

Economics

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

OCR Report to Centres

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

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

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F581 Markets in Action

The examination was taken by approximately 9 200 candidates: a similar entry to that in January 2011. The format of the paper was closely similar to that in previous examinations, with 36 marks for questions drawn from the first two sections of the specification and 24 marks for questions based on the remaining sections. However, this may not necessarily continue to be the case. If such a change is to be made, then centres will be advised in advance of the examination series in question.

The case study was drawn from the Peterborough Evening Telegraph. Candidates found the information on the substitute products (therapeutic and traditional chewing gum) very accessible. The final paragraph of the case study provided a clear context for Question 7, setting out the market failure caused by discarded chewing gum, alongside four possible policies to correct this failure. While some candidates used this final paragraph as the foundation for a well-focused answer on correcting the specific market failure referred to, others did not take this opportunity and, as a result, their answers to the essay question tended to be generic and on ground familiar to them, rather than on the specific case. A considerable number of candidates made no reference at all to the problem of discarded gum. As a result, the number of Level 4 answers was smaller than in June 2011. However, it was pleasing to see that the evaluation (AO4) marks in Questions 4(b) and 5(b) proved more accessible than previously for some candidates.

Many candidates offered precise definitions and well-drawn diagrams and a good number showed considerable ability in using economic analysis in the context of the question, a tribute to good teaching. Answers on aspects of supply showed developing confidence on this aspect of the specification, but also some room for further improvement. Some specific closing remarks on market failure appear at the end of this Report.

Comments on individual questions

- 1(a)** To access the full two marks for this part of the question, candidates had either to link infinite wants with limited resources or to explain how a resource was limited, for example a non-renewable example. Only a small number of candidates used the inappropriate concepts of supply and demand.
- 1(b)(i)** The great majority of candidates offered a correct answer in terms of the 'next best alternative foregone'.
- 1(b)(ii)** To access full marks on this part of the question, candidates had two pathways: they could either identify that resources used in clearing up gum could be redirected to another use, giving an example; or they could identify the financial sum involved and indicate how this could be spent more productively. Just fewer than half the candidates scored full marks. Some candidates answered the question incorrectly in terms of financial cost, rather than opportunity cost.
- 2(a)** The candidates offering the best answers to this part of the question tended to be those using tried and trusted definitions of the production possibility curve. Responses to this question demonstrated the value of using well established phraseology, rather than re-writing definitions. Common errors included referring to actual, rather than potential, output and failing to add the rider about the efficient use of resources. Opportunity cost was not allowed as calculating this involves **using the PPF** as an analytical tool, rather than being directly shown by it.

