OCR
RECOGNISING ACHIEVEMENT

GCE

Economics

Report on the Units

June 2010

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Advanced GCE Economics (H461)

Advanced Subsidiary GCE Economics (H061)

REPORT ON THE UNITS

F581 Markets in Action

General Comments

This examination was taken by 8729 candidates. It was the second examination of this unit taken by A2 as well as by AS candidates.

The format of the question paper was the same as those in the 2009 season and in January 2010. 36 marks were available for questions drawn from the first two parts of the specification, with 24 marks for the two questions on government intervention and market failure. This format will persist until at least the end of the 2012 season, in other words, for the next four sittings.

This report in January 2010 made it very clear that 'over a period of time it is necessary to demonstrate that the entire specification has been covered'. So this question paper, unlike the three previous ones, had three part questions which focused on aspects of market supply. This was not always to the liking of some candidates.

The context of this question paper, the oil and petrol market, is one which has been used in past examinations and for the specimen assessment material. The distinction between oil and petrol was not always understood by some candidates, although it did not particularly affect the marks which they were awarded.

The overall performance of candidates was again very good to modest. Given the focus of Question 2, there were rather more scripts below 20 marks than in previous examinations, although the questions where diagrams were required were generally well answered. There is a need for candidates to recognise the two questions (2(c) and 4(b)) where the 'comment' directive word was used. Particularly on the latter, many good candidates failed to tackle this aspect of the question.

From this sitting, centres which request the return of scripts will be provided with full annotation. For all questions, except for Question 6, assistant examiners have been instructed to indicate with a tick each mark which has been awarded; the ticks should be inserted as close as possible to where the point has been made. On Question 6, all answers should be annotated with appropriate levels of response and there should be a brief comment at the end. It is hoped that this improvement in feedback will assist teachers in seeing how the marks have been determined.

The answer booklet worked well. It was nice to see that where candidates used additional pages this was usually stated. A few candidates appeared to run out of writing time on Question 6.

Where a diagram is required, eg on Question 1(b) the answer booklet contains a blank space. If it helps understanding, then it is perfectly in order for candidates to make brief annotation to clarify their diagrams. For other questions, eg, Question 6, there is, of course, no reason why a diagram cannot be used to enhance an answer, even though only ruled space is provided.

Comments on Individual Questions

1) (a) In general, based on previous question papers, most candidates knew how to draw a production possibility curve and how it can be used to show a reallocation of resources in an economy. As far as this question was concerned though, many candidates struggled to provide an actual definition. Full marks could be gained for a description of what a PPC shows. Typical answers were that for two products, the PPC shows the different combinations of output and indicates opportunity cost.

1) (b) This part of the question was well answered. Many candidates obtained full marks. Very few candidates, unlike some previous examinations, labelled the axes incorrectly. A minor weakness though was that on some diagrams the change to move resources for education was not clear.

2) (a) This was a challenging question for virtually all candidates. It required the application of content from the case study and its synthesis with respect to how the supply of oil was affected. It was not done well, largely because it was not asking about the determinants of supply in a traditional text book way. The question provided an early opportunity for differentiation between candidates. The poor overall quality of answers can perhaps be explained in so far as candidates can empathise with consumers more than producers.

A majority of candidates were able to use the case material to identify one or two appropriate factors which affected the supply of oil. The most common was 'the need to expand Saudi Arabia's public sector'. In terms of supply, this required a reallocation of resources from oil production to the public sector and hence a reduction in the supply of oil, a point which was not always appreciated. A good number of candidates scored one or two marks for recognising factors from the case but were then unable to go that bit further by explaining how the factor affected supply.

2) (b) This is the first occasion in the life of this specification that a question has been asked on producer surplus. Consequently, some candidates struggled to draw an accurate diagram whilst recognising that the supply curve was the starting point. In particular, the additional producer surplus was not always correctly identified. A few candidates drew a diagram with a new supply curve to the left of the original one. This was acceptable although it made the correct representation even more difficult. A few candidates drew diagrams which showed the changes in consumer rather than producer surplus.

2) (c) In contrast to the two parts above, this part of the question was well answered from an analytical standpoint. Some answers contained a diagram – this is quite acceptable and a relevant way in which to show the shift to the right of the supply curve. An explanation in words was equally acceptable. The fall in world oil prices was usually recognised although the increase in oil traded was often glossed over. Some candidates failed to go further to comment on whether world oil prices would actually fall following the increase in supply.

