

**Economics**

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

**Report on the Units**

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**January 2010**

**HX61/MS/R/10J**

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

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Advanced GCE Economics (H461)

Advanced Subsidiary GCE Economics (H061)

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# Chief Examiner's Report

## General Comments

The overall performance of candidates on the two AS level units was pleasing. The early questions on both examination papers provided an opportunity for marks to be gained for a basic knowledge of the specification and application to the content and context of the case studies. Later questions presented more of a challenge, especially where the directive words of 'comment' and 'discuss' were used to signal that AO4 marks were available. The entry for F582 was almost 3,000 candidates, virtually all of whom were, presumably, re-sitting the examination.

**It is worth reminding teachers that we are required to demonstrate that over a period of time, normally two to three years, the full range of the content of the specification has been examined.**

This first sitting of the new A2 two hour units produced mixed results, particularly on unit F585 where candidate performance was a little out of line compared to that on the optional units. It was noticeable that there was a tail of candidates who seemed ill-prepared to meet the requirements of certain questions on this paper. In contrast at the top end there were some high quality scripts from candidates who had clearly understood the macroeconomic concepts involved and were able to evaluate their relevance within the context of the stimulus material. Details are to be found in the Principal Examiner's report.

On the optional units there was clear script evidence that many candidates were able to apply their extended knowledge of Economics to the data response and essay questions. With two hours of writing time, there is a need for candidates to spend at least 45 minutes of writing time on the part (b) structured essay question. For a high mark, answers should normally take the form of a two-sided discussion, supported with relevant analysis, and completed with an overall evaluation.

It is worth repeating the message which has been given at INSET meetings, namely that the step up from AS to A2 is a steep one, both in terms of content and skills. Script evidence from this session will feature in the forthcoming round of INSET meetings.

**Finally, based on this session's experience, changes will be made to the structure of the examination booklet for F585. It will be helpful for all units if candidates could indicate if they have continued an answer at the end of the booklet or on a continuation sheet.**

## F581 Markets in Action

### General Comments

This examination was taken by over 9000 candidates. For the first time the candidature comprised of first and second year students.

Once again, the format of the question paper followed that of the 2009 season. This format will continue to at least the end of the 2011 season. 36 marks were available for questions 1-4, drawn from the first two sections of the specification; the remaining 24 marks were derived from the final section on market failure and government intervention.

The context for the case study was health care, a topic which has previously been examined on the former 2882 unit. Having said this, candidates were not required to have any specific knowledge of health care, other than recognising that it is a typically good example of a merit good, a point made clear in the first paragraph of the case study.

The subject content of questions 1, 5 and 6 had not been covered on question papers in 2009 – but others had in a different context. It is important that teachers appreciate that over a period of time it is necessary to demonstrate that the entire specification has been covered.

The overall performance of candidates was good to variable. This was mainly due to the point made earlier in so far as questions 1-4 were reasonably straightforward, whilst questions 5 and 6 were more demanding. The last question especially allowed examiners to differentiate between candidates who were able to address the question as economists, compared to candidates who wrote answers which were only relevant in a general applied sense.

At the top end there were some excellent scripts, including some which were awarded 60 marks. At the other extreme, a small number of candidates appeared to struggle from the outset. A good grade was usually gained through a Level 4 mark on Question 6, plus a good answer to the Level 4 element of either or both of Question's 4 and 5.

Most candidates were able to attempt all questions within the time allocated. Where answers to Question 6 were short, this was normally positively correlated with a weak performance elsewhere.

In general, the answer booklet worked well, with an adequate amount of space allocated for answers.

Finally, in response to queries at INSET meetings, if teachers ask for scripts to be returned then it is necessary to specify that annotation is required. Assistant Examiners are required to annotate all scripts in a particular way and to write a comment after reading the answer to Question 6. They are also required to make a comment on other answers which might be seen as being outside the scope of the mark scheme.

### Comments on Individual Questions

**1 (a)** This was a straightforward opening question requiring some basic knowledge and application from the case study. It posed few problems for most candidates.