- 2(b)** Diagrams were generally well drawn and it was pleasing to see that the great majority of candidates used the diagram dynamically by indicating a movement along the axis representing an increase in the output of therapeutic gum. A few candidates did not connect their PPC lines to the axis. Most answers illustrated how a clearly presented diagram can tell the whole story without the need for any words, other than the axes labels.
- 3** Pleasingly, nearly two-thirds of the candidates answered this question accurately. A small number of responses either confused consumer and producer surplus or talked about quantities of output. Many candidates could have obtained an additional mark by stating clearly that producer surplus is the **difference between** two price levels.
- 4(a)** This part of the question reflected a previous format. The intention of the question was to draw out candidates on factors which might increase supply and thus the analysis required needed to express an extension along the supply curve or a shift of it. Many answers scored low or zero marks as they referred only to factors affecting demand. A third of the candidates did not address supply at all. The mark scheme required any demand-side influences to be mediated through either a rise in price (causing an extension of supply and a movement along the supply curve) or the adoption of a business objective (typically brought forward by A2 candidates re-sitting the unit).
- 4(b)** The great majority of candidates took the simultaneous shifts in demand and supply in their stride and most diagrams were well presented and correct. While a general comment on the change in price was sufficient, the comment on increased quantity needed to refer specifically to a movement along the quantity axis in the diagram (eg Q1 to Q2) or to specify quantity traded or supplied and demanded. A third of candidates were able to access the 'comment' marks on the relative size of the shifts of the supply and demand curves or the influence of price elasticity of demand and/or supply on the outcome. Centres may like to reflect on how to help their candidates to make references to these concepts 'second nature' when analysing shifts of supply and demand curves.
- 5(a)** Many candidates offered a succinct and correct explanation and/or the formula correctly expressed. There appeared to be greater precision from candidates in presenting the formula for cross elasticity of demand than in previous series, but some candidates still elaborate the definition or formula incorrectly or refer only to 'quantity' or 'demand' rather than 'quantity demanded'.
- 5(b)** Most candidates correctly performed the three calculations of cross elasticity of demand. A majority were able to offer some explanation of the meaning of these figures in terms of inelasticity and a positive value indicating substitutes. The mark scheme consciously set out to make 'comment' marks more accessible and, with those who attempted a comment, this often led to full marks. A significant number of candidates, however, made no attempt at all at a comment and centres may like to encourage their candidates to be more responsive to this command word.
- 6(a)** As in previous series, candidates experienced mixed fortunes when answering on externalities. This was another question on which the candidates who could draw on a clear and focused definition scored highly. Two routes to full marks were offered, either an answer in terms of an economic action affecting a third party, or in terms of both social costs or benefits exceeding private costs or benefits. Most successful candidates took the first route.
- 6(b)** Just under half the candidates scored full marks on this part of the question, often by applying the definition which they had given in part (a) to the information provided in the case study. This enabled them to identify an action and a third party affected by the action. Candidates seemed equally at home, or not, with positive and negative

externalities. To obtain full marks, the third party effect had to be explicit. In general, this was better answered than in previous examination series, suggesting that teachers have addressed this effectively.

- 7 This question asked for a discussion on which policy addressing ‘the market failure arising from discarded chewing gum’ might be most effective. This posed two challenges to candidates.

The first challenge was to address the question directly. Unfortunately, a significant minority of candidates made no mention of the specific market failure arising from inappropriate discarding at all, offering instead generic answers on correcting market failure in general or trying to reduce the consumption of chewing gum with no reference to the question. These candidates were able to access the lower Level 3 marks for offering valid analysis on how a policy can correct a negative externality by reducing the quantity of the product supplied and demanded.

The second challenge was to create a link in the analysis by which reduced discarding could be brought about. A brief link sufficed, but there needed to be some clear explanation as to how the discarding of gum was reduced. This could be through stating that a reduced quantity purchased is likely to lead to a proportionate fall in the amount of inappropriately discarded gum; it could be through use of a diagram shifting demand for gum to the left as a result of information provision, and a similar stated connection to proportional discarding; or it could use micro-economics to explain how a consumer’s decision about throwing gum away might be changed. Candidates who progressed to the higher Level 3 and Level 4 marks took various routes, though most expanded on the impact of a rise in indirect tax on gum on both consumption and discarding of chewing gum.

It cannot be assumed that market failure questions will always contain case studies which rely on the more standard remedies of increasing or imposing indirect taxes or providing subsidies. In this case study four alternatives were helpfully listed; however, only a few candidates were able to provide diagrammatic or written analysis of a ban, fines or information provision. Centres might like to explore these remedies for market failure a little more fully, as many candidates find such diagrammatic analysis the key to understanding the concepts more fully and moving through Level 3 to Level 4.

There was strong evidence of good examination technique, with many candidates progressing clearly and systematically through the levels of response. Some candidates spent too long on defining terms or describing the policies. Teachers need to continue to encourage their candidates to focus on relevant analysis and application as the foundation for subsequent evaluation and extended evaluation. At the top end of the range there were excellent, focused answers achieving full marks.

F582 The National and International Economy

Approximately 2 500 candidates sat this paper. There was a range of performance which included some excellent, lucid and perceptive answers. Most candidates paid attention to the marks awarded and the command words. Indeed, a smaller number than in previous sessions failed to recognise the need to evaluate when responding to the 'comment on' questions. There were, nevertheless, still some examples where candidates provided good analysis on Questions 2(c) and 4(a), but did not then develop their answers into evaluation.