3) This style of question has been used regularly on previous examination papers and is central to understanding how markets work. Overall, it posed few challenges with the majority of candidates gaining full or five marks. The latter tended to be given to answers where the fall in quantity produced and demanded was not explicitly stated.

4) (a) The price elasticity of demand is another well examined concept on this unit. Having said this, a good number of candidates are still unable to provide the precise definition or formulation which is required for full marks. A common error was to refer to 'demand' rather than to the 'quantity demanded', whilst recognising that the term was used to measure the effect of a change in the price of a product. There was the usual number of answers which presented the formula the wrong way round.

4) (b) This style of question is another one which has been widely used on previous examination papers. As before, it presented a challenge with very few candidates obtaining eight marks. Using the data provided was the first challenge for a surprising number of candidates who contrived to make the calculation far more complicated than was the case. Those candidates who recognised it as being 21/15 invariably went on to gain three or four marks on the first part. There was the usual number of answers which calculated the estimate as 15/21 and other candidates who confused price elastic with price inelastic demand.

As stated earlier, the 'comment' element was either not attempted or done badly. Most answers stopped at a brief comment on how the value of price elasticity of demand was an estimate and should therefore be interpreted with care. Very few answers went any further than this. Of those that did, a comment on the unexpected price elastic estimate compared to the usual perception that the price elasticity of demand for petrol is inelastic were typical.

5) Answers to this question were wide ranging. There were some very effective answers at the top end from candidates who recognised from the start that the price of petrol and diesel did not properly take into account the cost of the negative externalities associated with their use. In some cases the answer was supported with an appropriate diagram. Valid reference was also made to the problem of information failure and to the problems of measuring external costs.

A small number of candidates answered in terms of the indirect taxation which is placed on the price of petrol and diesel. These answers were awarded one or two marks but did not really address the issue of 'true costs' as used in welfare economics.

6) Many candidates considered the case for an increase and not a reduction in indirect taxes on fuel, despite the emphasis on 'reduced' in the wording of the question. This was presumably because this was what they had been taught. Not all by any means were able to adapt this knowledge to the case where indirect taxes on petrol and diesel fuel are reduced. No more than a simple analysis of a shift to the right of the supply curve was required to lay the foundation for a good answer.

For those candidates able to analyse the situation, it was usual for their answers to progress to Level 4 through a discussion of the 'pros and cons' of reducing indirect taxes on fuel. In many cases, the discussion was pertinent covering a wide range of issues. It was also pleasing to see how in concluding their answers, the best candidates made clear whether they supported the principle of reducing these taxes.

Weaker answers invariably lacked analysis and consisted of no more than a series of assertions on the efficacy of reducing indirect taxes on fuel.

F582 The National and International Economy

General Comments

A record number of candidates sat this examination. The vast majority of the more than 12,500 candidates attempted all the questions.

There was some good understanding of AD/AS analysis and the effects of changes in the rate of interest and income tax. Some candidates revealed an ability to write lucidly and perceptively on the higher marked questions. Many of the answers to Question 7 were logically structured, starting with a definition of economic growth, identifying and then analysing and evaluating costs and benefits. There were some particularly interesting and intelligent conclusions.

Strong scripts were differentiated from weak scripts in a variety of ways. These included not only the difference in knowledge and understanding but also differences in the ability to use that knowledge and understanding to answer questions directly, to avoid jumping stages in explanation and analysis and to underpin evaluation through analysis.

As in recent previous sessions, time management was good with candidates using their time appropriately. Most candidates also made good use of the data. It is important that candidates gain experience of data handling and, for example, the difference between absolute and percentage changes and the difference between percentage point changes and percentage changes.

Whilst a good understanding was shown of fiscal policy and monetary policy, there was greater uncertainty shown about supply-side policy. Some candidates also appeared to think that governments sometimes seek to achieve a reduction in AS.

Comments on Individual Questions

1: Most candidates gained full marks on this question but a few, some of whom gained high marks on the other questions, identified macroeconomic policies. It is important that candidates do not rush what they may perceive to be relatively straight forward questions.

2(a): A number of candidates produced rather pedestrian answers, stating what happened in each year. Stronger answers described the overall trends in the interest rate and inflation, noting that the inflation rate fell in 2006. Very few candidates made the mistake of stating that the price level fell in 2006. A high number of candidates, however, confused percentage point changes with percentage changes.

