

A LEVEL

Examiners' report

ECONOMICS

H460

For first teaching in 2019

H460/03 Summer 2022 series

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Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates.

The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. A selection of candidate answers is also provided. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report.

A full copy of the question paper and the mark scheme can be downloaded from OCR.

Advance Information for Summer 2022 assessments

To support student revision, advance information was published about the focus of exams for Summer 2022 assessments. Advance information was available for most GCSE, AS and A Level subjects, Core Maths, FSMQ, and Cambridge Nationals Information Technologies. You can find more information on our [website](#).

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Paper 3 series overview

This theme based paper provides the opportunity for candidates to show their knowledge and understanding of microeconomic and macroeconomic terms, concepts and theories (Section A) and to deploy them to analyse and evaluate issues around a contemporary theme (Section B). Good economics was illustrated in response to questions on wage differentials, policies to assist in the levelling up of UK regions and the relevance of economic growth as a primary macroeconomic objective of governments. Candidates who performed well on the paper took advantage of the context provided to show how they were able to think as economists, analysing different arguments and weighing them up to reach informed judgements on issues which will, no doubt, continue to reverberate in coming months and years.

Candidates who did well on this paper generally did the following:	Candidates who did less well on this paper generally did the following:
<ul style="list-style-type: none"> • showed a thorough knowledge and understanding of economic concepts, both microeconomic and macroeconomic • thought through multi-stage problems posed in multiple choice questions • completed multi-stage calculations with confidence • displayed a confident grasp of a range of quantitative skills tested • structured responses in a coherent and logical manner • used chains of reasoning to develop points of analysis and evaluation • provided supported judgements to higher mark questions. 	<ul style="list-style-type: none"> • showed an inaccurate grasp of economic terms and concepts in the specification • struggled to perform calculations based on the formulae in the specification • misunderstood data provided in a variety of forms • had misconceptions about the nature of infrastructure and research and development activity • structured responses around single, undeveloped points often making assertions that were inaccurate • wrote descriptively in higher mark questions, often simply paraphrasing and / or quoting the stimulus material.

Section A overview

Section A primarily tests candidates' knowledge and understanding (AO1) of the specification content and its application (AO2). The questions discriminated well and produced a good spread of marks.

Least well answered questions

- Question 4 Candidates did not know the distinction between accounting and economic profit well enough to be able to answer this question correctly.
- Question 12 The implications of a pivot in the PPC for opportunity cost were not understood by the majority of candidates.
- Question 14 Many candidates did not recognise that the only determinant of demand which could explain a shift of the demand curves in each markets was a change in income.
- Question 22 This question required a multi-stage calculation from average cost to total cost to the change in total cost and proved difficult for many.
- Question 27 Candidates could not distinguish between examples of discretionary (Options A, B and D) and non-discretionary fiscal policy (Option A) in order to identify the example of an automatic stabiliser.

Questions which many candidates found challenging

- Question 3 Multi-stage reasoning was required in this question: first a recognition that the diagram represented a firm operating in a perfectly competitive market; second that it was earning abnormal profit; third that abnormal profit attracts new entrants; fourth that the entry of new firms shifts down the $AR = MR$ line.
- Question 5 Candidates found using production possibility data to distinguish between absolute and comparative advantage and to calculate relative opportunity costs challenging. When teaching this topic, it is advisable to use both PPC diagrams and production possibility data in the form of a table such as in this question – it helps some candidates to visualise what tables of data relate to.
- Question 8 The impact of changes in interest rates on hot money flows and, therefore, on the supply of a currency was not understood by all candidates.
- Question 10 Questions which require candidates to rearrange a formula (here the formula for the multiplier) to find a missing value (here the mps) are a staple of multiple choice questions yet some candidates continue to find them challenging.
- Question 19 Different forms of ownership (types of firms) was not well known by some candidates.
- Question 20 This question probed candidates' understanding of money as a medium of exchange in terms of situations in which the function would be undermined – many did not understand that, to be accepted as a medium of exchange, money needs to remain reasonably stable over time.
- Question 21 The distinction between economically active and economically inactive and the significance of these terms for the measurement of unemployment is one that candidates find difficult which is why some candidates did not arrive at Option C as the answer to this question.
- Question 23 An understanding of the impact of trade union power on things such as real wages, unit labour costs and labour market flexibility and hence on international competitiveness was required to arrive at the correct answer (Option D) to this question.