Most candidates sought to evaluate on Question 6(b), but a relatively high number did not provide any analytical underpinning of their comments. Good understanding and application of AD/AS analysis was shown on Question 3(b), but some confusion of the cause and effects of shifts in the aggregate demand curve was exhibited on Question 6(b).

There were few unanswered questions and most candidates wrote at an appropriate length for their responses. A small number of scripts were rather difficult to read and it is important that candidates ensure that their writing is legible. It was pleasing to see an increase in the number of candidates who clearly indicated and numbered their answers appropriately when they continued writing either at the back of the booklet or on additional sheets.

Comments on individual questions

- 1 This part of the question was generally well answered, although not all candidates drew on the case study and a number equated a rise in the labour force with a rise in employment. A few candidates identified two reasons, but did not explain them.
- 2(a) A number of candidates found this to be a challenging question. Some concentrated on the rate of, rather than fluctuations in, economic growth, unemployment and inflation. Others used the word 'stable', eg stable economic growth, to define stability, instead of bringing out the meaning of economic stability.
- 2(b) Some candidates tackled this part of the question well, but others seemed uncertain as to how to calculate the figure. In some cases, this appeared to be because they had not examined the case study carefully enough and in other cases it was due to some confusion over percentages.
- 2(c) There were some good answers to this part of the question which examined the data carefully and made some good evaluative comments. These answers focused on higher investment and higher economic growth, rather than just high investment and high economic growth. The weakest answers just described the data or made no reference to it.
- 3(a) A high proportion of candidates provided an accurate definition. Disappointingly, however, there were a number of micro answers and a few candidates defined aggregate demand.
- 3(b) This was a well answered part of the question. Most candidates drew an accurate, well labelled diagram and made pertinent comments on the impact on the economy. There were very few micro diagrams.
- 4(a) There was a range of performance on this part of the question. A small number of candidates produced unclear analysis with no evaluation. Others provided strong analysis from both the demand and supply sides and good evaluation, particularly in terms of the use of government tax revenue. Some candidates sought to evaluate but did not establish evaluation. For instance, some referred to workers working more hours but did not link this to employment levels.

- 4(b)(i)** Most candidates identified government spending. A small number just referred to benefits and a few mentioned interest rates and supply-side policy.
- 4(b)(ii)** The majority of candidates mentioned interest rates. Most also identified another monetary policy measure. Not all explained 'expansionary' and a few referred to a rise in interest rates.
- 5** Again, there was a mixed performance on this question. There were some strong answers, many of which focused on the rise in exports and the rise in the rate of interest. Particularly good understanding was shown of hot money flows, their link to the rate of interest and their effect on the exchange rate.

Other answers revealed some confusion about the nature of exchange rates and the difference between the internal price level and the external value of the currency. A few candidates identified one or two reasons but did not go on to explain them.

- 6(a)** Many candidates recognised that setting an inflation target gives a central bank/government something at which to aim. A relatively high number also described how such a target can influence central bank/government economic policy.
- 6(b)** There was a complete range of performance on this part of the question. Some candidates produced lucid answers with excellent analysis and evaluation. A relatively common approach was to compare the effects of demand-pull inflation and cost-push inflation. A disappointing number of candidates, however, asserted points rather than analysing them. For instance, a considerable number of candidates stated that a high rate of inflation is more harmful than a low rate, without providing any analysis as to why this might be the case.

A number of other candidates sought to answer a different question, particularly the advantages and disadvantages of raising the rate of interest. In addition, confusion was shown about the difference between movements along and shifts in AD curves. This led some candidates to state that inflation would cause the AD curve to shift to the left and to devote most of their answers to discussing the effects of a decrease in AD.

In answering the last question, it is important that candidates focus on the specific question asked and provide an analytical underpinning for any evaluative statements. Making a rough plan before they start answering the question can help candidates to focus and to order their thoughts in a logical manner. When writing their answers, candidates need to keep in mind the word 'how' when analysing and the word 'why' when evaluating.