2(b): There were some excellent answers to this part of the question which first analysed how an increase in the rate of interest might reduce inflation and then evaluated its likely effectiveness. There were some perceptive comments about, for instance, whether an increase in the rate of interest would be passed on, whether it would reduce spending during a period of consumer optimism and the differing effects on those with loans on fixed and variable interest rates.
A number of candidates, however, provided good analysis but then failed to evaluate. A few candidates confused saving and investment. Some correctly mentioned that savers would experience a gain in income but did not consider the net effect on savers and borrowers. A small number of candidates commented on whether Fig.1 suggested an increase in the rate of interest had reduced inflation in Australia. The question, however, did not ask them to do this.

3: This question was generally well answered with only a small number of candidates confusing how a high value currency affects export and import prices. A small number of candidates confused a trade deficit and a budget deficit.

4(a): This part of the question was generally well answered with only a few micro diagrams and even fewer where the AD and AS curves were transposed.

4(b): There were some excellent answers to this part of the question with candidates analysing how a cut in income tax would affect aggregate demand by exploring the stages from an increase in disposable income through to a rise in consumer expenditure to the effects on other components of AD. A few candidates did not study the data carefully enough and, as a result, analysed the impact on AD of an increase in AD.

5(a): This part of the question elicited a range of responses. Some candidates provided a full explanation, for example, explaining how inflation could increase a current account deficit by making products less internationally competitive if the inflation rate is higher than that in rival countries. Others produced a more limited explanation and a number asserted that it would cause a reduction in consumer expenditure and unemployment without providing any explanation.

5(b): Some candidates did not read the question carefully enough. A number failed to evaluate, whilst others started by stating that the evidence did support the view mentioned in the question but then went on to provide evidence of a positive correlation. Marks were awarded for examining such a relationship if the answers were consistent. The most common approach was to come to a conclusion that the majority of the information did not support the view and with evidence, but that Singapore was an exception.

6: It was surprising that a number of candidates stated fiscal policy and monetary policy and then went on to explain them. A number identified factors which would influence aggregate supply, such as investment, without linking them to a policy measure. There were, nevertheless, some good answers focusing on, for instance, privatisation, education and deregulation.

7: As in previous sessions, there were some strong answers to this question. These provided a good analysis of both the costs and benefits of economic growth and judgements about how the consequences are influenced by the nature of the economic growth, how different groups are affected and its sustainability. Some candidates, however, only identified some costs and benefits without analysing them. Others focused on the inflationary effects of AD increasing at full employment, without recognising that economic growth would not be occurring. Others concentrated on the causes of inflation, seeking to evaluate the effectiveness of government policy measures rather than the consequences of economic growth. A number of the answers implied that economic growth can only occur as a result of government policy, ignoring the role of households, firms and the international sector in the process. As in previous sessions, there was also evidence of what seems to be a widespread belief among candidates that an increase in real GDP will lead automatically to an increase in exports.

F583 Economics of Work and Leisure

General Comments

The second F583 Economics of Work and Leisure paper was, as in January, sat by over 2000 candidates. The paper once again appeared to discriminate well. On this occasion the focus of the data response paper was productivity, taken from the nature of work and leisure section of the specification, a section which was not tested on the previous paper. As indicated at various INSET events during the last 12 months, questions will be taken from all four sections of the specification whenever possible, but the paper will always focus on at least three different sections. There will always be one question focused on the Leisure markets area of the specification; however, it will not always be the data question.

Question 1 focused on the meaning of productivity and the impact it has on unit labour costs, and then progressed to consider the implications of variations in unit labour costs and productivity, all clearly flagged up in the wording of the specification. Candidates however appeared to have found this section of the paper more challenging than last time. All the questions set offered candidates the opportunity to score full marks, and the whole range of marks was used in the assessment of every item set, but on this occasion fewer candidates were able to achieve the highest scores and consequently the average total mark for this question was lower than in January. Part (c)(i) was the question which was answered least well by candidates across all centres. The vast majority failed to recognise that the figures offered in the graph related to annual percentage changes in the two measures and that productivity growth did not become negative before mid-2008 and unit labour costs were rising throughout the whole period. Comments about falling productivity before mid-2008 and falling unit labour costs at any time were, therefore, incorrect and a significant handicap to the required description of the relationship. Parts (c)(ii) and (d) are also worthy of mention as they proved to be particularly good discriminators The best answers provided to these components were those which addressed the questions directly, and having taken note of the directive words, offered evaluative judgement as to the significance to the UK economy in the first case, and productivity improvement in the second.

