A LEVEL

Examiners' report

ECONOMICS

H460

For first teaching in 2019

H460/01 Summer 2022 series

Contents

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 1 series overview

Candidates appeared to be well-prepared for the examination across all aspects of the specification. There was no evidence that candidates were short of time, full responses being made to all questions by the vast majority of candidates.

The features of responses that score highly are summarised in the table below, along with the common characteristics of responses which scored less well.

Candidates who did well on this paper generally did the following:	Candidates who did less well on this paper generally did the following:
- defined key terms accurately and precisely - drew accurate and fully labelled diagrams when required in Section A and Section B - supported their responses to questions in Section C with relevant diagrams - developed points of analysis and evaluation with chains of reasoning that showed detailed understanding of cause and consequence - focused on the question set and wrote well-structured responses clearly displaying the skills assessed.	- had a general idea of key terms and concepts, but were somewhat vague in their expression - did not label diagrams fully - drew diagrams but did not integrate them into their response, often using the phrase 'this can be seen in the diagram below' without explanation - wrote in general terms in Sections B and C, rather than using the economists' toolkit of terms, concepts and theories - made valid points but did not develop them with chains of reasoning.

Section A overview

This section of the paper provided a contemporary context which allowed candidates to use their knowledge and understanding of economic terms, concepts and theories to good effect. Demand and supply analysis was used to good effect in Question 1 (b). Data handling and interpretation skills were less strong in Questions 1 (c) and 1 (d) (i). Responses to Questions 1 (d) (ii) and 1 (e) made effective use of the stimulus material. In Question 1 (d) (ii) specific understanding of the term 'natural monopoly' was not aways evident in responses and in Question 1 (e) there was not always an explicit link to the factors determining the choice of objectives.

Question 1 (a)

1   **(a)**   Explain what is meant by the term 'subsidy'.

   ....

   ....

   ....

   .... **[2]**

Responses to this question generally recognised that a subsidy is a payment to firms which will reduce production costs and / or increase quantity supplied.

Question 1 (b)

(b) "…more taxes may be imposed to change the marginal private cost of using petrol cars, so that the price paid is closer to the marginal social cost inflicted on society." **Lines 36–38**

Explain, using an appropriate diagram, how this could be achieved.

....

....

....

.... **[4]**

Diagrams offered by candidates were, in the main, accurate and fully labelled. While it was expected that candidates would show in the diagram marginal social costs to the left of marginal private cost, the alternative approach of a consumption externality was accepted. In this case, full credit was given to diagrams that showed the marginal social benefit below the marginal private benefit of consumption. Candidates achieving full marks were able to explain in words how a tax would increase costs of production for petrol cars or the cost of using petrol cars, how this would shift the marginal private cost curve and how this would affect the price of petrol cars or the cost of using them. Candidates who performed less well on this question did not identify the marginal social cost on their diagram or were unable to explain the process by which a tax would result in the price paid being closer to the marginal social cost.

Question 1 (c)

(c) Refer to **lines 40–42**.

Calculate the percentage change in price required to achieve a 6.5% fall in demand for petrol in the short run.

....

....

....

.... **[2]**

The answer expected was a 25% increase in price was required in order to achieve a 6.5% fall in the demand. Many candidates did not indicate the direction of change in their response, but the mark scheme allowed full marks to be achieved for responses which correctly calculated the percentage change. Where candidates expressed their answer as a 25% reduction in price only 1 mark was awarded. The use of 'number triangles' seemed to help many candidates arrive at the correct answer. Candidates should be reminded that the layout of their response does help in the award of marks – it was difficult, in some cases, for examiners to understand what steps candidates were following. It is good practice for candidates to underline their final answer.

Question 1 (d) (i)

(d) (i) Using the data in **Fig. 2**, explain how there are economies of scale in the global production of car batteries.

....

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....

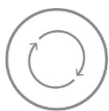.. **[2]**

Fig.2 was correctly interpreted in more successful responses and the use of scales on two axes understood. These responses gained full marks for stating that as global production of car batteries rose from 5m in 2018 to an estimated 38m by 2030, the cost per kWh fell from $175 to an estimated $80. A recognition that the cost per kWh (or cost per unit) would fall was enough to gain 1 mark. A lack of precision meant that some candidates could not be awarded any marks for their response – for example, those that talked about costs falling as output rose rather than average costs falling. Centres are advised to introduce a range of different representations of economic data to help candidates to be confident in their interpretation. Graphs with two y axis scales are a common way of representing economic data and candidates should be familiar with their uses.