F583 Economics of Work and Leisure

The January examination was entered by just under 2 500 candidates: slightly more than last January. The overall standard continues to improve with centres and candidates clearly grasping the requirements of the key command words. This was especially the case in relation to the Section B essays where essay structures were increasingly in line with the expectations of commands such as ‘discuss the extent to which’ and ‘evaluate’. The mark scheme indicates the required refinement at the very top of Level 4 in the marking of the essays. A mark of 16–17 is awarded for good analysis on both sides of the discussion backed up by a basic judgement, whereas 18–20 marks require a much stronger judgement.

It is worth indicating one important development of the mark scheme for the ‘comment’ and ‘discuss’ questions in Section A. From now on, the final mark on the five mark ‘comment’ question and the final two marks on the eight mark ‘discuss’ question will be reserved for clear conclusions which directly respond to the question asked, and also offer a judgement which is then, on the ‘discuss’ question, developed. This marks an important development about which centres would be wise to inform their candidates.

The content of the Section A was topical in that it dealt with differences in employment and earnings by gender, the issue of youth unemployment and the ability to apply minimum wage theory on a regional basis. Candidates coped well with the first two part-questions and the level of numeracy skill was encouraging, but the ability to apply a well known concept such as the minimum wage and set it in a different context produced a wide range of responses. Many answers did not go much beyond the points outlined in the question paper extract.

In Section B, a wide range of specification content was covered giving candidates a good degree of choice. The majority chose the question on monopolistic competition and leisure industries. The specification includes four specific leisure industries to study but several candidates opted to use other industries in their discussion. This approach is regarded as acceptable as long as the candidate clearly outlines why the industry can be considered to be a leisure industry. The subsequent knowledge, application and analysis are also expected to be just as deep as that from the specified industries. It is also important that candidates focus on the behaviour of all actual and potential firms within the industry, rather than on the behaviour of a single firm.

There is still a tendency to produce diagrams and not explain them; analysis relies on candidates not only producing diagrams but explaining their relevance to the question. The national minimum wage diagram, the kinked demand curve and the bilateral wage bargaining model were often produced but not always explained.

The topical nature of the questions did, however, expose some lack of understanding on pensions in the UK, with a number of candidates unsure about the differences between the state pension and the pensions of public sector workers.

Comments on individual questions

Question 1

- (a) Some lack of precision in definition prevented many gaining full marks on this part of the question.
- (b)(i) This part of the question was generally well done but some candidates declined to make any reference to the data in Fig 1.

- (b)(ii)** This part of the question was well answered with good understanding. Some candidates were reluctant to use percentages rather the absolute values.
- (c)** This part of the question was generally well done with causes of change identified and clearly explained, but candidates many failed to respond to the need to explain change and simply focussed on why men earn more than women.
- (d)** This part of the question produced many answers which hardly went beyond the information provided in the material provided. The best answers were able to discuss both labour and capital mobility.
- (e)** This part of the question was also well answered as education and training was picked as a supply side policy and the expected commentary points emerged. The only disappointing aspect was the limited quality of judgement.

Question 2

This was the least popular essay question, but often well answered. A broad view was taken of forms of bargaining and many candidates were able to produce an analysis of collective bargaining and performance related pay agreements in relation to the labour market.

On part (b) of the question, candidates were much more secure when comparing bargaining to the various supply and demand factors operating in the labour market. Elasticity of both supply and demand for labour, changes in MRP and the role of the government in wage setting (eg the national minimum wage) were all popular areas to consider as alternatives to the bargaining process. There was plenty of scope for diagrammatic analysis which was generally well done.

Question 3

This was a very popular and generally well answered question. The ability to produce correct diagrams was, however, variable. The best were clear and well presented. On the other hand, some demonstrated confusion with perfect competition, some had incorrect labelling of axes and lines and many long run diagrams insisted on illustrating profit maximising levels of output which were clearly not profit maximising, even though consistent with the level of output at which $MC=MR$. Analysis marks relied on correct or substantially correct diagrams and many candidates were able to clearly explain the differences usually in terms of profit, price and ease of entry into the market.