The obvious approach was to define the 'economic problem' in terms of its two parts, namely scarce or limited resources and unlimited or infinite wants. The most common application was from lines 12-14 of the case study. Here, there was a clear statement that the NHS would never have enough money (scarce resources) to be able to

provide the quantity and quality of health care (unlimited wants) which people would like. An alternative application covering any aspect of health care was equally acceptable. For example, a few candidates answered in terms of the limited supply of dentists able to provide implants in relation to the increasing wants of the population.

**b)** The stem to this question drew upon lines 8-9 of the case study. The question though was not in this context, although most answers were related to this situation. For two marks an answer which described specialisation in more detail than just 'improved efficiency' was required. About half the answers from candidates were relatively vague and were awarded just one mark. Most were in terms of the context of the stem which referred to the decision to concentrate maternity resources at Hastings. Responses in terms of 'better quality of equipment', 'better trained staff or increased births per member of staff' were typical. Equally acceptable responses were in terms of industrial efficiency.

**2** All parts of this question required knowledge of production possibility curves (PPC's). Many candidates gained 11 marks. The style of questions was rather different to what had been asked in January 2009 and in earlier 2881 examinations.

**a)** A high percentage of candidates scored two marks on this part of the question. Those who did not, usually put point Y outside and not inside the PPC. A few candidates put both points on the PPC which is clearly not correct.

**b)** The explanation required produced a wide range of answers. Many candidates scored four marks for a short clear explanation which compared the two points from an efficiency standpoint. The explanation of point Y was made in a marginally better way than the explanation of point X. The key to an effective answer was to recognise that a point on the PPC produced maximum output of both products, whilst one inside the PPC meant that resources were being wasted or not used to their full potential.

**c)** This part, which was a more typical question, was well answered. Again, many candidates scored full marks. As the mark scheme indicates, there were six possibilities which could be used to show how more surgical treatments could be provided. By far the most popular, and probably the most obvious, was for there to be a movement along the PPC to a point closer to the surgical treatment's axis. A simple explanation as to how this would result in more surgical treatments at the expense of less cancer relieving drugs gained two further marks. The second most common approach was for the PPC to pivot from the original maximum point on the cancer-relieving drug's axis.

**3 a)** This part of the question was the most straightforward of any on this question paper. All that was needed for three marks was for candidates to draw a demand curve and a supply curve on the diagram and to indicate that the point where they crossed was where price was determined.

A few candidates got D and S the wrong way round. More common was that some candidates made the diagram more complicated than it should have been – a shift to the right of D for example was sometimes included, although the original equilibrium was usually correctly shown.

**b)** This style of question has been asked on various previous examination papers. The quality of answers showed some improvement, although a good number of candidates failed to grasp what was required. This time the question referred to 'possible reasons' rather than 'determinants' of the increase in demand for dental implants. Typical answers were 'an increase in income' and 'an increase in taste and fashion', both of which would result in an increase in demand for implants. Although the question

stated 'the increase in demand', a fall in price was accepted as correct (even though this was more appropriate for a question which referred to the 'increase in quantity demanded'). A few candidates benefitted from this.

- c) This was a well tried style of question. It is typical of how the market system responds to a change in the conditions of demand or, as in this case, supply.

All that was needed was for candidates to draw a diagram which had a new supply curve to the right of the original one. This was made clear in the stem which referred to 'an increase in the number of dentists'. The outcome is that the price of implants falls and more implants are traded. Three marks were available for an analysis in these terms.

The case study, but not the question, referred also to an increase in demand for dental implants. Where a shift of both S and D was shown on a diagram, one mark was awarded for the former.

- 4 This was the first of three questions where, as indicated by the 'comment' directive word, AO4 marks were available. It is a typical format of question where elasticity estimates are provided.

Only a few candidates gained the full eight marks which were available. A good number of candidates scored four marks for their explanation of the data, but fell short when commenting on their usefulness.

The explanation marks could be gained in various ways, including a correct definition or formula. A common approach was to follow such a definition with reference to the respective inelasticity and elasticity of the estimates. Alternatively, correct answers in terms of the type of good (normal and superior) or a numerical interpretation of the data were also accepted.

It was hereafter that some candidates began to fall down. Despite giving a correct definition, some candidates answered the second part in terms of price and not income elasticity of demand. Clearly this was not acceptable. For full marks, a comment in addition to one purely relating to the accuracy of the data was required. A typical approach was to couch this in terms of the likely effects on the demand for implants following an increase or decrease in incomes.

