



# GCSE (9-1)

**Examiners' report** 

# ECONOMICS

## **J205**

For first teaching in 2017

J205/01 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 are 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 <u>website</u>.

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# Paper 1 series overview

J205/01 (Introduction to Economics) is one of two examinations components for GCSE Economics. This component focuses on:

- Introduction to Economics, including the main economic groups and factors of production; and the basic economic problem
- The role of markets and money, including demand; supply; price; competition; production; the labour market; and the role of money and financial markets

Despite the first examination of this specification being sat in 2019, this is only the second full sitting of this component as two examination sessions were severely curtailed due to Covid-19 restrictions and replaced by teacher assessments.

The paper appeared to be accessible with most candidates attempting all questions. However, there was some evidence of time management issues with some candidates not completing all questions. In addition, there was some evidence that some candidates had not covered all parts of the specification for this component.

Candidates who did well on this paper generally did the following:	Candidates who did less well on this paper generally did the following:
<ul> <li>understood the command words used in the questions and met their requirements</li> <li>were able to draw on memorised definitions to answer some of the two mark questions</li> <li>drew accurate diagrams, which were linked to the analysis within answers to Questions 21 (c) and 22 (c)</li> <li>linked the information in the scenarios to support their answers to Questions 21 (c), 22 (b), 22 (c), 23 (c), 21 (d) (iii), 22 (d) (iii), 23 (d) (ii) and 23 (d) (iii)</li> <li>recognised the importance of key parts of the question. For example, all (d) (iii) questions require evaluation. However, those candidates who recognised in Question 22 (d) (iii) that they were required to 'Evaluate the extent to which' and in Question 23 (d) (iii) to 'Evaluate the importance of' performed better than those who simply attempted to evaluate</li> <li>broke down Questions 21 (c), 22 (c), 23(c), 21 (d) (iii), 22 (d) (iii) and 23 (d) (iii) into their logical parts and then structured their answers accordingly</li> <li>were able to construct and develop clear chains of reasoning to demonstrate analysis of issues and the likely impacts that were created</li> <li>evaluated throughout their answers to Questions 21 (d) (ii) and 23 (d) (iii) rather than just at the end of their answers.</li> </ul>	<ul> <li>drew incorrect and inaccurate diagrams that were mislabelled or did not draw diagrams, where required</li> <li>appeared to have less understanding of the role of money and the financial markets</li> <li>were unable to apply their knowledge and understanding of the ways that markets operate to the context of the labour market</li> <li>did not use the contextual information in the scenarios to support their answers</li> <li>were unable to plot points accurately on a graph or to join the plotted points accurately</li> <li>commonly treated revenue and profit as the same</li> <li>did not show that they understood the difference between average and total cost, and average and total revenue</li> <li>did not recognise the significance of the command words.</li> </ul>

# Section A overview

Section A of this paper had 20 multiple choice questions intended to examine Assessment Objective (AO) 1: *Demonstrate knowledge and understanding of economic concepts and issues and AO2: Apply knowledge and understanding of economic concepts and issues to a variety of contexts.* 

The majority of candidates were well-prepared for this section of the paper. However, there was more evidence of candidates leaving the answer box blank and less evidence of candidates scoring full marks, i.e. 20 marks. There were some issues with candidates using lower case letters as responses and this can make it very difficult to clearly identify the answer given. Candidates need to use capital letters as identified in the examination paper.

While most candidates were able to write their chosen response in capital letters within the answer box provided, there was an issue when some candidates changed their minds and crossed out their first response. Some candidates tried to write a second response within the answer box alongside or over the first response, which made it difficult to tell which response letter was being given. Candidates should cross out a previous response and write their chosen letter response clearly just to the right of the answer box.

Question 17 was very challenging and potentially misleading for candidates. As a result all candidates were awarded a mark for this question irrespective of the answer given.

## Question 1

- 1 Which of the following refers to the role of the consumer?
  - A Acts as the end-user of a good or service
  - B Acts to protect buyers of goods and services
  - C Can decide what goods and services to supply
  - **D** Can introduce regulations about goods and services

Your answer

[1]

A very high percentage of candidates gave Option A as the correct response to this question.