In part (b), candidates avoided repetition and sensibly concentrated on the extent to which their chosen industry fitted the structure of monopolistic competition. There were good explanations of barriers to entry, product differentiation, the number of firms and the ability to earn profit. Alternative market structures were also considered and analysed. There is still a tendency to produce diagrams and not explain them – analysis relies on candidates not only producing diagrams but explaining their meaning and relevance to the question. The kinked demand curve seems to be included as a matter of course when discussing oligopoly but it is unusual to find it related to the question.

Question 4

This produced some very mixed answers which usually resulted from an inability to clearly define what is meant by an ageing population. Subsequent points tended to rely on assertion, rather than analysis based on stated assumptions. A common example was the statement that an ageing population automatically produced a fall in the labour supply.

This lack of definition was carried into part (b), where the concept of the state pension was often confused with public sector pensions – no doubt influenced by recent events. The better answers looked at various methods of reforming the state pension and discussing the various impacts both positive and negative. Others approached the question by looking at various non-pension related arguments which might solve the problems created by an ageing population. This often produced good two sided analysis and judgement.

F584 Transport Economics

This session of the Transport Economics paper was sat by just over 2000 candidates. As this is the fifth sitting of the paper since the revised specification was launched, it was very pleasing to see that candidates continued to make full use of the time allocated to the paper and only in very rare cases did they fail to provide an answer to the question offered.

It is worth indicating one important development of the mark scheme for the ‘comment’ and ‘discuss’ questions in Section A. From now on, the final mark on the five mark ‘comment’ question and the final two marks on the eight mark ‘discuss’ question will be reserved for clear conclusions which directly respond to the question asked, and also offer a judgement which is then, on the ‘discuss’ question, developed. This marks an important development about which centres would be wise to inform their candidates.

Comments on individual questions

Question 1

- (a)(i)** This part of the question discriminated very well between candidates with most correctly recognising that, whilst the growth rate had fallen, it meant that the overall passenger numbers on UK trains had continued to rise over the three quarters identified. A small minority of candidates suggested that the number of rail passenger journeys had fallen over the time period mentioned which was, unfortunately, incorrect.
- (a)(ii)** This part of the question was well answered by the vast majority of candidates with most being able to identify two relevant factors which might account for the change in rail passenger journeys. In contrast, some candidates often struggled to produce convincing economic explanations as to why the identified factors would explain the data trends. The best answers used this as an opportunity to apply economic theory – for example, applying income elasticity of demand to explain that a rise in income may cause a rise in demand for trains as they are considered to be a ‘normal’ good. Answers which applied relevant economic theory gained good marks on this question.
- (b)(i)** The majority of candidates gained both marks on this part of the question for clear definitions in terms of social benefit exceeding private benefit or by making clear reference to there being a benefit gained by a third party. However, some candidates lost marks by making relatively simple omissions; for example, the statement ‘a positive externality is a spillover effect’ would gain only one mark, as the answer fails to identify it as being a *positive* spillover effect.
- (b)(ii)** The wording of this part of the question aimed to make it clear to candidates that they needed to state an example and then explain why that example was a positive externality. Many candidates responded to the question appropriately and produced clear answers, identifying relevant examples such as the increase in jobs which may follow major infrastructure projects. A number of candidates identified lower negative externalities, such as pollution or congestion which were not accepted. As was the precedent set in previous examination sessions, explicit examples of positive externalities were required on this part of the question, rather than lower negative externalities. In terms of the explanation, where candidates applied the idea that these were benefits accruing to third parties, then the explanation mark could also be given, as long as a relevant example had been identified in the first place.