Most well answered questions

- Question 1 This question on the impact of a change in price proved very straightforward for candidates.
- Question 2 Confidence with calculation of the percentage change enabled most candidates to answer this question correctly.
- Question 6 The factor likely to reduce the natural rate of unemployment (Option C) was well known by candidates.
- Question 9 The nature of a private good was understood by most candidates.
- Question 11 Candidates knew and understood one of the key roles of financial markets (Option A).

Assessment for learning



When practising multiple choice questions, it is advisable to focus on questions that require higher order thinking. These can be built into Schemes of Learning and marking automated using Microsoft Forms, Google Forms, Quizlets or other such apps. Some of these apps allow automatic feedback to be added to options so candidates can review their responses and learn from the assessment.

Selection of questions requiring higher order thinking might include those requiring:

- multi-stage calculations
- multi-stage reasoning
- rearrangement of common formulae.

OCR support



Past multiple choice questions and feedback on options are available using [ExamBuilder](#).

Section B overview

The stimulus material provided context on the topical issues surrounding the so-called 'levelling up' agenda. This context was generally well understood by candidates. The questions tested data description and interpretation skills and the full range of Assessment Objectives in the 8 and 15 mark questions. It is important that candidates remember that it is these skills which are being tested and not the ability to select relevant quotes from the stimulus or to paraphrase what the stimulus says. The assessment focuses on the ability to think like an economist making effective use of a range of microeconomic and macroeconomic terms, concepts and theories.

Question 31

31 Using the data in **Fig. 1.1**, describe the regional wage differentials that exist in the UK.

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Most candidates were able to describe regional wage differentials in terms of regions with the 'highest' weekly wages and those with the 'lowest'. Most successful responses quantified differences in average weekly wages, either in absolute or relative terms. Less successful responses stated weekly wages in different regions.

Question 32

32 Using the data in Fig. 1.2, calculate how much faster house prices rose in London compared to the North East between 2005 and 2020.

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Very few candidates were able to calculate how much faster house prices rose in London compared to the North East – the answer was 3.5 times faster. The mark scheme therefore allowed a comparison of the rates of change to be awarded full marks (101.9% in London and 29.1% in the North East). A common error was to express the difference between the rate of change of house prices as a *percentage* rather than as a *percentage point* difference – so, 72.8% more as opposed to 72.8 percentage points more.

Misconception



When comparing rates of change in two sets of data, it is not valid to subtract one from the other and express this as a *percentage change*. Differences in rates of change should be expressed as *percentage point* differences.

For example, in a different context, the UK rate of inflation in June 2021 was 2.4% and in June 2022 it was 8.2%. The correct ways of describing the change in the rate of inflation are:

- inflation rose by 5.8 percentage points;
- the rate of inflation in June 2022 was 3.4 times higher than it was in June 2021;
- the rate of inflation had increased by 241.6%.

Question 33*

33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, whether low labour market flexibility is the main cause of wage differentials between the North and South. **[15]**