- 2 What is meant by unlimited wants?
  - A Goods which do not have an opportunity cost
  - B Resources which are essential for survival
  - C The ability to buy whatever is required
  - **D** The infinite desire for goods and services

Your answer

[1]

A very high percentage of candidates gave Option D as the correct response to this question.

#### **Question 3**

- 3 Prices change to show where resources are needed. This process is called
  - A efficiency
  - **B** rationing
  - C signalling
  - D transmission of preferences

Your answer

[1]

The correct response to this question is Option C. Incorrect responses ranged across the other three options and indicated a lack of understanding of the role of price in determining the distribution of resources.

- 4 Which of the following is the **best** explanation of equilibrium price and quantity?
  - A Price is the interaction of demand and supply to set the quantity
  - **B** Price is unlikely to change given existing demand and supply conditions
  - **C** Quantity has the same percentage change as any price change
  - **D** Quantity is fixed in relation to changes in demand and supply movements

Your answer

[1]

The correct response to this question is Option B. Incorrect responses ranged across the other three options and indicated a misunderstanding of what is meant by equilibrium price and quantity.

## Question 5

#### 5

Age of driver	Cost of insurance (£)
20	1302
30	756
40	662
50	534

The table shows the cost of insurance for a car, depending on the age of the driver. Which of the following statements is correct?

- A A 20-year-old driver pays twice as much as a 50-year-old driver
- B A 30-year-old driver pays £500 less than a 20-year-old driver
- **C** The smallest change in insurance payment is between the ages of 30 and 40
- **D** The largest percentage change in insurance payment is between the ages of 40 and 50

Your answer

[1]

A very high percentage of candidates gave Option C as the correct response to this question.

- 6 As a result of its growth, a business can now afford to advertise on local radio. This is an example of which economy of scale?
  - **A** Financial
  - B Increased dimensions
  - C Marketing
  - **D** Purchasing

Your answer

[1]

A very high percentage of candidates gave Option C as the correct response to this question.

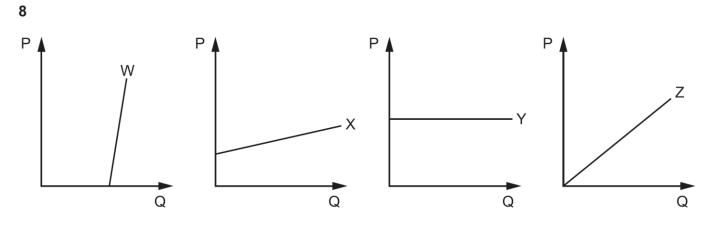
#### Question 7

- **7** A village is over 10 miles away from the nearest two towns. The village shop sells bread. For someone living in the village wanting to buy bread, the shop is a
  - A competitor
  - **B** monopolist
  - **C** oligopolist
  - **D** specialist

Your answer

[1]

A high percentage of candidates gave Option B as the correct response to this question.



Which of the diagrams shows a supply curve with a unitary elasticity of supply?



Most candidates gave Option D as the correct response to this question. Note, those candidates who wrote 'Z' as their answer were credited with 1 mark.

#### **Question 9**

- 9 Which of the following is the **best** explanation of the difference between price and worth?
  - A Price is determined by the interaction of demand and supply whereas worth is how consumers indicate their choices
  - **B** Price is how resources are efficiently distributed whereas worth is the opportunity cost of using the resources
  - **C** Price is the cost of a product whereas worth is how that price is determined by the market
  - **D** Price is the sum of money needed to pay for a product whereas worth is how much someone values the product

Your answer

[1]

A high percentage of candidates gave Option D as the correct response to this question.

- **10** Medium of exchange refers to anything that sets the
  - A cost of goods and services acceptable to all parties in a transaction
  - B payment of goods and services acceptable to all parties in a transaction
  - **C** price of goods and services acceptable to all parties in a transaction
  - **D** the standard of value of goods and services acceptable to all parties involved in a transaction

Your answer

[1]

A high percentage of candidates gave Option D as the correct response to this question.

