GCE

Economics

Advanced GCE H460

OCR Report to Centres June 2018

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This report on the 2018 Summer assessments aims to highlight:

- areas where students were more successful

- main areas where students may need additional support and some reflection

- points of advice 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.

The report also includes links and brief information on:

- A reminder of our **post-results services** including **reviews of results**

- Link to **grade boundaries**

- **Further support that you can expect from OCR**, such as our Active Results service and CPD programme

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**Advanced GCE Economics
(H460)**

OCR REPORT TO CENTRES

H460/01 Microeconomics

1.   General Comments:

This was the second sitting of the new A Level qualification in Economics, the entry for which was 3,485. Paper 1 discriminated well with a wide range in the quality of responses. Very few candidates appeared to have problems with timing, with most able to write full responses to both the compulsory and optional questions.

The below comments on individual questions indicate that the standard of responses was very pleasing, particularly in Sections B and C. In the main, subject knowledge was strong except in the case of elasticities. In response to essay questions, candidates were able to deploy the economist' toolkit of concepts and theories to great effect. In particular, diagrams were well used in Section B and provided useful development of responses to Section C questions. This ability to think like an economist was not always so much in evidence in Section A, however. Here responses tended to be descriptive and general and candidates did not always recognise the economic concepts, which could be used to deepen their answers. Section A also revealed some areas for improvements in quantitative techniques for the interpretation of data. For example, the distinction between a percentage change and a percentage point change should be clear.

Despite these areas for improvement, the overall quality of candidates' responses was pleasing and indicated effective preparation for this assessment.

2.   Comments on individual questions:

Question No. 1a
An accessible question for those candidates who understood the difference between private and public goods, this was tackled well by the majority.

Question No. 1b
This question was challenging for many candidates. The information required to calculate the average fixed cost of educating a university student was given in lines 28 – 30 of the stimulus material and in Fig. 2. Where there was confusion over whether staff costs were variable or fixed, candidates could still achieve full marks and the mark scheme accommodated a number of different calculations made.

Question No. 1ci
Most candidates were able to see that the data in Fig. 3 did not support the expected relationship and could use the data to give examples.

Question No. 1cii
Quantitative skills could in general be improved in the responses to this question. Weaker responses did not look at the change in the proportion of young people who have completed tertiary education relative to older people. This showed that the smallest absolute difference occurred in Germany and the smallest relative difference in the USA. Either of these answers was acceptable. Very few candidates were able to accurately quantify differences, with some

confusion over a percentage difference and a percentage point difference. Centres are advised to reinforce these quantitative skills through interpretation of economic data.

Question No. 1d
Modest responses at the bottom of Level 2 were common. Such responses had a good general understanding of the arguments for and against freezing tuition fees but did not analyse these arguments using the economist's toolkit of theories. Higher ability responses in Level 2 made effective use of demand and supply analysis to explore the arguments fully. Judgements about the balance of the competing arguments were rare, with few recognising that any excess demand was dependent on government spending on higher education.

Question 1e
Like the previous question, many responses were general, could have been improved by underpinning economic analysis, and were placed in the middle of Level 2 of the mark scheme. Stronger responses supported their evaluation of whether medical students should be charged higher tuition fees than English Literature students with analysis of wage differentials. There was good reference to marginal revenue product theory and conditions affecting the supply of labour in different occupations. This lent support to the argument that higher tuition fees should be charged to medical students. In addition to evidence from the stimulus material, stronger responses made good use of concepts of private and social benefits to argue that higher tuition fees might not be justified on economic grounds. There was also reference to the NHS as a monopsonist employer and to the impact on the supply of labour. Such responses justified Level 3 marks as they were able to develop coherent chains of reasoning based on economic concepts rather than single links based on general knowledge.

Question No. 2
Not as popular a choice as Question No. 3, nevertheless the quality of analysis and evaluation seen was high. Candidates were able to use demand and supply diagrams to analyse the way in which buffer stock schemes could be used to reduce price instability. Strong analysis developed the causes and consequences of market failure in terms of the nature of the demand and supply conditions in commodity markets and the impact of price instability on market signals, the formation of expectations and investment decisions. There was good evaluation of the weaknesses of buffer stock schemes, covering government failure in setting maximum and minimum prices, storage costs and the necessity to use variable import levies to prevent imports undermining the effectiveness of buffer stock schemes. Little was made of the international nature of commodity markets and whether this undermined the effectiveness of buffer stock schemes in any one individual country. In their conclusions, many candidates offer a summary of the arguments covered in the body of the essay rather than making a reasoned judgement. Strong evaluation requires a supported judgement which, for example, might have argued that buffer stock schemes are most effective when producers covered by the scheme account for a high percentage of global production.