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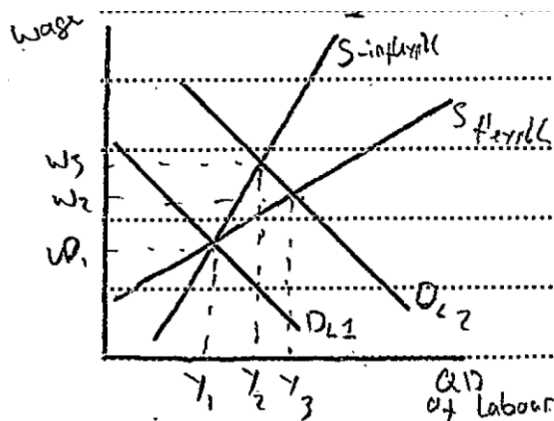
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There was good knowledge and understanding of labour market flexibility and of the context provided in the stimulus material. Less successful responses tended to quote or paraphrase parts of the stimulus material including the different rates of change in house prices. This approach allowed candidates to score marks for good knowledge and understanding but they did not display analysis and evaluation using the economists' toolkit of terms, concepts and theories. More successful responses were able to link the stimulus material to different types and causes of low labour market flexibility including geographical, occupational and information failures. Very few candidates made use of an appropriate diagram to analyse how low labour market flexibility might cause differences in wage rates between the North and the South. In a question requiring the use of a diagram, not providing one in a response means that a candidate is 'locked' in Level 2 of the mark scheme. Evaluative responses examined other causes of wage differentials and interpreted the stimulus material in terms of differences in the demand for labour (MRP_L). Few supported judgements were seen and this remains a skill which candidates find difficult to master.

Exemplar 1



One key reason for lower labour market flexibility is due to geographical immobility, caused through things like poor transport infrastructure, or lack of information. The main in

this case ~~is~~ the housing prices. The higher the housing prices the less mobile the labour and ~~the less~~ as it's harder to move to a job. This ~~increase~~ inflexible nature of the labour shown by the graph shows a substantial increase in wages, w_1 to w_3 , compared to a flexible labour supply when wage only increased to w_2 . This can help show ~~the~~ and

In this response the candidate starts by clearly signalling one reason low labour market flexibility is a cause of wage differentials in the UK – geographical immobility. This is supported by drawing on the stimulus material by referencing poor transport infrastructure, a lack of information and differences in house prices. This knowledge, understanding and application is then developed into an analytical explanation which sees wage differentials arising from differences in the elasticity of supply of labour under different labour market conditions. The diagram is fully integrated into the explanation. This paragraph of the candidate's response was judged to contain 'strong' analysis of how low labour market flexibility might be responsible for regional wage differentials in the UK. Marks for the full response was 13 out of 15.

Question 34

34 Explain, how the data in **Fig. 2.1** can be used to measure the level of income inequality in the UK.

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This question required candidates to understand and be able to use data expressed in percentiles and ratios. The data presented the GDP per capita of the region in the 90th percentile as a ratio of the GDP per capita on the region in the 10th percentile. In the UK, the data showed that region in the 90th percentile had a GDP per capita 2.25 times higher than the region in the 10th percentile. A response which expressed the level of income inequality in this way was awarded full marks. The mark scheme allowed candidates to gain marks for other uses of the data such as that the 90:10 ratio showed that the UK had the highest level of income inequality of the countries shown in Fig 2.1 and one of the highest using the 80:20 ratio.

Question 35

35 Explain, why infrastructure such as high speed rail is unlikely to be provided in a market economy without government intervention.

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Most candidates were able to offer a reason why infrastructure; such as high speed rail is unlikely to be provided in a market economy. More successful responses explained this reason using an example and a linked chain of reasoning. So, full marks could be given for a responses which stated that high costs of high speed rail, such as construction costs, would mean that the private sector would find it difficult to raise the necessary finance. Less successful responses tended not to answer in context or provide a valid chain of reasoning.

Misconception

 The high construction costs for infrastructure such as high speed rail does not mean that it will be unprofitable for the private sector.

The key reason that such infrastructure is unlikely to be provided in a market economy is related to the timing and the costs and revenues. Costs are incurred immediately whereas revenues can only be generated when the infrastructure is operational. This means that there is a significant element of risk for the private sector in providing such infrastructure.

Misconception

 Infrastructure such as high speed rail is not a public good as it is both excludable and rival. Both of these characteristics apply to operators and passengers.

Exemplar 2

Because it is unprofitable for private firms. The high start up costs of a train system would deter firms from taking it on. There is also the possibility of free rider problem where people will use the train services through no cost of their own. Again, this makes it very unprofitable.