#### Question 11

- 11 When is a cut in the rate of interest most likely to lead to an increase in investment?
  - A When consumer confidence is low
  - B When firms do not expect an increase in demand
  - C When firms know that there is a lack of available credit
  - **D** When there is an increase in exports

Your answer

[1]

A high percentage of candidates gave Option D as the correct response to this question.

- 12 Enterprise requires the individual concerned to organise the
  - A factors of production to minimise the opportunity cost
  - B market for the factors of production
  - **C** production and to bear the risks of the project
  - D risk involved in borrowing the necessary finance

Your answer

[1]

The correct response to this question is Option C. Incorrect responses ranged across the other three options and indicated a common misunderstanding of what enterprise is.

## Question 13

- **13** The market supply curve for goods and services normally slopes upwards. Which of the following **best** explains the reason for this?
  - A Average costs of production fall as output increases
  - **B** Higher prices attract new firms to the market
  - C Opportunity costs of not producing rise as output increases
  - D Production costs fall as output increases so profits rise

Your answer

[1]

Most candidates gave Option B as the correct response to this question.

- 14 The prices of branded goods, such as Heinz baked beans, are usually higher than a supermarket's own label. This is likely to be due to
  - A higher advertising costs
  - **B** higher productivity
  - **C** lower average costs
  - **D** lower profit margins

Your answer

[1]

Most candidates gave Option A as the correct response to this question.

#### Question 15

- 15 Excess demand is corrected in a market by changes in
  - A price
  - **B** quantity
  - **C** resource allocation
  - D taxes

Your answer

[1]

Most candidates gave Option A as the correct response to this question.

#### **Question 16**

- **16** Firms need to survive in a market. Which of the following is an example of a suitable method to survive?
  - **A** Encourage existing customers to return
  - **B** Enter into competition with consumers
  - C Provide an external economy of scale
  - **D** Reduce total supply

```
Your answer
```

[1]

Most candidates gave Option A as the correct response to this question.

- 17 Which of the following services is only provided by the UK government?
  - A Education
  - B Health
  - **C** Police
  - D Prisons

Your answer

[1]

Due to the potential of a misleading answer all candidates were given 1 mark for this question.

## Question 18

18 Market demand is the total demand for goods and services as a result of

- A adding together all individual demand
- **B** adding together direct and indirect demand
- C changes in prices at each quantity
- D consumers' willingness and ability to buy

Your answer

[1]

Many candidates gave Option A as the correct response to this question.

#### 19

Total output	Total revenue (£)
1	10
2	18
3	24
4	28

The table shows the total revenue of a firm. If output increases from 1 to 4, what is the change in the firm's average revenue?

**A** +£28

**B** + £18

- **C** £10
- **D** £3

Your answer

[1]

Many candidates gave Option D as the correct response to this question.

#### Question 20

- **20** A clothing manufacturer has decided to specialise in making trousers for women. Which of the following would be a direct benefit of this for the producer?
  - A Creation of jobs for the local skilled workers
  - B Increase of job satisfaction of the workers
  - C Increase of productivity of the workers
  - D Greater likelihood that workers will change jobs

Your answer

[1]

Most candidates gave Option C as the correct response to this question.

# Section B overview

Section B of this paper consists of three questions, with a short case study and related short and medium response questions, as well as the opportunity for extended responses. Each of the three questions is broken down into six questions ranging in mark allocation and making 20 marks in total. In addition to examining AO1 and AO2, Section B also examines AO3: *Analyse and evaluate economic evidence and issues to demonstrate understanding of economic behaviour, make judgements and draw conclusions*.

To do well on Section B of this paper, candidates need to recognise that the main economic agents (such as consumers and producers) have different roles and perspectives. In addition, candidates need to use economic concepts and relevant data from the case study to build economic arguments and make informed judgements. This is likely to involve candidates having to apply their knowledge to a range of unfamiliar contexts.

