

A LEVEL

Examiners' report

ECONOMICS

H460

For first teaching in 2019

H460/03 Summer 2024 series

Contents

Introduction	4
Paper 3 series overview	5
Section A overview	6
Question 1	6
Question 2	6
Question 3	7
Question 4	7
Question 5	8
Question 6	9
Question 7	10
Question 8	10
Question 9	11
Question 10	11
Question 11	12
Question 12	12
Question 13	13
Question 14	13
Question 15	14
Question 16	15
Question 17	15
Question 18	16
Question 19	16
Question 20	17
Question 21	17
Question 22	18
Question 23	19
Question 24	20
Question 25	20
Question 26	21
Question 27	21
Question 28	22
Question 29	22
Question 30	23
Section B overview	24

Question 31	24
Question 32	25
Question 33*	26
Question 34	29
Question 35	29
Question 36*	30
Question 37	31
Question 38	31

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.

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Paper 3 series overview

Overall, this year, candidates found some of the longer questions more accessible but the multiple-choice questions and calculations more challenging than in previous years. Centres should focus on the use and interpretation of index numbers and ensuring that candidates understand the requirements of command words in shorter questions. Most candidates are integrating diagrams into their analysis, even when the question does not specifically ask them to do so, which is strengthening their responses. Many often achieve good analysis and evaluation, but only a few candidates access full marks by finishing with a supported judgement which outlines the influencing factor of their decision.

Candidates who did well on this paper generally:	Candidates who did less well on this paper generally:
<ul style="list-style-type: none"> answered longer questions clearly, analysing and evaluating one point with long chains of reasoning finished longer answers with supported judgements used accurate and appropriate diagrams to support their answers used, rather than repeated the information in the extracts understood the UK economy. 	<ul style="list-style-type: none"> spread their answers with numerous points rather than showing depth of analysis repeated or summed up what they had already discussed at the end of their answer did not use accurate and appropriate diagrams rewrote large amounts of information from the extracts and did not develop it further often included contradictory or unrealistic statements.

Section A overview

All candidates were able to answer some of the multiple-choice questions correctly. The questions that candidates found the most challenging were Questions 7, 13, 15, 23 and 28. Centres should pay particular attention to these topic areas.

Question 1

1 What is the reward to enterprise?

- A Interest
- B Profit
- C Rent
- D Wages

Your answer

[1]

This was answered correctly by most candidates.

Question 2

2 The marginal propensity to withdraw (mpw) in an economy is 0.6.
There is an injection of £150bn into the economy.

What is the final increase in GDP?

- A £90 billion
- B £100 billion
- C £250 billion
- D £375 billion

Your answer

[1]

Some candidates struggled with this question and should learn the basic multiplier calculation.

Question 3

3 Which of these is a function of money?

- A Divisibility
- B Durability
- C Limited supply
- D Unit of account

Your answer

[1]

This was answered well by most candidates.

Question 4

4 Which of these describes the process of crowding out?

- A An increase in government spending leads to a fall in private sector investment
- B The process by which government spending and tax revenue vary with the economic cycle
- C The transfer of an organisation from public sector ownership and control to private sector ownership and control
- D When monetary policy becomes ineffective as households prefer to save even though interest rates are very low

Your answer

[1]

It was encouraging to see so many candidates get this question right when it covered a topic where there had previously been high misconceptions.

Question 5

- 5** As a result of a 12% reduction in the price of Good A, the quantity demanded of Good B increased by 3%.

What is the relationship between the two goods?

- A** Strong complements
- B** Strong substitutes
- C** Weak complements
- D** Weak substitutes

Your answer

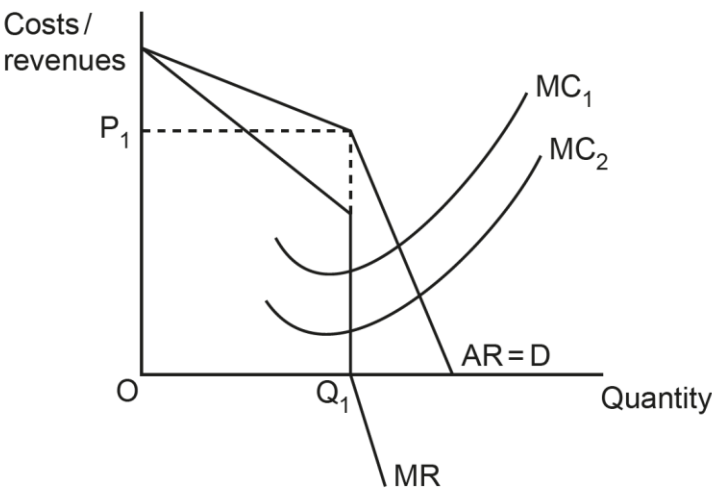
[1]