Section B of the paper offered the candidates the chance to write at length on a topic taken from the other three parts of the specification. Question 4, the leisure markets question, proved to be by far the most popular essay choice; with Question 2, the market failure question, probably the next most popular; and Question 3, the wage determination question, the least answered essay choice.

Many candidates scored well on section (a) of the essay by offering clear economic analysis illustrated by appropriate diagrams, numerical example or analysis in prose form. As might be anticipated, section (b) proved to be more challenging for many candidates. Too often candidates attempted to demonstrate that they were clearly engaged in a discussion without adequate analytical underpinning of their arguments. Such answers were at best likely to secure a low Level 4 mark for a two handed answer lacking adequate analysis, and in some cases candidates were restricted to a Level 2 mark as all they produced was a series of assertions without any economic underpinning. Nevertheless, there were a number of candidates who provided well balanced analytical answers which culminated in logical conclusions based on the analysis offered and gave a clear evaluated judgement of the topic in question. It is important to point out to candidates that, given the changes that have been made to the A level specification, the essay question on the optional paper has now become the highest mark scoring question across the whole assessment. It is, therefore, vital that candidates adequately plan their answers before they put pen to paper. Given the paper is now of two hours duration, the time to do that is available and it must be utilised for such pre planning. It is quite obvious to examiners when a candidate has adequately prepared an answer as compared to one which evolves as it is

written. With stretch and challenge in mind, candidates will only achieve marks from the highest band of the part (b) Level 4 mark range if they have sufficiently addressed the question posed and offered a clear evaluated judgement based on their balanced analysis. This is most likely to be achieved if the response is carefully planned beforehand.

Comments on Individual Questions

1 (a) The majority of the candidates answered this part of the question in textbook fashion and secured both marks in consequence. However, rather more than might have been anticipated took a view of the short and long run from the macroeconomic perspective and considered the terms in the context of economic growth. This approach was accommodated in the mark scheme and two marks could be gained in this way as long as candidates clearly demonstrated that short run growth occurs within a fixed capacity and long run growth occurs when the capacity of the economy increases.

1 (b) (i) Many candidates provided accurate an explanation of the term, often supported by a correct numerical illustration of their understanding. However, a significant minority did not understand the term and wrote about the cost of one more labour unit and in consequence scored no marks.

1 (b) (ii) The best answers to this part of the question were those which considered one relevant cost change and explained its potential impact on unit labour costs, and one productivity change. Those who focused on two cost changes or two productivity changes were restricted to a maximum of four marks.

1 (c) (i) This proved to be the most difficult question for candidates to deal with for reasons indicated in the general comments section. The lack of a full appreciation of what the graph was showing condemned too many candidates to a score of zero for their answers to this part of the question. Questions concerning productivity have traditionally proved challenging to candidates and this, once again, appeared to be the case especially in attempts to answer this element. Far too many candidates wrote about productivity falling and unit labour costs falling when the latter never happened during the time period considered, and the former only after mid-2008. It was the rate of increase which speeded up or slowed. Candidates should also take note that year by year regurgitation of changes in rates without a suggestion of a relationship was worth no marks at all.

1 (c) (ii) This was the first of two questions on this section of the paper which required the candidates to offer some evaluation. Unfortunately, contrary to comments made in the January 2010 report, far too many candidates on this occasion failed to take sufficient notice of the directive words "comment on" and provided a one sided answer, paying no attention to the possibility of the trends having little or no impact on the UK economy in the short run. Consequently, they were restricted to a maximum mark of only three of the five marks available.

1 (d) This was the second question on this section of the paper which required candidates to offer evaluation as indicated by the directive words "discuss the extent to which". Many more candidates than in the previous instance did respond in the required manner, with the best answers coming from those who demonstrated the two handed economist's approach, followed by a judgement on the extent to which supply-side policies could help to improve productivity in the UK economy.

2 (a) A good number of candidates scored well on this part of the question. They did so by offering a clear analysis, through the use of a relevant diagram, in order to demonstrate how trade union activity can disturb the workings of the labour market leading to failure and consequent inefficiency. The normal route chosen was to consider how strong unions might bid up wages above the equilibrium rate and hold them there leading to higher production costs and potentially increased unemployment, both illustrating labour market failure. Those candidates

who secured the highest marks then went on to illustrate a further example of unions creating failure such as through demarcation and its impact on efficiency, and/or by reference to staffing requirements in addition to higher than equilibrium wages.