Question No. 3
This attracted very many responses which were of high quality. The strongest responses had a very good understanding of the different types of efficiency and were able to use diagrams to analyse and evaluate how likely these were to be achieved in a monopoly market structure. In the main, diagrams were fully integrated into responses with effective links between particular outputs which were or were not likely to be efficient. The best responses made clear distinctions between allocative, productive, dynamic and X efficiency and structured their arguments coherently. As in the previous question, conclusions tended to summarise rather than judge

although the best candidates recognised that the degree of efficiency depended on government regulation of monopolies and the objectives of firms.

Question No. 4

This was a popular question choice. Responses were more variable in quality than those in Section B, however. Weaker responses tended to assert the advantages of the market economy in allocating resources rather than develop logical, coherent and supported chains of reasoning. Responses could have been improved by reference to the functions of the price mechanism and how these helped to allocate resources. The best responses showed how the price mechanism signalled, rationed and incentivised economic agents to ensure that resources were allocated both to maximise consumer benefit, to ensure that prices reflected marginal costs and that output from a given set of resources was maximised. Although not required by the question, stronger candidates found the use of diagrams helpful in analysing these benefits of the market economy. On the whole, reasons why the market economy might not be the best way to allocate resources was tackled more effectively. There was valid reference to cases of social benefits exceeding private benefits, social costs in excess of private costs and the prevalence of market power. Stronger responses were able to develop chains of reasoning from these various disadvantages to the consequent market failures and the misallocation of resources. As with all of the responses to the essay questions, top marks went to candidates who could go beyond a summary of the arguments adduced and provide effective and well supported judgements.

Question No. 5

This question was attempted by relatively few candidates and the responses were the most variable in terms of quality. Weaker responses made little headway addressing the question set because their knowledge and understanding of elasticities was weak and inaccurate. One misconception was that goods with a positive income elasticity of demand were 'luxury' goods. Another was that a positive cross price elasticity of demand indicated a complementary relationship between two goods. Other responses started with accurate understanding of the concepts but then made incorrect assertions about the relationship between income and price elasticities of demand, for example. It was common for weaker responses to assume that a positive income elasticity of demand implied that the price elasticity of demand was elastic. Stronger responses were invariable those whose knowledge and understanding of elasticities was accurate and thorough. They were able to respond to the question in a clear and coherent way. For example, they would argue that a reduction in price would lead to an increase in quantity demanded which might be an appropriate in the case of normal goods when incomes were falling but not when incomes were rising. They also considered situations when a reduction in price would be a valid reaction given the existence of substitute goods as indicated by the positive cross price elasticity of demand. Stronger responses also recognised that the key determinant of the appropriateness of reducing price would be the price elasticity of demand and not the income or cross price elasticity. There were some impressive responses, which looked at pricing behaviour in oligopolistic markets as a way of evaluating whether a firm should lower prices. Effective use was made of the kinked demand curve model.

H460/02 Macroeconomics

General Comments:

The general performance on the paper was good with many candidates revealing a good knowledge and understanding of macroeconomic theory. The vast majority of candidates attempted all the questions. As last year, the question, which was most frequently omitted, was the one involving a calculation, in this case Q1b.

Candidates wrote at an appropriate length, taking into account the number of marks awarded. Most candidates answered Q1 first, followed by a question from Section A and then one from Section B. The quality of handwriting was a concern. It is very important that candidates ensure that their handwriting is legible.

The five main ways that candidates could have strengthened their answers were to:
- draw accurate diagrams. It is important to label the AS curve on AD/AS diagrams correctly
- make use of the stimulus material in their answers to Q1 and to build on that information. For instance, some candidates did not make full use of relevant information from the stimulus material in their answers to Q1e
- establish the points they make. Some candidates made unsupported statements. For instance, in their answers to Q1e, a number of candidates wrote that Iceland would not experience a recession because their banking system was stronger. They did not explain why the banking system was stronger, nor why its greater strength would reduce the chance of the country experiencing a recession
- keep focus on the questions. For instance, some candidates wrote at length about the causes of a fall in the value of a country's currency rather than concentrating on the consequences of such a fall for the current account balance
- avoid common confusions. Some confusion was shown between the Laffer curve and the Phillips curve, a budget deficit and a current account deficit, the accelerator and the multiplier and production and productivity.

2.   Comments on Individual Questions:

Question No. !a
Most candidates were able to interpret Fig.1 and to provide a logical explanation of the reasons why a particular type of recovery, U or V, would be most beneficial for an economy.

Question No.1b
A relatively small proportion of candidates did not attempt this question. Some who did answer it had the correct working but got confused about the size of the figures, Candidates need to be aware of the difference between billions and millions and the likely relationship between GNI per head and GDP per head. In this case, they should have realised that, given Iceland's GNI per head, its GDP per head would not have been $4,500 or $450,000.