- 5 This was a new question which explicitly drew on a new element in the specification. The context was contained in the last eight lines of the case study. As such, it was a topical example of information failure, the effects of which were that there was market failure through the welfare of consumers not being maximised.

Answers to this question were variable. It was pleasing to see answers referring to asymmetric information and the problems associated with producers having much greater knowledge of the harmful effects of consuming excessive amounts of processed red meat products. McDonalds and Burger King, along with the staple bacon sandwich, were sometimes quoted as typical examples. There were also some good examples of why consumers might not be fully aware of what they were eating.

Simple responses to the question consisted of no more than general knowledge statements, with little economic underpinning.

- 6 This was a more demanding question which gave examiners scope to differentiate between candidates. It drew upon the content of various parts of the third section of the specification on 'market failure and government intervention'. Although not

essential candidates could also include background knowledge derived from their understanding of the role of markets in allocating scarce resources.

The intention behind the question was for candidates to use their knowledge of positive externalities, merit goods and information failure to evaluate the case for governments using tax revenue and subsidies to provide health care services. This was necessary if answers were to be underpinned with appropriate economic analysis.

There were some very effective answers from candidates who took the above approach. For a Band 3 mark of 17 or 18, it was necessary for there to be an overall assessment as to whether a merit good such as health care was best provided by the government, the private sector or a combination of both.

Many answers lacked an analytical framework, whilst incorporating a range of reasons why health care was best provided by the government, rather than by the private sector. These answers were assessed at the top of Level 2.

This was a difficult question in some respect for candidates, given that it required integrated knowledge from parts of the third section of the specification. Examiners were encouraged to take this into account with answers, even if the analysis was not fully compliant with the above approach. Where such answers discussed the opportunity cost of governments not funding or reducing their funding for health care, then the answer normally reached Level 4.

Overall, it was pleasing to see that most candidates had some thoughts on this topic. There were, for example, many references to President Obama's recent health care policies in the USA and to arguments about paying for visits to doctors and for hospital treatment in the UK.

# F582 The National and International Economy

## General Comments

This was the third sitting of the new National and International Economy paper and the first one sat by both AS candidates and A2 candidates.

Most candidates answered all the questions and showed a good understanding of aggregate demand and aggregate supply analysis.

Whilst most candidates appreciated the need to evaluate in the last question, a significant number failed to recognise this requirement in Question 5(b). The significance of the command words 'comment on' was mentioned in my last report and in a number of previous reports.

Also, as in previous sessions, candidates appeared rather less confident in answering questions on international trade. A number of candidates did not seem to be aware of the meaning of protectionism.

The answer booklet has been extended with additional pages at the back. A number of candidates included additional sheets, despite having sufficient unused pages at the back of the booklet. Candidates should be encouraged to use these additional pages in the booklet when needed.

## Comments on Individual Questions

- 1 (a) Most candidates were able to provide a clear definition picking up on 'price/value' in terms of another currency or currencies. A few candidates wrote about the costs involved in changing currencies, a number just reorganised the words stating 'it is the rate of exchange' and a very small number confused the exchange rate with the inflation rate.
- 1 (b) This part of the question did ask for 'a demand and supply diagram' but a disappointing number of candidates included an aggregate demand and aggregate supply diagram. It was also disappointing that a number of the candidates, who did include a demand and supply diagram, transposed the demand and supply curves.
- 2 (a) This part of the question was generally well answered with most candidates coming to a conclusion based on the evidence provided. The main reason that some candidates failed to achieve high marks was that they just quoted figures without commenting on them, eg 'Abu Dhabi had an inflation rate of 11% whilst Dubai had an inflation rate of 11.2%'.
- 2 (b) Candidates found this a relatively difficult question. The strongest answers focused on the existence of the informal economy and the need to avoid double counting. A number of the answers given were actually addressing a different question – the problems involved in interpreting real GDP as a measure of living standards. Some answers were too vague.
- 3 Most candidates were able to gain one mark on this question but not many achieved two marks. Candidates need to be aware of the difference between a percentage point change and a percentage change. It is important that candidates gain experience with data handling and recognise, in addition to the distinction between percentage point and percentage changes, for instance, the difference between actual figures and index numbers, an actual decline and a fall in the rise of the price level or real GDP, nominal

and real GDP, unemployment rates and the actual number unemployed, unemployment rates and inflation rates measured in different ways and actual and forecast figures.