- (c)(i)** This part of the question was well answered with the majority of candidates gaining both marks for identifying and then explaining relevant barriers to entry in the rail passenger market. High set up costs proved to be one of the more popular answers which could then be accurately developed in terms of an example, such as the cost of leasing trains and carriages.
- (c)(ii)** Whilst many candidates wrote at length at the beginning of their answers about the characteristics of contestable markets and often went to some trouble to explain contestability theory, better answers tended to focus immediately on whether or not the UK train passenger market was contestable.

Many answers were able to accurately state that, since privatisation, barriers to entry were removed, such as legal/regulatory barriers and, therefore, with firms free to bid for franchises, they were able to ‘contest’ the market. Relevant – and popular – counterarguments were to state that because of the remaining barriers to entry (such as high set up costs and economies of scale benefiting incumbent firms) the market was far from contestable.

The final mark available on this part of the question was reserved for clear, directed conclusions which sought to answer the question directly. This mark could be gained by a simple statement suggesting whether or not the market, overall, was contestable or not.

Note: It would be very wise to advise candidates to add clear conclusions to their answers on the five mark ‘comment’ question, responding directly to the question which has been set.

- (d)** This part of the question tended to be well answered, with many candidates evidently well versed in the theoretical benefits and drawbacks of rail privatisation. If anything, quite often, the advantages were developed more fully than the possible drawbacks but candidates did tend to perform well on this part of the question.

With the last two marks reserved for a judgement, once again, candidates would be well advised to offer clear conclusions responding directly to the question set. As there are two marks available on this type of question, it would be wise to develop the explanation to the conclusion and perhaps state which factors determine whether or not, in this case, the benefits of privatisation outweigh the costs.

Question 2

- (a)** Many candidates were extremely well versed in relation to the characteristics of oligopoly markets and performed well on this part of the question. Some, however, spent too long explaining the characteristics, rather than analysing them, but usually most candidates analysed at least one characteristic – usually the kinked demand curve. Overall, therefore, most responses reached Level 3 and, therefore, gained at least nine marks on this part of the question.
- (b)** Whilst the vast majority of responses were able to correctly identify that increased competition raised economic efficiency, not all of the candidates were able to clearly analyse why competition resulted in a rise in specific types of efficiency. As such, analysis of why competition generates increased allocative and productive efficiency was sometimes weak; although the analysis of the drawbacks of increased competition in terms of loss of natural monopoly was usually stronger.

Question 3

This proved to be the most popular question with many excellent analytical answers produced.

- (a) The large majority of the candidates were able to identify and explain several factors which could account for the rise in car use in recent decades. Once again the better answers made clear use and of economic theory, for example, applying income elasticity of demand when analysing the impact of rising incomes and using simple demand analysis when analysing the impact of lower prices leading to an extension of demand.
- (b) The majority of the answers to this part of the question were able to identify and explain limitations of road user charging, and the better answers combined this with clear economic analysis of how the policy would correct the market failure arising from congestion. In some cases, it was often assumed that road charging would work and that reference to increased price lowering demand would be sufficient. This was a great shame as candidates missed the opportunity to introduce clear economic theory and analyse how road user charging could impact on market equilibrium and internalise negative externalities. Economic analysis of how such a policy would work was vital on this question. Where such analysis was evident, candidates often scored very high marks producing answers which were a pleasure to read.

Question 4

This was the least popular essay question, although some of the candidates who answered it were able to score high marks by producing very strong analytical answers which analysed the characteristics of sustainability and then went on to discuss how sustainable are different modes of transport.

- (a) The better answers to this part of the question were able to analyse policies such as taxation and subsidies in terms of their impact on allocative efficiency and sustainability. For example, an answer which analysed how public transport subsidies could reduce market failure by removing overconsumption and thereby correcting the misallocation of resources as there would no longer be too many scarce resources diverted towards the production of these goods would clearly gain a Level 3 mark. In some cases, candidates only identified policies and failed to analyse why they may be deemed to be 'sustainable'.
- (b) Whilst the vast majority of responses to this part of the question were able to identify sustainable and non-sustainable modes of transport, quite often there was a lack of economic analysis as to why this was the case. For example, an answer which identified car use as being non-sustainable and then analysed this in terms of negative externalities existing and there being a misallocation of resources/allocative efficiency would gain analysis marks. Unfortunately, where such analysis was lacking, then a Level 2 mark was the highest which candidates could achieve.