Question No.1c
This was generally well answered. Some candidates, however, did not make use of Fig.2. These candidates often wrote about the composition of the HDI but did not explain why Australia's HDI was higher than that of the USA in 2014. Only a small proportion of candidates revealed a confusion about the components of the HDI, mentioning, for example, income distribution and working hours.

Question No. 1d
There were some excellent answers to this question. Some responses identified the relevant piece of information from the stimulus material but did not explain why it is an example of a Laffer curve relationship. As previously mentioned. Some candidates confused the Laffer curve with the Phillips curve and a number of candidates mistakenly interpreted the Phillips curve as showing the relationship between economic growth and employment. There were also some candidates who confused the Laffer curve with the Lorenz curve.

Question No. 1e
Some candidates identified relevant pieces of information from the stimulus material but did not analyse and evaluate their significance. Others restricted their answers to a limited analysis of predictions on economic growth and employment. A number of candidates did not pick up on the words 'after 2015' in the question and did not show an appreciation of the information in the stimulus material of Iceland's recovery after the 2008 – 2011 recession.
There was also some good evaluation, exploring how changes in confidence, the strength of Iceland's banking sector, the country's tourism industry and the global economy could influence the chances of Iceland experiencing a recession.

Question No. 1f
There was some interesting discussion provided to this answer with some good application of relevant economic theory and an awareness of the nature of aid. There were some particularly good comments on the possible short and long run effects on Iceland's budget and current account balances. Some candidates, however, confused aid with foreign direct investment with a number of other candidates wandered off the central point and wrote about the effects of immigration.

Question No. 2
This was the slightly more popular of the two questions in Section A. The vast majority of candidates recognised that a fall in the value of the currency would lower export prices and raise import prices. As previously mentioned, some candidates wrote at length about the causes of depreciation. Some other candidates did not go much beyond stating that export revenue would rise and import expenditure would fall. There were, nevertheless, some excellent answers which made use of the Marshall-Lerner condition and the J curve and which showed a good awareness of the factors affecting the influence of a fall in the value of the currency on the current account balance.

Question No. 3
There were again some excellent answers to this question. A relatively high proportion of these answers distinguished between 'good' and 'bad' deflation. These answers made good use of AD/AS analysis and explored the possible effects on employment, economic growth and the current account balance. Other responses included unsupported statements including 'Deflation may not harm a country's macroeconomic performance as policies have been found to prevent this happening.'

As in the other questions, some candidates sought to evaluate by writing that the effects of depend on the size of the change with a small change having a smaller effect than a big change. On its own, such a statement is just tautology.

Question No. 4
This was the more popular question in Section B. The strong responses often considered the short run and long run effects of government policy measures on unemployment. However, some candidates wrote about a deficit on the current account of the balance of payments rather than a budget deficit. A number of candidates wrote about how government policy measures may affect employment but did not link measures to reducing a budget deficit, other responses

sought to evaluate whether the government policy measures would succeed in reducing a budget deficit but did not consider whether they would increase unemployment. For instance, some candidates wrote about how raising corporation tax may encourage some UK firms to move abroad but did not mention the effect on unemployment. There was some confusion shown about people who leave the labour force being unemployed.

Question No. 5
Candidates were clear about the nature of investment but there was confusion regarding the accelerator theory. These candidates wrote about how the changes in investment may affect may affect investment and GDP rather than how changes in GDP may affect investment. Other candidates wrote about how the accelerator theory can explain the level of investment in an economy but did not evaluate the extent to which it does this. Some answers tended to be rather repetitive on how higher GDP can stimulate a rise in investment.

A number of the higher ability responses gave a brief numerical example and then explored a number of reasons why GDP and AD may rise but investment may not increase.

H460/03 Themes in Economics

1.   General Comments:

The second sitting of the Themes in Economics paper showed how candidates were able to apply their understanding of both micro and macroeconomic theory. Good time management was evident, with most candidates attempting all questions. Centres had clearly heeded the advice given last year on the importance of using the case study, with clear application to the Olympic Games and the bicycle market. However, candidates must be wary of simply repeating the case study material without taking it any further; the best marks were reserved for those who could use the material provided as a stimulus for high quality analysis using clear economic theory and reasoning. In a minority of cases, the reverse was true, with economic theory presented but this was then not applied to the case study. Candidates would benefit from a closer reading of the case study to ensure they understand the nuances of the data; this would have enabled many to achieve higher marks on Question 35.

Answers to the three level marked questions were very well structured, offering analysis followed by evaluation before reaching a judgement. This enabled many to access the highest marks. However, it is important candidates clearly understand the requirements of each question to avoid losing marks. For example, Questions 35 and 37 required a diagram and yet a number of candidates did not include one. Improved accuracy of calculations and the labelling of diagrams would also enable many candidates to achieve higher marks in the paper.

