasing to see that many candidates recognised that this is how a quota should be represented, it was quite common to see shifts of supply that were parallel or occasionally diagrams that included shifts of demand. Diagrams also lost marks due to a lack of correct axes labels, a lack of equilibrium labels or, occasionally, incorrect labelling of the supply and demand curves.

There were only two marks for the explanation part of the answer and, once again, it is important to point out what was required in the question, which was to explain the impact that a quota would have upon the equilibrium price and quantity bought. Unfortunately, a significant minority of candidates lost marks because they did not refer to these aspects in their answer.

- (c) It was evident that many candidates had quite an extensive knowledge of a range of protectionist measures. However, this question was very specific and asked them to discuss the effectiveness of tariffs only. Therefore, much time during the exam and many paragraphs of candidates' responses were not directed at the question asked.

It is also worth pointing out that while many candidates like to refer to an embargo as a form of protectionism, in reality such a measure is usually a political or diplomatic response designed to secure a result that is in the national interest. And while it might have economic consequences, strictly speaking an embargo has a political purpose designed to punish a country for a particular action and it is not an economic measure.

Just as in Q.2(d), the candidates were required to show that they understood the economics behind the use of a specific measure, ie tariffs. Therefore, better responses that analysed and evaluated their use through appropriate discussion of the relevance of price elasticity of demand or the size of the tariff or the possibility of effects such as cost-push inflation or the rules as they relate to the WTO and/or the EU were well rewarded. Some weaker candidates compared tariffs with quotas and/or embargoes and/or regulations and were much less likely to achieve a mark higher than Level 2.

It is also important to remember that the candidate must demonstrate knowledge of the use of tariffs in the context of international trade and not just refer to issues that could be relevant to the use of taxes in general. It was a shame to read some answers that did not clearly identify that the candidate was writing about taxes on imports as opposed to taxes on products such as cigarettes.

Question 4

- (a) (i) A well-answered question where most candidates were able to explain the term 'exchange rate'.
- (ii) The vast majority of candidates recognised that the pound had become stronger and were able to use data from Fig. 8 to support their answer. Some weaker candidates failed to provide the supporting data and so were only awarded one mark for the correct recognition.
- (b) It was pleasing to see how many candidates managed to score full marks on this question. Unlike Q.3(b), there were only three marks for the diagram, but three marks for the explanation. Candidates were rewarded for a diagram that showed either an increase in demand for sterling or a decrease in supply of sterling. The former was far more common and full marks required correctly labelled supply and demand curves plus correctly labelled original and new equilibria.

Well explained answers included reference to an increase in demand caused by a desire by foreign holders of sterling to buy sterling in order to invest short-term in UK banks in order to take advantage of the rise in UK interest rates and the resulting increase in the value of sterling that this created.

Some weaker candidates either failed to attempt this question at all or produced poor diagrams that showed no real understanding of how the foreign exchange market operates.

- (c) There was a considerable variation in the quality of candidates' responses to this question. This included some candidates who failed to attempt the question at all. Many candidates were able to state one or two advantages, but it was less common to read answers that fully explained how these advantages actually arose and who might actually gain these advantages. The most common responses referred to reduced transaction costs and increased price transparency. However, it was interesting to note that candidates could often explain how the advantage of price transparency could arise and who would gain and why, but were often far less able to do the same with the advantage of the elimination of exchange rate risk.

Question 5

As in previous years this last question in the paper required candidates to use information in the case study and the candidate's own knowledge of economics in order to answer the question.

This year candidates were required to discuss the effectiveness of government policies in maintaining price stability and in improving productivity in improving the UK's international competitiveness.

It is worth repeating once again within this report this year that the only way in which candidates' responses could access Levels 3 and 4 of the mark scheme (ie achieve any mark above 6 out of 12 available) was to **use the information in the case study** and to refer to the **UK economy**.

It was particularly disappointing this year to see a significant number of candidates who failed to do much more than identify some possible examples of different policies or methods that could be employed to achieve price stability and/or improvements in productivity. So some responses included reference to interest rates, fiscal policy and/or supply-side policy, but then did not explain how they could be used by the UK government to achieve the desired outcome that the question required. This meant that answers of this type were limited to a maximum of 3 marks, no matter how much else was included about what international competitiveness was, for example. In order to achieve a mark in Level 2, candidates were required to explain how a chosen policy operated to achieve the specific outcome.

Also, a significant number of responses that showed a good understanding of economic concepts were limited to a maximum of 6 marks (top of Level 2) because the candidates did not refer to any of the information contained within the case study.

More able candidates used the data provided in the pre-released stimulus material and explained how a variety of government policies might operate before then going on to analyse how the outcomes might lead to improved UK international competitiveness as well as good analysis as to why such policies might have limitations. Particularly good responses then went on to evaluate different policies and to provide a justified conclusion of one or more policy.

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