F585 The Global Economy

This unit was sat by approximately 1 650 candidates this series, and attracted a wide range of responses, discriminating effectively and producing a wide range of marks. The best responses showed real insight into the issues raised by the stimulus material and were able to employ the economist's toolkit of concepts, theories and techniques in order to offer analytical explanation, evaluation and judgement. Candidates made good use of the time available in the examination and it was good to see evidence of planning, particularly on Question 3. Questions 1(b) and 2(a) required the candidates to make explicit use of the data provided in the stimulus material and, in general, this was used effectively. The ability to use economic data to illustrate and explain economic relationships is an important skill and one which will continue to be tested in this unit. Conversely, there was less confidence in some candidates' knowledge and understanding of the multiplier and accelerator and their interaction. Concepts of growth and development were generally well known, although some candidates were unable to distinguish between the two on Questions 2(a) and (b). Candidates' responses to Question 3 could have been improved with a clearer focus on the question set and an explicit consideration of the key terms in the question.

It is worth emphasising to centres, once again, the nature of the assessment of this unit and the role of the stimulus material. Knowledge of individual economies or economic issues beyond those raised in the stimulus material is not expected, nor is it required to access the highest marks. Questions will always be set which are rooted in the specification, with the stimulus material providing the context for analysis and evaluation. Question 3 was challenging because of its requirement to draw on a range of concepts from across the specification and apply these concepts in a specific context, thereby meeting the stretch and challenge criteria at A2.

Specifically, this examination tested the following parts of the specification and the associated assessment outcomes:

Questions 1(a), 1(b) and 1(c)

Macroeconomic performance:

- the national income multiplier
- the interaction of the multiplier and accelerator as determinants of the economic cycle
- the role of fiscal policies in promoting economic growth.

Questions 2(a), 2(b) and 2(c)

The economics of globalisation:

- international financial flows (official flows).

Development and sustainability:

- the meaning and measurement of development
- the distinction between growth and development
- the relationship between growth and development
- the effectiveness of policies to promote development and the role of the market and the state, and international trade
- the constraints on development.

Question 3

Trade and integration:

- the consequences of balance of payments problems
- policies to correct imbalances on the balance of payments
- the case and against protectionism
- the consequences of exchange rate fluctuations
- the effects of international trade.

Macroeconomic performance:

- constraints in promoting economic stability.

The economics of globalisation:

- international financial flows (short-term and long-term flows)
- the effects of different flows of international finance
- the issues surrounding current international trade disputes.

Comments on individual questions

Question 1

- (a)(i)** Many candidates understood the concept of the national income multiplier; with the best responses giving an accurate and precision definition. Such knowledge and understanding was not, however, displayed universally.
- (a)(ii)** The accelerator concept was generally not well understood or understood in only general terms as the relationship between investment and national income. Only the best responses provided an accurate definition which showed an understanding of the level of investment determined by the rate of change of national income.
- (b)** This part of the question was not well answered with many candidates making no reference to the length and severity of the recent UK recession. There was often unclear use of the data and only partial analysis of the interaction of the multiplier and accelerator. The mark scheme allowed credit to be given for an analysis of the impact of either the multiplier or the accelerator alone on the rate of change of GDP. The best responses began with an analytical explanation of how the interaction of the two concepts could be used to understand a situation in which GDP fell. For example, a slowdown in economic growth was shown to lead to a fall in investment which in turn would have a multiplier effect on the level of GDP. Such responses were then able to use the data in Fig. 1.1 to illustrate this effect.
- (c)** Candidates who addressed the possible positive and negative impacts on economic growth of the UK Coalition Government's deficit reduction strategy were able to access all of the marks available on this part of the question by analysing the different consequences. Weaker responses either analysed only one impact (normally that economic growth would be reduced), and were awarded Level 3 marks, or provided no supporting analysis to the commentary offered and were, therefore, awarded only Level 2 marks. Analytical commentary typically explained how the deficit reduction strategy might reduce AD and considered how a reduction in the deficit might reduce crowding out or reduce long term interest rates and, therefore, raise AD and AS. Some candidates accessed Level 4 of the mark scheme by commenting on the long term consequences for economic growth, making effective use of the idea of hysteresis.