- 4 (a) Candidates needed to identify an injection and a leakage drawn from the case study. The most popular examples were exports and imports. For some reason, more candidates were able to identify a relevant injection than a relevant leakage.
- 4 (b) Some of the answers to this part of the question were too vague including, for instance, 'when a change in something has an effect on something else'. The answers produced also revealed confused between income and wealth.
- 5 (a) Some candidates struggled with this part of the question and appeared uncertain about the meaning of protectionism. The two most popular answers were to reduce/remove tariffs and to remove quotas/increase quota limits.
- 5 (b) Some of the answers to this part of the question were disappointing. Some candidates produced good analysis but failed to provide relevant evaluation. They appeared not to be aware that they needed to evaluate on this question. It is important that candidates recognise that the command words 'comment on' require them to both analyse and evaluate. A number of candidates also failed to consider the question in terms of 'the level of employment'. They stated that unemployment would fall, but did not analyse or evaluate what would happen to employment.
- 6 (a) Most candidates coped well with this part of the question although it did require them to use information from different parts of the case study. Relatively straightforward calculations based on macroeconomic data are a fairly common feature of this paper.
- 6 (b) There were some strong answers to this part of the question with accurate and well labelled diagrams and perceptive analysis linking a higher labour force to productive capacity and aggregate supply and, in some cases, higher population to higher consumer expenditure and so higher aggregate demand.
- 7 There were some excellent answers to this question which built on clear analysis to explore the extent to which a reduction in the rate of interest would be effective in increasing consumer expenditure and investment. A number of candidates drew on recent events to discuss the issue of consumer and business confidence and the lack of impact of cutting an interest rate when it is initially at a very low rate. Candidates also provided interesting comments about the significance of spare capacity on firms' investment decisions and the relevance of variable interest rate mortgages. Some candidates, however, wandered off the central focus of the question and discussed the advantages and disadvantages of an increase in aggregate demand. Others showed some confusion over the meaning of investment and concentrated on financial investment rather than spending on capital goods.

**General guidance to candidates:**

- Remember there will be three questions on this paper which will require you to evaluate.
- Base evaluation on sound analysis.
- In analysing, make sure that you do not jump stages. It is important to explain the links between points.
- Make sure you label diagrams accurately.
- Try to avoid common confusions, eg production and productivity and investment and saving.
- Learn key definitions and ensure that you fully understand them.

## F583 Economics of Work and Leisure

### General Comments

The first F583 Economics of Work and Leisure paper was sat by over 2000 candidates and overall it appeared to discriminate well. On this occasion the focus of the data response paper was the leisure section of the specification, with the camping industry being used as the context in which the questions were posed. As indicated at various INSET events during the last twelve months, there will always be one question focused on this area of the specification. However, it will not always be the data question.

Candidates appeared to have little problem accessing the material and a considerable number were able to achieve high marks on this section of the paper. 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. Question 1 (d) was the one which was answered perhaps least in line with that anticipated before the paper was sat. Well over half the candidates attempted to offer an analysis of the increase in capacity of campsites without the aid of a demand and supply diagram. As a consequence the mark scheme had to be expanded in order to accommodate this approach. It would, however, appear to be worth stressing that questions which require economic analysis can often be much more easily answered if the diagrammatic elements of the economics toolkit are applied whenever appropriate. Examples of diagrams are included in the mark scheme.

Question 1 (e) (ii) is also worthy of mention as it proved to be a particularly good discriminator. The best answers provided were those which addressed directly the extent to which the camping industry may be considered a contestable market, and did so by considering different sub markets, an aspect which was flagged up in Question (a) of this section.