It is important that when candidates fill the space available in the answer booklet to answer a question, that they then use any continuation sheets at the back of the answer booklet or request additional answer sheets. Any continuation should be correctly labelled, so that examiners can see exactly which answer is being continued. Some candidates did not use additional pages to continue their responses once they had used up the space available in the answer booklet. Rather, they continued their responses by writing in a variety of spaces, such as along the margins and in blank spaces on the same page as the question or on other pages. Sometimes, these were accompanied by asterisks or arrows to try and draw attention to the continuation of the responses. However, this could make it less likely that examiners will always notice these continuations and so might not take them fully into account – despite their best efforts.

## Question 21 (a)

#### 21 Extract 1

Periff Construction Ltd

Alex and Zayn are joint owners of Periff Construction Ltd which specialises in housebuilding and extensions. They are looking to expand their business and so need to buy more equipment. They hope to buy this at an auction, but have heard that other competitors will also be there, which could lead to higher prices. Alex and Zayn have looked at previous auctions and have seen that if prices rise, this leads to more supply in the future.

Price (£)	Quantity supplied at the first auction	Quantity supplied at the next auction
1000	5	5
2000	5	6
3000	5	8
4000	5	12
5000	5	20

The extra equipment is needed as consumer income is rising. The government has also tried to help the construction industry by cutting income tax. Alex has explained to Zayn that to make the most of the tax cuts they will need to increase output and improve productivity. This is because the tax cuts are likely to increase the competition they face.

#### (a) An auction is a form of market.

Explain what is meant by a market.

[2]

Those candidates who performed well on this question had learned an appropriate definition of the term 'a market' and scored 2 marks. However, many candidates were unable to score full marks due to only referring to the selling side of the market and not to buying or vice versa; by confusing production with selling and consuming with buying; and by limiting their answer by referring to exchange.

## Question 21 (b)

(b) Explain which sector of the economy Periff Construction Ltd operates in.

......[2]

Most candidates successfully identified that Periff Construction Ltd operates in the secondary sector as they build houses and extensions. However, there was regular reference to the firm being in the tertiary sector because they sold houses. While, in some cases, no sector was offered at all.

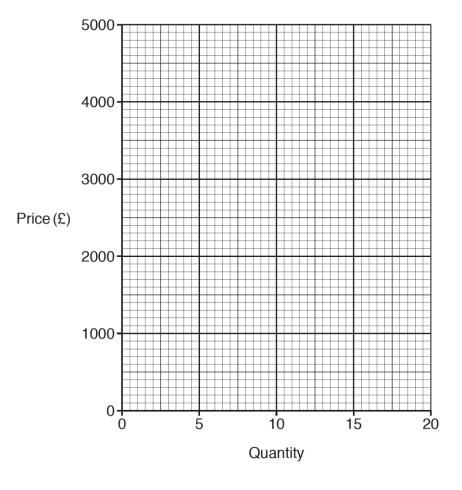
## Question 21 (c)

(c) Using a diagram, analyse how a rise in consumer income could affect the market price and quantity of Periff Construction Ltd's products.

Many candidates drew an appropriate diagram to start their answer, and this then set them up to focus on a chain of reasoning that linked the diagram to the effect on the price and quantity of Periff's products. More successful answers separated price and quantity effects into two distinct strands of analysis. However, some diagrams were incorrectly drawn and/or labelled. Some candidates drew a correct diagram, but then made no reference to it or wrote about demand changing rather than price and quantity or they concentrated their answer on revenue and profit. Some candidates were restricted in the marks they were given by not answering the question in the context of the scenario provided, which limited their AO2 marks and their ability to access the higher marks for this question.

## Question 21 (d) (i)

(d) (i) Using the information in **Extract 1** on page 8 draw a supply curve showing the supply of equipment at the next auction.



[2]

Most diagrams were accurately plotted and drawn. However, a few candidates were confused on the scale of the grid provided and plotted one or more of the points in the wrong place. Some candidates plotted the points correctly, but then did not join them together accurately or at all, as they simply plotted a line of 'best fit'. Some candidates gave less successful responses, recognising that this was a supply curve and so drew an upward-sloping straight line but with no points plotted.

#### Assessment for learning

It is important that candidates check any data provided and the scales on the axes carefully as marks can easily be gained, but just as easily lost.