2 (b) The most common, successful, approach to this part of the question, avoiding the pointless repetition of part (a), was one which considered other potential causes of labour market failure in 2010. These were then carefully analysed in order to gain access to Level 3 marks, before being evaluated and a final judgement being reached. Careful note should be made of the advice given in the general comments section of this report which is applicable to all essay answers this summer, particularly the part b) of the questions set.

3(a) This was the least popular of the essay questions. However, it did produce answers which scored across a wide range of the marks available. Level 3 responses were common on part (a) of the question. Again, the better answers were those which offered a clear demonstration of how to use the economist's toolkit to answer the question. This could be achieved by using the standard demand and supply diagrams, while the better answers were those which took into account the marginal revenue product theory of how demand for labour is determined.

3 (b) The least successful answers to this part of the question were those which suggested demand elasticity would be greater the easier it was to substitute capital for labour, and vice versa, without adequate analysis, and without considering other potential influences. The more successful answers were those which clearly analysed the above as well as a number of other factors which influence the elasticity of demand for labour including: the price elasticity of demand for the product, the proportion of wage costs in the total costs, the time period involved, etc. This was then rounded off with an evaluated judgement of the question set. Careful note should be made of the advice given in the general comments section of this report which is applicable to all essay answers this summer, particularly the part b) of the questions set.

4 (a) This was the most popular essay question on the paper illustrating clearly that the economics of the leisure industry is indeed a popular and relevant area of study for sixth form students. It was a little disappointing, on a number of occasions, however, to find that candidates had a great deal to say about different barriers to entry and how they might arise, but then failed to illustrate how these might impact upon the degree of competition in different leisure markets. In other words, the lack of use of the market models, or indeed reference to abnormal profit, proved to be a handicap. Lack of barriers to entry increases the degree of competition in any market and is reflected by an absence of long run profits. This can be analysed using the monopolistic competition market structure and/or the contestable market model. Although not covered by the specification, even a perfectly competitive market structure could be used as illustration. On the other hand high barriers to entry significantly reduce the chances of competition and, therefore, increase the chance of long run abnormal profits as illustrated by the monopoly or oligopoly market form.

4 (b) The best answers to this part of the question were the ones which analysed the oligopoly market structure and applied this to a leisure industry of their choice. They clearly illustrated features of the selected market which matched characteristics of oligopoly and others which did not, before reaching a final conclusion. Careful note should be made of the advice given in the general comments section of this report which is applicable to all essay answers this summer, particularly the part (b) of the questions set.

Finally, it should once again be stressed that in order to reach Level 4 on the (b) part of the essay question, it is essential that candidates demonstrate an ability to analyse using the Economist's toolkit which they have assembled during their study of the subject. Analysis can be identified in three basic forms. Diagrammatic analysis, numerical analysis and analysis in prose form which makes use of terms and concepts contained in the said toolkit. An ability to answer questions in this way will clearly identify candidates as students of the specific subject, rather than just well read observers of the contemporary economic situation.

F584 Transport Economics

General Comments

With just under 2500 candidates sitting the paper this was a slightly larger entry than in the January 2010 session. Once again, examiners were impressed by the amount of economic knowledge which candidates produced in the examination and there was clear evidence of centres preparing candidates very well with many responding accurately to the key words and producing excellent answers.

Comments on Individual Questions

Q1 – The data question

Once again, the data question combined text with data and candidates seemed to have little difficulty accessing and understanding the material.

a (i) This part of the question was well answered with the majority of candidates gaining both marks and only a small minority failing to achieve on this question. Quite often candidates simply used examples which were not related to air transport which was a pity, but most answers produced a definition followed by a relevant example.

a (ii) Whilst most answers to this part of the question correctly identified two relevant factors, quite often the explanation failed to link back to air travel and in a few cases, answers provided no explanation whatsoever. Candidates are reminded to look at the mark allocation before deciding how much to write. Whilst this has been helped by the introduction of answer booklets for this module this year, several candidates failed to take heed of the number of lines provided when judging how much to write.

(b) With economies of scale moving over to the new A2 specification this was the first time this had been examined on the new paper and there were somewhat mixed results. Only a minority of candidates gained full marks on this part of the question and this was usually because evaluation had been omitted. It is vital that candidates respond to the 'comment' instruction to such questions. The best answers were able to analyse why diseconomies of scale may arise and often linked this back to where BAA currently is operating in relation to the point of minimum efficient scale.

c (i) This part of the question was well answered with the large majority of candidates gaining both marks. Where marks were lost it was usually because the decision making role of CBA had been ignored.

c (ii) A surprising number of candidates failed to gain mark on this part of the question with some perhaps thinking that an incredibly complicated calculation was required. A much smaller number failed to gain the mark as they missed out the reference to billions which was a pity.

c (iii) On the whole, this part of the question was well answered, although some candidates identified benefits to the first or second parties rather than looking at clear examples of benefits to third parties. The most popular answers here were tourism, increased trade and increased employment opportunities.