This response correctly identifies a reason why infrastructure such as high speed rail is unlikely to be provided in a market economy – high [start up] costs – within a paragraph which incorrectly asserts that infrastructure provision is not profitable because of the free rider problem. This illustrates both misconceptions, but also how positive marking allows candidates to gain credit for what is correct in their response. The response gained 1 of the 3 marks available for this question.

Question 36

36 Evaluate, using the information in **Extract 2**, whether subsidising research and development in 'left behind regions' would be the most effective macroeconomic policy option for the government to achieve its objective of a more even distribution of income.

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Most candidates had a good understanding of subsidies, research and development and the context provided by the stimulus material. There was much paraphrasing of the stimulus material in the less successful responses, however, there was evidence of good economics and chains of reasoning in the more successful responses. Many candidates recognised subsidy as a supply-side policy and those that analysed using economic terms, concepts and theories were able to argue convincingly that such subsidies might influence the location of research and development leading to an increase in economic activity and the demand for labour in 'left behind regions'. The result would be an increase in GDP per capita in these regions. The stimulus material provided context which candidates could use to address whether subsidisation of R&D was likely to be the 'most effective' policy option and successful responses provided an analytical explanation of at least one of these alternatives as an evaluation.

Exemplar 3

Q36) (★) In conclusion, whether subsidising R&D in 'left behind' regions is the most effective policy to reduce income inequality depends on a number of factors. It crucially depends upon whether or not firms respond to the incentives introduced by the govt. If firms choose not to invest in R&D then the policy will clearly be ineffective. It further depends on the scale of the subsidy. A 5% cut in corporation tax on profits spent on R&D will have very little impact. In reality, ~~subs~~ subsidising R&D used in conjunction with other policies ^{can} ~~may~~ be highly effective.

This is an exemplar of a response which includes a supported judgement at the end of the response. It makes two simple yet effective points on the effectiveness of subsidising R&D in left behind regions; whether firms respond to the incentive; and the size of the subsidy. Neither of these points were made in evaluation, so it was judged that the evaluation offered was 'strong'. The response as a whole gained a mark of 7 / 8 because the analysis was 'good' rather than 'strong'.

Question 37

37 Explain, whether **Fig. 3.1** supports the view that “economic growth will **not** always lead to an improvement in welfare”.

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There were three acceptable responses to this question which were awarded full marks. It could be argued that Fig. 3.1 supports the view, that it doesn't support the view or that it partially supports the view. Successful responses stated what the candidate thought and supported this with appropriate use of the data. Less successful responses either used the data inaccurately or explained the difference between GDP and GPI per capita. Some candidates mistakenly thought the rates of change were relevant to the question rather than, more simply, the direction of change. For example, rising GDP per capita and static or falling GPI per capita would support the view and rising GDP and rising GPI per capita would be enough to refute the view.

Question 38*

38* Evaluate, using the information in **Extract 3**, the impact of removing economic growth as one of the government's primary macroeconomic objectives. **[15]**

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This question discriminated effectively between responses which were descriptive and those which used economic analysis to support the arguments for and against the removal of economic growth as a primary macroeconomic objective. Successful responses explained the case for its removal by analysing the impact of economic growth on the environment (using concepts of market failure), on future generations (using the concept of sustainability), on inflation (using an AD / AS framework) and on the distribution of income (using the concept of the Kuznets curve). Alternatively, but less often, such candidates would explain how removal might allow a government to focus on achieving other objectives for example by raising taxes and benefits to redistribute income – policies which a government might be reluctant to adopt if its primary objective was to promote economic growth. Less successful responses did not engage in such analytical explanation but instead paraphrased the content of the stimulus material. There was some strong evaluation of the arguments presented including consideration of the environmental Kuznets curve suggesting that economic growth allowed richer countries to reduce environmental damage and the fiscal dividends from growth which allowed governments to improve health, education and the distribution of income. The very best responses were able to offer a supported judgement – these were varied, but the most convincing included the idea that at low levels of development economic growth was essential to lift people out of poverty or that economic growth and welfare need not necessarily be in conflict if governments had as their primary concern the right kind of economic growth (inclusive and sustainable).

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