Assessment for learning – Practising data interpretation
Using data from tradingeconomics.com teachers can create various charts to help with data interpretation. This could include UK inflation rate (measured on the left hand side y axis) against UK unemployment rate (measured on the right hand side y axis) over the last ten years. Although this is macroeconomic data it could be used to help candidates develop the skill of data interpretation. For example, candidates might be asked whether the data supports the idea of a Phillips Curve type relationship in the UK.

Question 1 (d) (ii)

(ii) Evaluate, using evidence from the stimulus material, whether it is a disadvantage if the market for car battery production is a natural monopoly. **[8]**

More successful responses showed a full understanding of the meaning of the term 'natural monopoly'.. Some candidates understood the term only in terms of the market share of a firm exceeding 25% and made less headway in their analysis and evaluation. Although not required by the question, some candidates usefully based their response around a natural monopoly diagram. This enabled them to analyse the possibility that output would be restricted and price exceed marginal cost and evaluate the advantages in terms of the significance of economies of scale or the need for regulation to reach the socially optimum output. Such theoretical responses needed to be set in the context of the stimulus material which more successful responses did by reference to Fig. 2, the low take-up of electric vehicles and the stated need to get the cost of batteries below $100 per kWh. Weaker responses lacked both the theoretical framework and reference to the evidence from the stimulus material.

Question 1 (e)*

(e)* Evaluate, using evidence from the stimulus material, the factors which may influence the choice of objectives for a firm such as Shell. **[12]**

Most candidates were familiar with the different objectives that firms adopt, including profit maximisation and satisficing, sales revenue and growth maximisation and corporate social responsibility. What distinguished the strong responses from the weaker ones was the ability to link these objectives to evidence in the stimulus material about likely factors which may influence the choice of objectives. For example, weaker responses correctly identified the objectives which a firm such as Shell might choose while better responses started first with an influence from the stimulus material and then linked that to an objective which might follow. So better responses identified changes in the market, in government legislation or in society and then argued that factors might result in a firm such as Shell pursuing growth maximisation, long run profit maximisation or corporate social responsibility. Very few candidates were able to convincingly evaluate the factors influencing the choice of objectives. Those that did focused on the most significant influence, factors which influenced the choice of objectives in the short and long run or the extent to which there was a divorce of ownership from control in modern-day multinational corporations.

Exemplar 1

However, the factors that may influence the choice of objectives for a firm such as Shell heavily rely upon the concept of risk. In Shell's case, there is a minimum risk as electric vehicle markets are rapidly growing with a surge in demand for their goods, so risk is limited. Therefore, firms such as Shell are more likely to seek opportunities in which they can benefit from economies of scale and maximise their total profits gained by comparison to a market where there is a high risk of losses being made overall.

This is an example of one of the few responses that provided an evaluation of the factors affecting the choice of objectives for a firm such as Shell. The point made is that the factors depend on the risk. Although this is a single point of evaluation it is very well developed. For example, the candidate argues convincingly that there is little risk from a growing market and this is likely to strongly influence its choice of focusing on maximising profit. This paragraph was judged to be good evaluation. An overall judgement was not made, however, which limited the mark awarded overall to 10 / 12.

Section B overview

Questions in this section of the paper require candidates to analyse the issues presented with an appropriate diagram. Responses not using an appropriate diagram could not access more than Level 2 of the mark scheme. Candidates who included relevant diagrams were able to access Level 3 and those that integrated the diagram into their response invariably scored in Levels 4 or 5. It is important, that candidates write in context – the stem of the question provides one way in which they can do this, but this does not preclude candidates from using their own examples or contexts. Candidates tend to write conclusions which summarise their preceding analysis and evaluation rather than providing a supported judgement. An example of such a judgement is given in the commentary on Question 3.

Question 2*

2*   In 2018, the French bank, BNP Paribus, was found guilty of eliminating competition and fixing prices with rival firms between 2011 and 2013. It was the sixth major bank to face criminal charges as part of the same investigation in the USA and agreed to pay a fine of $90m.