## Question 21 (d) (ii)

(ii) Explain one way in which a business could increase productivity.

This question was well answered in the main with correct identification of an appropriate way, which was then further developed into an explanation. However, there was some confusion between productivity and production by suggesting that firms could employ more workers to increase output.

## Question 21 (d) (iii)

(iii)\* Evaluate the likely effect of increased competition on Periff Construction Ltd.

Use the information given in **Extract 1** on page 8 and your own knowledge.

This question is looking for an analysis of the possible effects of increased competition on Periff Construction – some of which will be positive, and some will be negative – with valid attempts to evaluate what these might mean for the business.

Some candidates went down the route of increased competition meant more firms entering the market; while others followed the route of the link to the auction for second hand equipment; and some considered both of these.

Some good answers explained that Periff needed to lower prices, innovate and reduce costs, e.g., by raising productivity through buying new equipment. However, there was some confusion between increased market supply because of increased competition and increased supply of houses by Periff. This went on to discuss the benefits of increased output, such as economies of scale, without clearly establishing why the output of Periff would increase after new competitors enter the market.

Evaluation was often missing or simply related to Periff making lower profits or potentially making losses and closing down.

#### Assessment for learning

It is important that candidates are equipped to be able to demonstrate the skills of analysis and evaluation (AO3). With 30% of the total marks for this paper awarded for AO3, it is crucial that candidates, for example, are shown sample answers that allow them to differentiate between these two skills and are then provided with opportunities to practise how to carry them out.

### Question 22 (a)

22 Extract 2

Mia and her pay

Mia is looking for her first job, having just gained a good degree in Economics. Layla, her Economics tutor, has explained that the labour market lacks perfect mobility and that Mia will be part of a factor market. With the current low demand for and high supply of labour, Layla has told Mia that she should not expect to earn as much as someone similar did last year.

Mia has told Layla that she has already been offered a job by Ricomo Ltd. Mia will receive a starting wage of £30000 a year, plus an extra £200 for each month she stays with the firm. She will also receive an extra 10% of her starting wage, as a bonus, at the end of her first year.

Mia says that this wage package is because Ricomo's Ltd owners think that employing her will lead to an increase in total revenue. This will enable the business to gain more profit and to supply more products to the market. This is because the owners claim that their products have a perfectly price elastic supply.

(a) Explain one way in which a labour market may lack perfect mobility.

This question was generally not answered well. It was often not attempted or there was confusion with disequilibrium in the labour market caused by too many people after too few jobs. The most common correct answers often focused on a lack of appropriate skills together with an example to explain why this created labour immobility, while other correct answers related to the cost of moving home or family ties.

Exemplar 1		
Workers	ney be	specialised so unable to
	~	jobs in different sectors
eanily	because	heir skillset would may
	specipic.	[2

Exemplar 1 was awarded 2 marks for a clear explanation of one way in which a labour market may lack perfect mobility.

## Question 22 (b)

(b) Explain how Mia, looking for her first job, will be part of a factor market.

[2]

Generally, this question was not answered very well. Most candidates did identify that labour is a factor of production, but few linked this to why labour is part of the factor market as Mia was selling her labour and a firm were buying it. Less successful responses listed the factors of production or gave details about the product market and scored 0 marks.

#### Exemplar 2

A factor market is where factors of production are brought and sold. Labour is y a factor of production and by loading for her first job Mia has become part of the labour force. [2]

Exemplar 2 was awarded 2 marks for a clear explanation of how Mia, looking for her first job, will be part of a factor market.

## Question 22 (c)

(c) Using a diagram, analyse why Mia 'should not expect to earn as much as someone similar did last year'.

[6]

Most candidates drew an accurate demand and supply diagram showing either a shift in the demand curve or the supply curve or both, but then did not label the Y axis as 'Wages' or 'Price of labour', which was required to show that it was a labour market. The increase in supply was used most and was regularly accompanied with explanations of why wages would fall. However, a few candidates wrongly stated that the fall in wages was due to Mia's inexperience.

Just as with Question 21 (c), candidates who did not link the diagram with their written analysis could not score beyond a mark in Level 2 (3 or 4 marks).