(d) Whilst many candidates gained full marks for a clear analysis and an evaluation of CBA a minority of scripts did confuse CBA with COBA and, in some cases, this resulted in candidates listing incorrect criticisms; most notably, the fact that externalities are ignored (true for COBA but

not for CBA). That said, many answers developed enumeration issues very clearly and then went on to discuss forecasting issues and problems deciding exactly what costs and benefits to include. On this part of the question, many more candidates responded correctly to the instruction word 'discuss' which was very pleasing.

Question 2

Q2 (a) This part of the question saw many accurate diagrams being produced with candidates obviously well versed in the theory of the firm which was very pleasing. Where mistakes were made on the diagram, common errors included failing to identify the profits' box correctly or not labelling the axes. Very few scripts produced diagrams which failed to label MR and AR correctly and, therefore, gained at least a mid Level 2 mark for the diagram.

Quite often, answers produced many relevant points identifying the different characteristics of a monopoly market structure, but quite often answers were limited to eight marks when a partially correct diagram was accompanied by a long list of characteristics lacking any relevant analysis. Perhaps the easiest way for candidates to access these marks was to analyse why productive and allocative inefficiency occurred, but many were also able to analyse why supernormal profit remained in the long run and what was the significance of barriers to entry.

Q2 (b) Some excellent answers were produced to this part of the question with candidates analysing what are the advantages and disadvantages of increased concentration. In a number of cases, candidates discussed the impact of a rise in competition which was given some credit, but too often answers would list the advantages and disadvantages of increased concentration, such as increased prices, but then fail to analyse these points using economic theory. If candidates could try to explain their points making greater use of economic theory this would greatly enhance their answers. The best responses were able to discuss the impact of greater concentration and then offer some judgement, for example, that the impact depends upon the extent to which the market remains contestable.

Question 3

Q3 (a) Once again, this part of the question prompted an excellent response by candidates who were often able to describe at great length what are the characteristics of a contestable market . Unfortunately, this was not always developed in terms of clear economic analysis. Therefore, a response which simply stated that a contestable market lacked barriers to entry and then provided examples would gain Level 2, but an answer which went on to analyse the relevance of low barriers - namely that new firms would be free to enter the market, particularly in response to short run supernormal profits would gain Level 3. With the final seven marks earmarked for analysis marks on this question, it is vital that candidates do analyse the characteristics in order to get more than eight marks out of 15.

Q3 (b) It was apparent that candidates were very well versed in the effects of bus deregulation. Once again, more analysis would have helped candidates increase their marks significantly as, in some cases, a list of points was made which lacked any relevant economic analysis and, therefore, limited candidates to Level 2 marks. The better answers often developed an analysis around differing theory of the firm models - contrasting an oligopolistic market to a more competitive one.

Question 4

Q4 (a) Overall, this was marginally the most popular essay on the paper. On part (a) many candidates immediately accessed Level 3 marks by producing accurate diagrams. A large number of answers then went on to develop an analysis of why over-consumption occurs and quite often linked this to allocative inefficiency. In a small number of cases, candidates simply offered lists of relevant negative externalities in transport which, unfortunately, failed to answer the question directly.

Q4 (b) A surprisingly large number of candidates chose to write about taxation or road user charging on this part of the question. Whilst limited credit was given due to the regulatory basis of road charging, candidates who took this approach were limited to seven marks. That said, many answers were able to analyse weaknesses in regulation in terms of enforcement costs and issues and the difficulty of setting the correct level of regulation. In some cases, candidates seemed to find the analysis of how regulation works to be more difficult. Simple references to fines/the threat of prosecution changing behaviour or providing a clear deterrent were accepted here.

Overall, examiners were very pleased with the breadth and depth of knowledge which candidates demonstrated in their answers. Centres are to be congratulated for their thorough preparation of their candidates!