Section B of the paper offered the candidates the chance to write at length on a topic taken from other parts of the specification. Question 4 proved to be by far the most popular essay choice, with Question 2 probably next. Many candidates scored well on part (a) of the essay by offering clear economic analysis illustrated by appropriate diagrams, in line with the suggestions made above. As might be anticipated, part (b) proved to be more challenging for many, although there were a number of candidates who were able to provide 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 which have been made to the A level specification, the essay question on the optional paper has now become the largest mark scoring question across the whole assessment. It is, therefore, vital that candidates adequately plan their answers before they put pen to paper. Given that 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 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) This proved to be a straight forward knowledge based question on which the majority of candidates secured full marks. It also usefully flagged up the idea of sub-markets which could be applied in answer to Question 1 (e) (ii).

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- b)** This was a question requiring application of knowledge about the demand for camping holidays. Candidates were expected to highlight a change in an element of the demand function. Many candidates scored well on this part of the question which was one that required application of synoptic knowledge from the F581 specification.
- c)** The first of two questions on this section which required the candidates to offer some evaluation. Clearly the command words "comment on" are now being readily recognised as requiring some evaluation and many candidates scored well on this item.
- d)** A straightforward market analysis question which could be most easily accessed by drawing a demand and supply diagram on which a rightward shift in supply was shown, with the consequent lowering of price and increase in quantity bought and sold. Too many candidates failed to produce a diagram and consequently found it more difficult to secure all the marks available.
- e) (i)** Another wholly knowledge based question which was answered well by the majority of candidates. However, perhaps a greater number than might have been expected thought that the number of firms was relevant as a characteristic of contestable markets. No credit was given for these responses.
- e) (ii)** The second question on this section of the paper which required candidates to offer evaluation as flagged up by the directive words "discuss the extent to which". Many did respond in the required manner, with the best answers coming from those candidates who demonstrated the two handed economist's approach, followed by a judgement on the extent to which the industry may be considered contestable. Most of the best answers took the cue from the first item and talked about different sub-markets which may display characteristics similar to, or contrary to, a contestable market, and then offered a comment about the market as a whole.
- 2 (a)** Many of the candidates who answered this part of the question were able to access marks in the Level 3 range by demonstrating, to different degrees, an analysis of market failure due to the problems of immobility. It was important for candidates to offer a clear analysis of both types of immobility in order to gain a 13+ mark. Those who considered only one form of immobility were restricted to a maximum mark of ten. A clear illustration of an appropriate diagram is offered in the mark scheme.
- b)** Although many candidates did manage to achieve a mark in the Level 4 range, most were restricted to a score in the Level 4 (b) range ie 11-15. This was mainly due to two reasons. Some answers were far too one sided, while others were more balanced but offered only limited focus, eg concentrating on only one policy, or one type of immobility. In all such cases candidates failed to offer an overall judgement of the extent to which government intervention can reduce market failure caused by immobility. There were a limited number of candidates who did offer sufficient balance, range and judgement to be awarded a mark in the higher Level 4 category.
- 3 (a)** This was probably 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 an illustration using standard demand and supply diagrams. The best answers were those which took into account the marginal productivity theory of how wages are determined in a competitive market. A clear illustration of an appropriate diagram is offered in the mark scheme.
- b)** Many candidates found this part of the question quite a challenge with the majority of answers again achieving a Level 4 (b) mark. The best answers were those which clearly

illustrated that some contemporary markets may be considered some way from being competitive because of the actions of monopsonist purchasers of labour, monopoly suppliers of labour, a combination of the two or government interference. The discussions which then went on to include a judgement of the extent to which the competitive model still works as an explanation were awarded marks in the 16-20 range.

- 4 (a)** This was by some margin the most popular essay question. Many candidates quickly demonstrated the necessary skills to achieve a Level 3 mark by producing a clear diagram illustrating the potential impact of minimum wage legislation on the labour market. Unfortunately, what some candidates failed to do was take into account the fact that the focus of the question was on an increase in the minimum wage level. These responses were restricted to a maximum of 12 marks. A clear illustration of an appropriate diagram is offered in the mark scheme.
- b)** Answers to part (b) showed clearly that many candidates had prepared well in anticipation of a question focused on poverty. There were many excellent responses to the question which were often wide ranging and illustrated a good deal of appropriate knowledge and application. On occasion, however, some candidates took the opportunity to write too much about the details of policy, rather than focusing on the main thrust of the question. As ever, the best answers were those which provided balanced economic analysis and offered an evaluated judgement as to the extent to which the National Minimum Wage is likely to reduce poverty.