Question 2

- (a)** Stronger responses to this part of the question made effective use of the data to show that some countries received too much ODA relative to their GDP per capita and/or HDI ranking and that some received too little. Most candidates correctly identified India as the country receiving the most ODA, despite it having the second highest GDP per capita and HDI in Fig. 3.2. China's ranking by ODA reflected its GDP per capita and HDI rank, however, and credit was not given to responses which argued that China received too much aid unless the explanation drew a comparison with the amount of aid received relative to another country, such as Sudan. The weakest responses made no reference to the data in Fig. 3.2 and gave general reasons why ODA did not go to the countries most in need. Such responses could not be credited with any marks in the mark scheme.

- (b)** Many candidates showed a good understanding of the difference between growth and development and, consequently, were able to score highly. The unequal distribution of income was the most common reason cited why economic growth may not raise the level of development. Strong responses were able to develop the two reasons given; for example, by explaining how economic growth may not raise incomes in rural areas and, therefore, may not reduce malnutrition leaving development unchanged. It was this ability to develop a line of reasoning which constituted the analysis that examiners were looking for in order to award the full three marks for each reason given. Weaker responses did not always make the link to development clear and gained only two of the three marks for each reason. Some responses could not gain credit because they confused growth and development, citing reasons in the stimulus material which constrained economic growth rather than development. For example, skill shortages limit economic growth rather than limiting the extent to which growth translates into development.
- (c)** Candidates were well equipped to tackle this part of the question and had a good knowledge and understanding of market friendly reforms. They took aspects of the Washington Consensus and analysed how these might help economic growth through the promotion of macroeconomic stability and low inflation, raising productivity and investment and through greater international competitiveness. Better responses were able to show how this might promote development through an increase in living standards and provision and access to health care and education. It was anticipated that the commentary would focus on the extent to which these reforms would deliver such benefits, particularly in the context of market failures and declining terms of trade in developing economies. A more common approach, however, was for candidates to question whether the economic growth itself would promote development. Either approach was able to access the full range of marks in Level 4 of the mark scheme. Many candidates made good use of the stimulus material in their commentary.

Question 3

This question was challenging and, as a result, discriminated well. Candidates had a good understanding of global trade and balance of payments imbalances and there was effective use of the stimulus material to exemplify these imbalances. However, weaker responses made little headway in analysing how these imbalances might threaten global economic stability. Whilst they could identify that protectionism and currency wars might threaten global economic stability, these responses spent too much time exploring the different causes of the trade and balance of payments imbalances rather than the consequences. Such responses rarely progressed beyond Level 2 of the mark scheme. Level 3 responses were often characterised by an analysis of the consequences of balance of trade deficits and surpluses for domestic economies. Only when candidates explicitly related this to the global economy and economic stability were they able to access the higher marks in Level 3. Stronger responses made an explicit link between global trade and balance of payments imbalances and global economic stability and were able to explain not only why global economic stability might be threatened but also how these threats might be reduced. Where the discussion was well developed, candidates were able to access Band 2 of Level 4. Such responses tended to focus on currency realignment and a rebalancing of savings and investment as mechanisms by which the threat to stability might be reduced. The best responses brought real insights to the discussion, including, in some cases, explicit consideration of the impact of the increased global capital flows arising from balance of payments imbalances. They invariably included well developed judgements on the extent of the threat to global stability which allowed credit to be awarded in Band 3 of Level 4 of the mark scheme. As in previous series, the well planned responses which showed a good understanding of the terms of the question (in this case the structure of the balance of payments and the nature of economic stability at the global level) were able to make and develop the analytical links which allowed for a focused and structured response to the question set.

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