F585 The Global Economy

General Comments

This first summer sitting of the Global Economy unit attracted an entry of 5721 candidates. The questions, drawn from the stimulus material and firmly rooted in the specification, discriminated well and produced a wide spread of marks. At the top end candidates were confident in their use of the economist's toolkit of terms, concepts and theories and they made effective use of these in analysing and evaluating the topical issues raised. Some candidates were less confident in their knowledge and understanding of the specification content and were unable to establish causal links in their responses. This was most evident in Question 3 where often lengthy responses contained no discernible economics. Candidates who adopt a general approach to questions did not achieve marks above Level 2 of the mark scheme. Stretch and challenge requires candidates to recognise how economic concepts might be applied to issues without guidance. The comments on individual questions below show how this could have been achieved in this tough but fair assessment.

Guidance in INSET has focused on how stretch and challenge has been incorporated into this unit. In particular, strategies have been recommended to approach the higher mark questions. It is worth restating some of this advice in this report. There are four points worth emphasising:

- Questions set will be clearly based on the specification content - centres should help their candidates to link the stimulus material to the specification and the economic concepts which underlie each of the Extracts. Particular attention should be given to the 'candidates should be able to' bullet points in each of the sections of the specification;

- explicit economic analysis should underpin candidate responses, in particular on Questions 1(c), 2(c) and 3, all of which require candidates to show the skill of evaluation. It is useful if centres make their candidates aware that analysis involves breaking an issue down into its constituent parts. Examiners spot analysis when candidates use economic terms, concepts, theories and diagrams to explain things, clearly specify and explain 'cause and consequence'. It helps if candidates make use of connectives in their writing to show that they understand these causal links;

- evaluation involves an assessment of the significance of an argument or viewpoint - without evaluation candidates will not be awarded marks in Level 4 of the mark scheme. Examiners spot evaluation when candidates adopt the method of the 'two handed economist', show what things depend upon, make judgements and reach conclusions;

- the best responses have a logical structure which clearly 'signposts' to the examiner the assessment objectives being tested. Weaker responses tend to state 'points' rather than construct arguments into 'paragraphs', whereas better candidates use a writing framework which is clearly paragraphed and makes clear that they know the key terms in the question, explain how things might work according to economic theory, explain how things might not work, what the counter arguments and limitations might be and, by showing what things depend upon, make reasoned judgements and reach qualified conclusions.

Comments on Individual Questions

Question 1 (a)

This part of the question required an understanding that declining GDP would have an impact on macroeconomic variables which candidates would be expected to be able to describe simply. For full marks to be awarded it was sufficient for candidates to state that unemployment would rise and that the rate of inflation would be expected to fall, for example. Description of a wide range of macroeconomic variables was accommodated by the mark scheme and there was no requirement for candidates to give reasons for the changes identified. In each case, one mark was available for the identification of a relevant macroeconomic variable and one mark for the direction of change. Most candidates scored well on this part of the question, though responses were unduly lengthy and more often than not contained analytical explanation not required by the question.

Question 1 (b)

It was not necessary for candidates to have any knowledge of the UK and EU economies or recessions beyond that contained in the specification and stimulus material to answer this part of the question well. The identification of valid reasons allowed candidates to score two marks, with four marks reserved for the quality of the analytical reasoning offered. Weaker candidates, as might be expected, scored less well on analysis as their responses did not make use of the economist's toolkit of terms and concepts and their writing did not show evidence of the causal links expected in analytical reasoning. Better candidates were able to make effective use of concepts such as aggregate demand, the multiplier, the interest elasticity of consumption and investment and marginal propensities and to make clear cause and consequence in their responses.

Question 1 (c)

Most candidates were able to use their knowledge of the advantages and disadvantages of fixed exchange rates to good effect on this part of the question. Where this was linked to macroeconomic performance candidates scored well in Level 4 of the mark scheme, although more could have been made of supply-side determinants of performance such as capital investment and productivity as part of the commentary. There were some common assertions such as fixed exchange rates resulted in either low or high export prices which candidates did not explain as well a tendency amongst weaker candidates to base their responses solely on the data provided. It is important at this level that responses should be underpinned by economic analysis in order for Level 3 and Level 4 marks to be awarded. Better candidates were able to link issues related to the choice of exchange rate regime to macroeconomic performance by considering the impact on aggregate demand.