#### Assessment for learning

It is important that candidates study the question carefully and break it down and tackle it logically – even if they have not considered the issue in this way before. Where there is evidence that this is carried out, candidates often perform better.

## Question 22 (d) (i)

(d) (i) Using the information in **Extract 2** on page 12, calculate Mia's gross wage for her first year at Ricomo Ltd. Show your working.

Most candidates found this calculation to be quite straightforward. However, where candidates arrived at an incorrect answer, they often made one error, which could be seen in their working, and so they could still gain 1 mark under the 'Own Figure Rule'. This highlights the importance of candidates always showing their working and not just writing down their answer (without any working).

Common errors seen were the incorrect calculation of the bonus (either the monthly and/or the annual bonuses).

## Question 22 (d) (ii)

(ii) Explain, using an example, how the total revenue of a firm could be increased if its supply curve was perfectly price elastic.

 [2]

To obtain full marks for this question, candidates were required to provide an example. For this question, an example could have been diagrammatic, numerical, or descriptive, e.g., a cause of demand shifting to the right.

Very few candidates scored full marks on this question because they did not understand what perfectly price elastic supply was and often assumed that the firm could reduce price and sell more, so increasing total revenue. Those that did understand, sometimes missed the second mark as they did not give an example of what would increase demand,, e.g. advertising.

Many candidates did not realise that price would not change if supply was perfectly price elastic and were confused between perfectly price inelastic and price inelastic supply; price elastic and price inelastic; price (in)elastic demand and price (in)elastic supply.

#### Exemplar 3

A firm such & Ricomo WDQ Ltd Could increase its demand by advertising more. This means more consumes see it and demand increase. More demand means the revenue Increase herause the supply stays the same price stays the [2] Some but prove a output increase so more output is made which increases evenue.

Exemplar 3 clearly explains, using a numerical example, how the total revenue of a firm could be increased if its supply curve was perfectly price elastic.

## Question 22 (d) (iii)

(iii)\* Evaluate the extent to which an increase in total revenue will lead to more profit.

Use the information given in **Extract 2** on page 12 and your own knowledge.

Most successful responses showed that profit is total revenue (TR) minus total costs (TC) and that, therefore, a rise in TR does not automatically lead to a rise in profit. Such responses generally addressed 'the extent to which' aspect of the question. For example, by considering that higher TR will only lead to higher profit if TR rises by more than or faster than TC.

However, many candidates assumed that a rise in TR meant a rise in profit. There was little discussion about why TR may have risen and the possible impact of this on costs. For example, was it a change in price? The same output or less? Or, selling more at a lower price? There was often no appreciation that TC might change, with few specifically stating that profit was TR – TC.

Many answers only focused on economies and diseconomies of scale and how they affected costs. As a result, many of the evaluative points made did not address the question. While some candidates did not distinguish between TR and profit.

As with Question 21 (d) (iii), there were some answers which contained some excellent analysis, sometimes in context, but with little or no evaluation and so restricted their marks.

#### **Misconception**



Revenue and profit are not the same. Within some responses these terms were incorrectly used interchangeably.

## Question 23 (a)

#### 23 Extract 3

Tom's baked potato business

Tom owns and runs a baked potato business from a mobile unit in the main street of Voreda. Consumers can buy the potatoes with a variety of fillings, in exchange for money. Each morning, Tom transports his equipment and food by car and trailer which are insured with Durdar Insurance. He also has a life insurance policy with the same firm.

Demand for Tom's food varies a lot, although he has many regular customers. There has been an increase in the number of cafés and food takeaway shops within a short distance of his site.

Last year, Tom closed a savings account with RNC Bank and moved it to Voreda Building Society (VBS), to gain a higher return. VBS has also agreed to provide Tom with an overdraft facility, similar to the one he had with RNC Bank.

Financial institution	Value of savings (£)	Rate of interest (%)
RNC Bank	1 or more	0.01
VBS	1 to 999	0.10
VBS	1000 to 4999	0.15
VBS	5000 or more	0.20

(a) State what is meant by 'money'.