2.   Comments on Individual Questions:

Multiple Choice Questions: Students who had mastery of the full breadth of the course were rewarded with high marks in Section A. It was pleasing to see an improved performance in the quantitative questions this year, particularly on questions requiring interpretation of a diagram (Questions 3 and 9). The exception to this was Question 23, where the majority of candidates were unable to correctly identify the concept of diminishing returns. Whilst candidates generally coped well with the straightforward calculations using the Fisher equation and price elasticity of demand, few were able to use index numbers to arrive at the right answer for Question 29. There were a number of areas where candidates displayed clear recall of important economic theory, such as the Human Development Index and division of labour. However, weak responses to questions assessing AO1 for example on profit satisfying and X-inefficiency showed how important it is that candidates ensure they learn all terms in the specification to secure top marks; some candidates did not show an understanding of the natural rate of unemployment and were unable to answer Question 6 correctly. Centres are also reminded to encourage candidates to cross out answers if they change their mind and write the replacement answer neatly to the side of the answer box. There were again several cases where Examiners were unable to decipher the option the candidate had chosen, although such instances were significantly reduced from last year.

Question 31: This was a well answered question, with many candidates securing full marks. Valuable time was wasted by some candidates describing revenues and costs rather than getting straight to calculating profits, but the majority showed a clear understanding of the concept of profit and how to calculate it. Some were thrown by the fact neither Games made a profit and subsequently offered convoluted analysis to try and prove otherwise – it is important candidates do not stray from the data given to them. Often the right approach was adopted but

marks were lost because of errors in transcription; common mistakes included missing millions of dollars or presenting the answer as a double negative.

Question 32: Performance on this question was limited by the relatively weak understanding of sustainability shown by most candidates. The majority were able to identify the relevant material from the case study but were not able to do anything meaningful with it, resulting in a mark of 2/8 for Knowledge & Understanding. Better answers were well focused on the long run and the impact of hosting the Olympic Games on future generations from both a micro and macroeconomic perspective, such as weighing up the increase in productive capacity against the debt burden and the higher tax rates this is likely to result in.

Question 33: Centres should ensure that candidates can clearly explain the multiplier and how it works. It is a concept many candidates understood but could not describe precisely and responded with an increase in GDP rather than a greater increase in GDP. Very few candidates were able to use the multiplier given in the case study to develop their answer and simply quoted the figure without applying it.

Question 34: Candidates were well versed in the government's macroeconomic objectives and were able to use the stimulus material as a basis for their analysis. Many presented a clear chain of reasoning linking expansionary fiscal policy to aggregate demand and economic growth, with the stronger answers integrating the multiplier into their analysis to explain the impact on the derived demand for labour. Evaluation was typically presented using an aggregate demand and supply diagram and/or the Phillips curve to argue demand-pull inflation was likely to occur. The best answers went beyond a consideration of unemployment, growth and inflation to look at other macroeconomic objectives, including the balance of payments and environmental sustainability. Some could not be credited for this because they incorrectly concluded from the case study that hosting the Olympics caused an exchange rate depreciation, whilst very few were able to use the Marshall-Lerner condition or the J-curve effect in their answers. Candidates who did not achieve top marks would have benefited from considering the impact expenditure has on long run aggregate supply. The majority of candidates attempted a judgement but few of these were convincing, tending to repeat the prior analysis rather than reaching a clear position.

Question 35: This question saw a relatively even split between those candidates who were did not to interpret the Olympics index and therefore could not be credited any marks or did not answer the question and those who had read the case study carefully to reach the right conclusion and were credited full marks. The presentation of exchange rate diagrams was mixed, with many incomplete or incorrect axes or curve labels.

Question 36: The majority of answers only offered a year by year description of the data rather than recognising the overall trends. Few candidates considered the distinction between real and nominal prices. Candidates would clearly benefit from more practice interpreting data.

Question 37: Candidates displayed a thorough understanding of the model of oligopoly when answering this question. Most began by arguing the market power of firms meant consumers would suffer from high prices and then evaluated this by suggesting non-price competition would benefit consumers in the form of quality improvements. Diagrams were generally accurate and well explained, but occasionally monopoly diagrams were presented instead of a kinked demand curve without an associated explanation that colluding oligopolists can act as a monopolist; without this explanation a monopoly diagram was not credited. The best answers used game theory to good effect, offering a prisoner's dilemma to explain that whilst joint welfare is maximised at high prices consumers may often benefit from price wars as firms revert to the

Nash equilibrium. Effective judgements centred around the role of regulation and contestability in determining the impact of an oligopoly. Less successful answers considered the advantages and disadvantages of oligopoly without a clear focus on the bicycle industry or consumer welfare.