Evaluate, using an appropriate diagram(s), whether such collusion is the most significant disadvantage of an oligopolistic market. **[25]**

This was the most frequently answered of the two Section B essay questions. Candidates demonstrated good knowledge and understanding of the market structure of oligopoly, although the focus on the question was not always immediate. For example, many candidates spent considerable time explaining the characteristics of oligopolistic markets and why collusion was likely rather than analysing why collusion was a disadvantage. More successful responses tackled the question head-on and explained how collusion enabled firms to maximise joint profits and how this would impact adversely on consumers and economic efficiency. They did this by fully integrating a monopoly diagram into their analysis. The best responses were written in the context of one or more examples of collusion, either making reference to the stem of the question or applying the candidate's knowledge of recent or past examples of collusive agreements. Candidates were, in the main, able to offer a consideration of other disadvantages of oligopolistic markets and made good use of the kinked demand curve model in doing so. Some considered the stability of collusive agreements and regulatory frameworks to question whether the disadvantage of collusion would be long lasting. The most successful responses offered a supported judgement about which of the various disadvantages of oligopoly was the most significant and why.

Exemplar 2

Firstly, collusion is when firms in an oligopoly set the price together. This can be done either tacitly which is an informal agreement. This is when there is a price leader, usually the firm with the highest market share, who increases or decreases the price and so the other firms follow in order to retain market share. Overt collusion is

Figure 2		Firm A	
		low	High
Firm B	low	£1m, £1m	£0.5m, £4m
	High	£4m, £0.5m	£3m, £3m

when there is a formal agreement between firms to keep prices high which is usually done through an Email or contract. This type of collusion is easier to detect than tacit collusion however both are illegal in the UK and the CMA (competition and markets authority) can investigate if there is any suspicion and can issue fines. If there are an infinite number of games, the firms will collude at the collusion price for e.g as shown above where both firms set prices high at £3m each. If done tacitly, as it is harder to detect, consumers may be exploited for long periods of time. This is a significant disadvantage of collusion as it is exploitation of consumers who may have little real disposable income in the first place.

This is an example of a response where the candidate spends too much time on the reasons why collusion takes place. There is good knowledge and understanding of collusion and its different types, supported by the use of a game theory matrix which is accurate and well used. Nevertheless, the only part of this paragraph that directly addresses the question is the last four lines. The analysis of how collusion is a disadvantage in this paragraph is only reasonable, therefore. The candidate did go on to develop a second reason why collusion is a disadvantage later in the response, however, overall, the analysis was judged to be strong. Nevertheless, a paragraph that focused on the result of collusion rather than the reason for it would have been a more efficient response.

Question 3*

3* The education sector has the highest level of trade union membership in the UK, with over 50% of full-time teachers in a trade union. Approximately 90% of all teachers work in the state sector.

Evaluate, using an appropriate diagram(s), the impact of a bilateral monopoly on equilibrium in the labour market. **[25]**

Not as popular as Question 2, but a question that was tackled confidently by those candidates who chose it. Diagrammatic analysis of the impact of a bilateral monopoly on equilibrium in the labour market was generally accurate and precise and fully explained. For example, candidates could explain how and why a monopsonist would depress wages and employment and how and why trade unions would counter that market power. The evaluation tended to focus around the extent of the ability of trade unions to impact the equilibrium and there was some very good contextual understanding of the factors that determine the power of trade unions in the UK to influence the outcome of the wage bargaining process. The most successful responses were in context throughout, often using the stem of the question to illustrate the relevant issues but also to question whether wages in the public sector could be considered to be set according to the traditional model of a bilateral monopoly. This resulted in some very good evaluative chains of reasoning and final judgements which allowed these candidates to score highly in the top level of the mark scheme.

Exemplar 3

Secondly, the impact of a bilateral monopoly depends upon the relative elasticities of labour supply and demand. If D is highly inelastic then the wage increase will be much smaller and workers will not benefit as much.
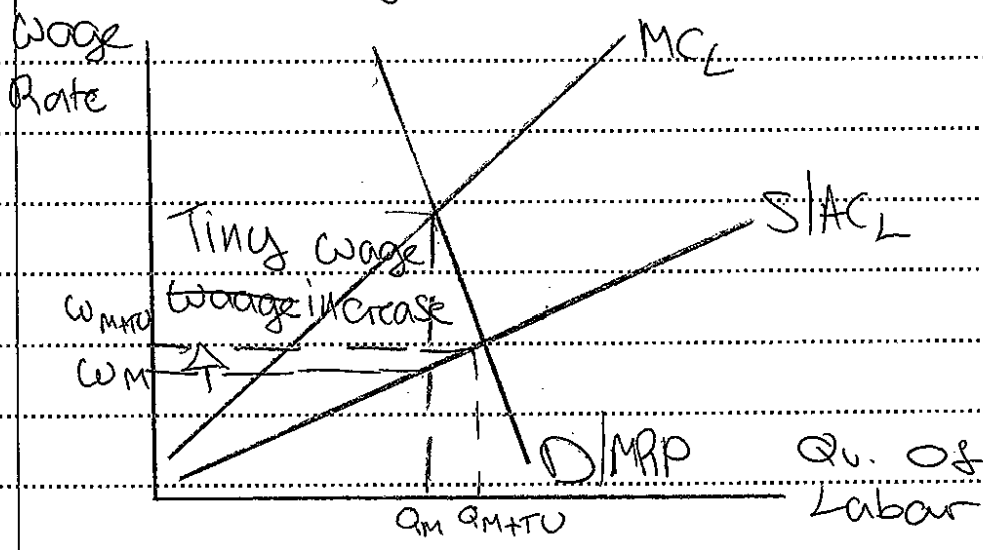
This is a good example of a supported final judgement. The candidate has thought about the factors that determine the impact of a bilateral monopoly on equilibrium in the labour market and decided that an important factor is the extent of the PED and PES for labour. This is not a repetition of something in the main body of the response, so it qualifies as a judgement rather than a summary. They have developed the point to show how the PED and PES influence the equilibrium so the judgement is supported.