# F584 Transport Economics

## General Comments

Just over 2,200 candidates sat this first paper of the new specification. Few seemed to have timing issues with many candidates making the most of the fact that this is now a two hour examination and were able to produce detailed analytical responses to the essay question which were a pleasure to mark.

## Comments on Individual Questions

- 1 (a) (i) This part of the question was very well answered with a large majority of candidates gaining all three marks. A few unfortunately did make the error of trying to account for a rise in freight transport which could not be rewarded.
- (ii) Likewise, the vast majority of candidates received a mark on this part of the question. Only a few tried to answer this question by stating that the demand for cars had risen – which was clearly not rewarded.
- (b) (i) A very wide range of valid responses were given to this part of the question which was very well answered.
- (ii) In contrast to the first three questions on the paper, this part of the question did cause problems for some candidates who were often able to perform extremely well on all other parts of the paper. A regular mistake was to discuss market failure in generalities rather than being specific about why road congestion was a cause of it. Diagrams were rewarded and were often produced accurately by candidates.
- (iii) This part of the question was very well answered indeed. Many candidates seemed well prepared for this topic and were well versed in relevant analysis and evaluation. Once again, whilst this was not a requirement, many candidates found producing diagrams to be an easier method of attaining analysis marks rather than producing a written account, which was, nonetheless, equally valid. Many scripts produced excellent evaluation here, often focused upon detailed analysis of the role played by price elasticity of demand but it was very encouraging to see the range of evaluative responses produced by candidates.
- (c) As with the previous question, this was very well answered with many candidates gaining all eight marks for clear analysis followed by evaluation. In a small number of cases it was a great shame to see that some candidates failed to follow excellent analysis with any evaluation whatsoever. Given that five marks are available on this question, it would be sound advice to remind candidates of this. One mistake which often occurred on this question was to discuss the PED for cars/road driving instead of the PED for buses which would clearly have been relevant. That said, with up to three marks available for the development of any single evaluative point, candidates only had to develop two points to potentially gain all five marks here.
- 2 (a) With this part of the question focusing upon how and why transport forecasts are made, it prompted some excellent responses with very clear analysis of both aspects. That said, in a relatively large number of cases, candidates also developed criticisms of the forecasts, often in some depth. Given that the command word is 'analyse' it would be worth reminding candidates that no marks are available on part (a) of the essay for discussion and that their time would be better spent developing clear analysis for each point made in part (a). Many answers were at least able to identify

how and why, although often without clear development, but this still gained them Level 2 marks.

- (b)** A very large number of responses chose to answer this part of the essay by using cost-benefit analysis. Whilst some reward was given for this approach, it had been hoped that candidates would develop clear analysis of how different monetary valuations may be derived by shadow pricing and then look at the limitations of these approaches. Whilst candidates did do this and were well rewarded, sometimes answers were rather too prescriptive and failed to answer the specific question set.
- 3 (a)** On balance, this was probably the most popular essay question. Many candidates were clearly extremely well versed in the arguments relating to privatisation and there were some excellent answers here with candidates able to demonstrate an excellent understanding of economic theory. Better answers developed reasons for why economic efficiency would increase and often linked this to theory of the firm. A surprisingly large number of answers then went on to look at the drawbacks of privatisation which was clearly not within the remit of the question. Once again, candidates seemed prepared for a discussion question on this topic, even though they would have benefited from offering more detailed analysis instead on part (a).
- (b)** Whilst understandably a wide range of responses were received to this part of the question, many were outstanding and demonstrated a thorough understanding and grasp of theory, of which any A level student should be very proud. Whilst many answers followed the traditional approach of stating that monopoly would be allocatively and productively inefficient, and then developed the natural monopoly as a counter argument, others went further and analysed the role of research and development and dynamic efficiency, as well as looking at the cost structures within infrastructure provision. Such answers were clearly well rewarded. A relatively popular judgement offered was to state that ultimately the level of efficiency would be derived from the contestability of the market.
- 4 (a)** On balance, this was the least popular essay question which was a surprise given the amount of material which candidates could have produced here. For part (a) simple analysis of relevant policies was required and this was often achieved successfully by analysing taxation or subsidies.
- (b)** With a very broad interpretation of 'recent' being taken to include policies dating back to the 1980's, such as deregulation, there was great scope for candidates to excel by evaluating different policy proposals. Better answers gained judgement marks for stressing that it would be the enforcement of such policies which would determine whether or not they would be a success.