Question 2 (a)

This relatively straightforward question requiring knowledge, understanding and application created two problems for some candidates. The first was a lack of precise knowledge of the fiscal rules of the UK and the EU's Stability and Growth Pact. The mark scheme allowed candidates to achieve two marks for stating two of these rules. However, some candidates did not maximise their marks because they did not recognise that UK fiscal rules relate to government borrowing and national debt over the course of the economic cycle. A common mistake was to say that the 'Golden Rule' prohibited any borrowing other than for investment. Loose expression also cost some candidates marks by not stating that where limits were set they were as a percentage of GDP. The main issue which prevented many candidates from

achieving full marks was that the question asked candidates to distinguish between the two sets of fiscal rules. Many simply did not make a distinction, though better candidates were able to point out how the UK rules were more flexible by taking account of the economic cycle or not setting a limit on government borrowing, how the EU rules carry penalties if broken whereas the UK rules do not or that the UK rules place a tighter restriction on national debt. Examiners felt that knowledge and understanding of this aspect of the specification, clearly flagged in the stimulus material, was not as secure as it might have been.

Question 2 (b)

Confident responses to this part of the question embraced the requirement to analyse the consequences of countries sticking to the fiscal rule of the Stability and Growth Pact. They recognised that there would be a constraint on the use of fiscal policy, or that government expenditure would need to be reduced and taxation increased, and that this would have an impact on aggregate demand and as a result on GDP and unemployment. The mark scheme accommodated alternative (non-Keynesian) responses which analysed how abiding by the fiscal rules in a time of recession might be an advantage. Candidates who adopted this approach argued that it would reduce the crowding out of private sector investment, avoid the necessity to raise taxation in the future or ensure that long-term interest rates were not increased by higher levels of borrowing. The mark scheme differentiated between responses which simply stated the impacts and those which made effective use of economic concepts as part of the explanation of cause and consequence.

Question 2 (c)

This part of the question was generally tackled well by candidates who seemed well versed in the arguments for and against protection. Picking up on the stem to the question, better candidates began their answer with a diagram to explain the impact of the imposition of a tariff. For these candidates the analysis and evaluation of the case for restructuring imports in a time of recession was relatively straightforward. They were able to show how a tariff raised the price of imports relative to domestically produced goods encouraging domestic consumers to switch their expenditure and how there would be an extension of domestic supply. Some candidates went on to analyse the benefits for domestic producers in terms of increased producer surplus and the benefits of tariff revenue for governments in a time of recession. The best candidates developed the context of the recession well using AD/AS analysis or by reference to the circular flow of income. Tariff diagrams also allowed candidates to underpin the case against tariffs by reference to the impact on consumers and on economic efficiency. Responses which lacked diagrams did not always include textual analysis of the arguments necessary for the award of Level 3 and Level 4 marks.

Question 3

Firmly rooted in the specification and in the bullet point guidance on what candidates can be expected to be able to do, this question produced a wide variety of responses. At the bottom end were responses which did not progress beyond general issues related to international agreements and contained no economic analysis. Such responses were locked in Level 2 of the mark scheme, with a maximum of four marks available, and came from a wide range of candidates including those who had performed well on earlier questions. It is worth re-stating that Level 3 and Level 4 marks can only be awarded where there is explicit use of the economist's toolkit of terms, concepts and theories. Examiners commented on how few diagrams were used in responses to this question. The difficulty candidates experienced could have been overcome with the use of a clear structure and appropriate paragraphing.

Whilst most candidates began with a definition of sustainability, this did not extend to an explanation of the different aspects of sustainability in terms of the balance between the objective of economic growth and the social, environmental and resource implications of growth. Analysis of the usefulness of international agreements was, in the main, not well done. It was expected that candidates would be able to explain that environmental sustainability involves raising the marginal private costs of economic activity towards the marginal social cost. Measures adopted by individual economies to achieve this, through environmental taxation, regulation or pollution permits for example, are likely to be detrimental to economic performance, living standards and international competitiveness in the absence of international agreements. Discussion of the usefulness could then be based on sound economic underpinning.

The mark scheme accommodated those candidates who focused on policy measures rather than international agreements, although analysis of the advantages and disadvantages of these measures without mention of international agreements resulted in marks in Level 3 only. Differentiation in Level 4 was achieved by explicit consideration given to the ability to make judgements on the arguments presented. It is important for centres and their candidates to be aware that judgements need to emerge from economic analysis and are not the same thing as opinions. The best judgements recognised that whether international agreements were useful or not depended on a range of factors and that the problems of international agreements could be overcome. So, for example, the tendency for economies to free-ride off the environmental actions of others could be overcome by internalising the costs through trade sanctions. Few candidates considered whether international agreements such as those referred to in the stem of the question and the stimulus material could achieve all aspects of sustainability.

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