Although most candidates understood that these goods would be complements, they were unsure whether they were weak or strong.

Question 6

6 An oligopoly firm faces costs and revenues as shown below.

If marginal cost falls from MC_1 to MC_2 what is the effect on price, output and profit?



	Price	Output	Profit
A	Decrease	Increase	Increase
B	Decrease	Increase	Unchanged
C	Increase	Decrease	Unchanged
D	Unchanged	Unchanged	Increase

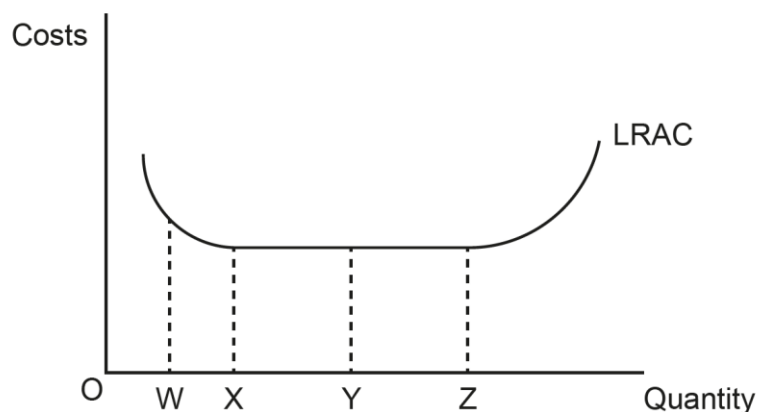
Your answer

[1]

This was answered correctly by most candidates.

Question 7

7 Which point on the diagram represents the Minimum Efficient Scale (MES)?



- A W
- B X
- C Y
- D Z

Your answer

[1]

Most candidates struggled with this question, confusing the MES with constant returns to scale.

Question 8

8 Which of these characteristics describes a market under monopolistic competition?

- A High entry barriers, differentiated goods, many firms
- B Low entry barriers, differentiated goods, normal profit in the long run
- C Low entry barriers, few firms, normal profit in the long run
- D Low entry barriers, many firms, supernormal profit in the long run

Your answer

[1]

This was answered correctly by most candidates.

Question 9

9 The table shows the total utility from consuming units of a good.

Unit of Consumption	Total Utility
1	20
2	25
3	31
4	35
5	38
6	40
7	39

What unit of consumption does the consumer begin to experience diminishing marginal utility?

- A 4
- B 5
- C 6
- D 7

Your answer

[1]

Some candidates confused marginal utility with total utility.

Question 10

10 A UK firm imports oranges from Portugal. 200 kg of oranges costs the firm 300 euros. The exchange rate is £1 Sterling to 1.2 euros.

How much does 400 kg of oranges cost the firm in £ Sterling?

- A £250
- B £360
- C £500
- D £72

Your answer

[1]

This question was answered correctly by most candidates.

Question 11

11 The quantity of output at which a monopoly firm will maximise revenue is where:

- A** $AC = AR$
- B** $AC = MC$
- C** $MC = MR$
- D** $MR = 0$

Your answer

[1]

Some candidates confused revenue maximisation with profit maximisation.

Question 12

12 A worker is paid £12 per hour to assemble bicycle parts in a factory.
The worker's productivity increases from 20 units per hour to 24 units per hour.

What is the change in the unit labour cost to the firm?

- A** Decreases by £0.10
- B** Decreases by £0.33
- C** Decreases by £0.50
- D** Increases by £0.83

Your answer

[1]

This question was answered incorrectly by many candidates as they did not know how to calculate labour cost per unit.