......[2]

Unlike some of the other questions in this paper, many candidates were unable to provide a clear definition of the term 'money'. There were frequent references to 'a medium of exchange'. However, other functions of money or characteristics of money were also identified, but these are not contained within the specification for this component.

Responses on an exchange rather than a payment for goods and services or gave examples of currency rather than notes and coins were not given any credit.

Successful responses clearly explained that money is anything that is generally accepted as a means of payment for goods and services.

## Question 23 (b)

(b) Explain why people have a life insurance policy.

While a few candidates understood about insurance, they did not understand life insurance and often described health, accident or motor insurance. There was, also, some confusion between life insurance and a will.

Some candidates wrote about life insurance providing a lump sum, which could be used to pay debts or, specifically, the cost of a funeral. This latter point was given credit where seen.

Better responses correctly explained that life insurance provided money to the family/relative(s) to replace a loss of income after the death of a family member.

## Question 23 (c)

(c) Analyse the effect of market forces on the price and quantity sold at Tom's business.

[6]

Good responses often started with a definition of market forces before explaining their possible effects on the price and quantity sold at Tom's business. Such responses often included a relevant diagram to illustrate the point(s) being made.

A significant number of candidates, who did reasonably well on other part (c) questions, struggled with this one, indicating that candidates knew about demand and supply and the market, but did not necessarily know about 'market forces'.

This was highlighted by the fact that candidates often did not explain what the term 'market forces' meant and did not approach their response from the perspective of how changes in demand or supply affected Tom's business. Some wrote about competition, while others wrote about how Tom could use prices to affect his demand and supply of potatoes and the impact on revenue and profits.

Less successful responses referred to the context of the business.

## Question 23 (d) (i)

(d) (i) Tom has £6000 in another savings account with RNC Bank.

Using the information in **Extract 3** on page 16, calculate the increase in interest he would receive by moving this money from RNC Bank to VBS. Show your working.

The correct answer to this question is £11.40, which is based on £12 - £0.60. This answer was often seen.. However, a regular omission of (or failure to take account of) the percentage sign meant that most candidates did not arrive at the correct answer. Such calculations showed that that there was a failure in the calculation to divide by 100 and so the answer was often given as £1,140 (£1200 - £60).

As with Question 22 (d) (i), the OFR was more likely to be applicable to those candidates who showed their working compared to those who simply provided an answer (with no working).

#### Assessment for learning

It would be useful for candidates to develop the skill of estimation, which could allow them to better recognise whether an answer is likely to be correct or not.

For example, they could estimate 10% of £6000 as £600 or 1% of £6000 as £60. However, if their working provides one part of the answer to be £1200, then they should refine their calculation method as this answer does not fit with their estimation.

## Question 23 (d) (ii)

(ii) Explain why an overdraft facility might be useful for Tom.

Most candidates did not understand the purpose of an overdraft. This was shown as they often confused it with a savings account or the function of a bank loan. So, instead of using an overdraft when there might be delays in receiving income, but payments had to be made, e.g., to buy more potatoes, most candidates suggested that Tom could use it to buy equipment and expand the business and pay it back later, which is not the function of an overdraft. To gain full marks for this question, candidates had to answer in the context of Tom, e.g., his business.

#### Assessment for learning

To meet the requirements of the specification, more depth may be required when studying exactly what the role of the financial sector is. For example, a deeper understanding of the roles of financial institutions such as banks, building societies and insurance companies.

#### Question 23 (d) (iii)

(iii)\* Evaluate the importance of the financial sector for small producers, such as Tom.

Use the information given in Extract 3 on page 16 and your own knowledge.

There were some very good responses to this question, where candidates really understood the different ways in which a small business might use the services of the financial sector. The best responses gave clear points within context with some analysis and then evaluated the point straightaway. These included limitations of the financial sector, such as the difficulty small firms have in acquiring loans or the high cost of loans due to high interest rates.

However, there were also many candidates who clearly understood the financial sector - almost too much - as they focused on analysis rather than considering the evaluative nature of the question.

Less successful responses made simple statements, which by themselves gained no marks, but some could offer limited analysis of overdrafts or loans or insurance or savings.

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