Section C overview

As for Section B, the key to success in Section C questions is a well-structured response which uses the economists' toolkit of terms, concepts and theories to analyse and evaluate the issues presented. While there is no requirement for the use of diagrams, many successful responses included diagrams and this often signals a strong analytical response. A focus on the specific requirements of the question is essential. So, in Question 4 the issue was not whether large infrastructure projects are desirable but rather whether governments should finance them. Contextual understanding of the nature of these projects helped many candidates to offer strong analysis and evaluation of the issues. It was also notable that many candidates 'flip-flopped' between analysis and evaluation. While this was not a major problem, it did on occasion mean that ideas were not fully developed because some candidates were keen to counter arguments raised immediately rather than constructing a block of analysis and a separate block of evaluation.

Question 4*

4* "A £1.4bn government bailout has been announced for Crossrail, as Europe's biggest infrastructure project to build a new underground line across London is once again over budget and delayed. This is yet another example of a failed government-financed and managed project."

Evaluate whether governments should finance large infrastructure projects such as Crossrail. **[25]**

Marginally less popular among candidates, this Section C question tended to attract responses which were not always tightly focused and analytical. For example, many candidates argued why large infrastructure projects such as Crossrail were beneficial rather than necessarily why they should be financed by governments. Therefore, responses focused mainly on the external benefits of such projects rather than on the difficulties the private sector would have in financing them. Those candidates who did consider these issues tended to limit their analysis to the cost of large infrastructure projects alone rather than the problems created by the timing of the costs and private benefits. A common misconception was that large infrastructure projects have public good characteristics – while this may be the case for infrastructure such as flood defences, it is not the case for projects such as Crossrail. Contextual references were made to Crossrail but not to other examples of large infrastructure projects. This would have allowed candidates to consider that large infrastructure need not require financing by governments – examples could have included the Channel Tunnel, the M6 Toll Road and Hinckley Point C. More successful responses referred to Private Financial Initiatives as a way in which large infrastructure projects could be financed by the private sector in their evaluation.

Misconception

? Large infrastructure projects, such as Crossrail, are not public goods.

A public good has two characteristics – non-excludability and non-rivalry – neither of which apply to infrastructure projects such as Crossrail. For example, it is possible to exclude consumers (or operators) from using rail infrastructure by charging them or by franchising operators. The private sector would not suffer from the free-rider problem if it were to build and operate transport infrastructure.

Question 5*

5* Supporters of a centrally planned economic system believe a central government can achieve social and national objectives more efficiently than a market economy. For example, they highlight the increase in income inequality in China since it has introduced market-based reforms.

Evaluate whether it is possible to allocate resources efficiently in a centrally planned economic system. **[25]**

Candidates demonstrated good understanding of resource allocation and the nature of centrally planned economies. Weaker responses tended to be descriptive rather than analytical whereas stronger responses used a range of economic terms and concepts to analyse and evaluate whether resources could be allocated efficiently in a centrally planned economy. There was some good analysis of the market failure which could be overcome by planning, including those created by positive and negative externalities, monopoly power, public goods and merit goods. Evaluation focused on the shortcomings of planning, including the lack of incentives and information failures. More successful responses linked their analysis explicitly to resource allocation efficiencies and inefficiencies including allocative, productive and dynamic. The main area of weakness was the lack of context to many responses, although better responses were able to reference historical examples in the case of the former Soviet Union and Eastern Bloc and / or current references to North Korea and Cuba.

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