Overall, whilst the performance of many candidates was very impressive, with many of them displaying a genuine understanding and awareness of transport matters, there are three pieces of advice which should be offered:

- 1 Wherever possible use diagrams and then explain them as these enhance your analysis of economic issues.
- 2 Answer the question which is set rather than the one you have prepared for!
- 3 Avoid discussion in the first part of the essay as this is not necessary.

## F585 The Global Economy

### General Comments

This first sitting of the Global Economy Unit attracted an entry of 1553 candidates. The stimulus material was topical in its themes and candidates appeared to have responded well to this in their preparation for the examination. The question paper drew upon knowledge and understanding from all sections of the specification. The final question required candidates to draw links between two different parts of the specification. In doing so, the question met the stretch and challenge requirement for A2.

There was a wide spread of performance on the paper and it, consequently, discriminated well. Better candidates brought to bear their knowledge and understanding of the specification on the questions set and also showed a level of engagement with national, regional and global issues which was pleasing to see. What differentiated performance on the paper, however, was the extent to which candidates developed their responses using the economists' toolkit of theories and concepts and structured them effectively. Analytical reasoning involves not just the application of economic theory but an emphasis on cause and consequence which produces arguments, rather than assertions.

Whilst good knowledge and understanding, effective application, reasoned analysis and evaluation were evident consistently in the responses of better candidates, there were some areas of the specification which would appear to be more of a challenge to candidates than others. The most obvious of these was the current account of the balance of payments - Question 2(c).

### Comments on Individual Questions

- 1 (a) This part of the question tested candidate's knowledge and understanding of the term 'economic stability'. Some candidates showed inaccurate knowledge of the term and merely listed macroeconomic objectives. Better candidates understood that the term related to the avoidance of volatility in each of the key macroeconomic performance indicators and scored three marks for describing the characteristics of economic stability. Few were able then to describe how economic stability created the conditions for improving performance in the long run.
- 1 (b) Weaker candidates analysed how monetary policy might be used to control inflation, rather than explaining how inflation targeting might bring about economic stability. For such candidates this proved to be a challenging question, although some marks could be awarded for knowledge of the UK inflation target. Better candidates were able to recognise that inflation targeting has a role to play in influencing inflationary expectations and confidence. The best candidates explained the link between these factors and economic stability.
- 1 (c) Commentary on the effectiveness of monetary policy in a recession was often one-sided. Candidates need to be aware that this type of comment question requires reasoned explanation of why monetary policy ought to be effective as well as why, in the recent recession, its effectiveness proved to be limited. Better responses to this part of the question dealt with the monetary policy transmission mechanism well in explaining the link between interest rates, consumption and investment and aggregate demand (AD). This provided underpinning to the commentary offered on the lack of confidence of households and businesses which meant that monetary policy did not raise AD as economic theory might predict. There was some good commentary which went beyond the Extract material in explaining the risk averse nature of UK banks and the liquidity trap

(although this concept was not used accurately by some candidates). It was pleasing to see some candidates recognise time lags in monetary policy and to suggest that, without cuts in interest rates, the economic downturn would probably have been more severe than it was. Knowledge of quantitative easing was not required to access full marks for this question, although very many candidates had a good grasp of this aspect of monetary policy.

- 2 (a)** Candidates' responses to this part of the question showed good knowledge of what the IMF does, although weaker candidates confused the IMF with the World Bank. The directive word of the question prompted candidates to explain the role, which few did effectively or explicitly. It was necessary for candidates to show that they understood, for example, why the IMF lends money to countries in balance of payments difficulties either by linking this to its role in promoting international financial stability or in explaining why conditions are often placed on such loans. In the main, candidates were able to access the knowledge marks for this question but only the better candidates accessed the two marks available for application.
- 2 (b)** Those candidates who were able to represent the demand and supply of a currency accurately on a diagram and to link the stimulus material to changes in demand and/or supply were able to access full marks for this part of the question. Surprisingly at this level, there were many inaccurately labelled diagrams. Examiners were also surprised by the number of AD/AS diagrams in responses. Accuracy in the use and application of the economists' toolkit of concepts and theories is expected at this level. Whilst 'capital flight' was often correctly identified as the cause of depreciation of the Hungarian forint, many incorrectly stated that this reduced the demand for the currency which limited candidates to one of the two analysis marks available for this question.
- 2 (c)** Responses to this part of the question were, on the whole, the least confident and least well focused on the paper. Part of the explanation for this probably lies in the vague, and in some cases inaccurate, knowledge of the structure of the current account of the balance of payments. It was rare to find answers which went beyond net exports in their commentary on the causes of a current account deficit, for example. In addition, many candidates saw this as an opportunity to explain why a current account deficit was a cause for concern by examining the consequences of a deficit. The question, however, required an exploration of the possible causes of a deficit and whether this indicated weakness in the economy. Better candidates tackled this by examining reasons for a lack of international competitiveness and analysed them in terms of low productivity and high labour costs, for example. Commentary, where relevant, focused on the ability to attract long term capital inflows and the nature of imports - capital goods raising long term productive potential and efficiency.
- 3** This attracted a good number of responses which were able to access Level 4 of the mark scheme by identifying and explaining a range of benefits and costs of globalisation to developing economies. Weaker candidates paraphrased the stimulus material and offered no economic analysis of the arguments and were awarded Level 2 marks. Better candidates not only supported their arguments with the use of relevant economic theories and concepts but also set their arguments clearly in the context of developing economies. This often took the form of AD/AS analysis and reference to the Human Development Index, though there was a wide range of theories employed (some, such as the Harrod-Domar model which stretched beyond the specification). Better candidates were also able to illustrate arguments with the judicious use of country case studies which not only illuminated the responses but also allowed them, in many cases, to draw distinctions between the experiences of different types of developing economies. So, for example, there was good reference to declining terms of trade for developing economies dependent on exports of primary commodities. Such responses were able to provide the judgements necessary to reach Band 3 of Level 4 of the mark scheme.

# Grade Thresholds

Advanced GCE Economics (H061 H461)  
January 2010 Examination Series

## Unit Threshold Marks

| Unit |     | Maximum Mark | A  | B  | C  | D  | E  | U |
|------|-----|--------------|----|----|----|----|----|---|
| F581 | Raw | 60           | 46 | 41 | 36 | 31 | 27 | 0 |
|      | UMS | 100          | 80 | 70 | 60 | 50 | 40 | 0 |
| F582 | Raw | 60           | 48 | 43 | 38 | 34 | 30 | 0 |
|      | UMS | 100          | 80 | 70 | 60 | 50 | 40 | 0 |
| F583 | Raw | 60           | 45 | 41 | 37 | 33 | 30 | 0 |
|      | UMS | 100          | 80 | 70 | 60 | 50 | 40 | 0 |
| F584 | Raw | 60           | 45 | 41 | 37 | 33 | 29 | 0 |
|      | UMS | 100          | 80 | 70 | 60 | 50 | 40 | 0 |
| F585 | Raw | 60           | 40 | 35 | 30 | 25 | 21 | 0 |
|      | UMS | 100          | 80 | 70 | 60 | 50 | 40 | 0 |

## Specification Aggregation Results

Overall threshold marks in UMS (ie after conversion of raw marks to uniform marks)

|      | Maximum Mark | A   | B   | C   | D   | E   | U |
|------|--------------|-----|-----|-----|-----|-----|---|
| H061 | 200          | 160 | 140 | 120 | 100 | 80  | 0 |
| H461 | 400          | 320 | 280 | 240 | 200 | 160 | 0 |

The cumulative percentage of candidates awarded each grade was as follows:

|      | A    | B    | C    | D    | E    | U     | Total Number of Candidates |
|------|------|------|------|------|------|-------|----------------------------|
| H061 | 18.9 | 47.2 | 58.8 | 74.7 | 86.3 | 100.0 | 700                        |

## 796 candidates aggregated this series

For a description of how UMS marks are calculated see:  
<http://www.ocr.org.uk/learners/ums/index.html>

Statistics are correct at the time of publication.

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