Question 13

13 In a free market for labour if the supply of labour becomes more inelastic which of these will fall?

- A** Economic rent
- B** Marginal revenue product
- C** Transfer earnings
- D** Wages

Your answer

[1]

Candidates struggled with this question, some confusing transfer earnings with economic rent.

Question 14

14 The Fisher equation of exchange shows the relationship between: Money supply (M), Price level (P), Velocity of circulation (V) and National income (Y).

Which of these is the correct equation?

- A** $MV = PY$
- B** $MY = PV$
- C** $PM = YV$
- D** $PV = MY$

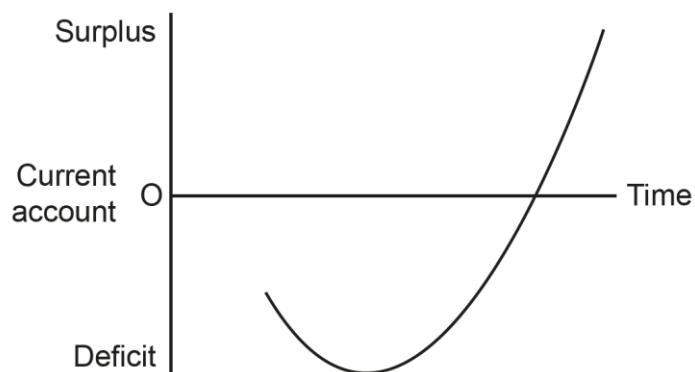
Your answer

[1]

This question was answered correctly by most candidates.

Question 15

15 What does the diagram suggest?



- A** A depreciation in the exchange rate will decrease the government's budget deficit
- B** A depreciation in the exchange rate will increase the government's budget deficit
- C** Demand for exports and imports is price elastic in the short run
- D** Demand for exports and imports is price inelastic in the short run

Your answer

[1]

This question was not answered correctly by most candidates, with confusion mainly between short and long run price elasticity of exports and imports. Most understood that this was not to do with the budget deficit.

Question 16

16 Income tax is imposed in a country using the tax bands below.

Income (\$)	Tax Rate (%)
0–15,000	10
15,001–50,000	10
Over 50,000	10

Which type of taxation is this?

- A** Indirect
- B** Progressive
- C** Proportional
- D** Regressive

Your answer

[1]

Unfortunately, many candidates incorrectly answered this question with progressive tax, maybe reading it too quickly and thinking of the current UK income tax system.

Question 17

17 In a society where there is a perfectly unequal distribution of income, one person has all of the income and every other person has zero income.

What would be the value of the Gini Coefficient?

- A** –1
- B** 0
- C** 1
- D** Infinity

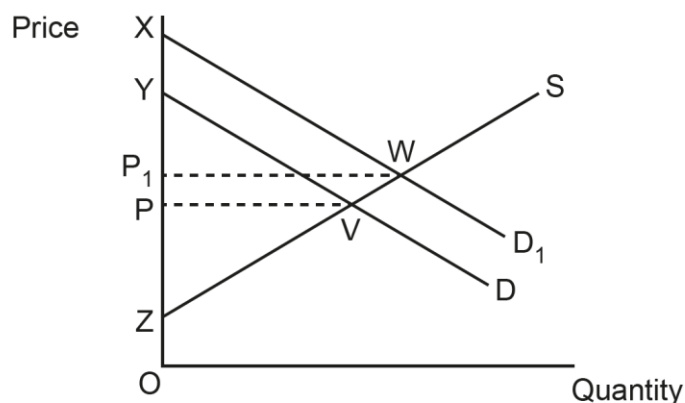
Your answer

[1]

Many candidates answered with 0 rather than 1, misunderstanding the Gini Coefficient.

Question 18

18 In the diagram the demand for the good shifts from D to D_1 .



What area represents the change in the producer surplus?

- A** $P V Z$
- B** $P V W P_1$
- C** $P_1 W X$
- D** $P_1 W Z$

Your answer

[1]

This question was answered well by most candidates.

Question 19

19 Which of these is a leakage from the circular flow of income?

- A** Exports
- B** Imports
- C** Investment
- D** Wage

Your answer

[1]

This question was answered well by most candidates.

Question 20

20 Moral hazard is a situation where:

- A** Buyers and sellers have different information which results in market failure
- B** Firms or households are more likely to take risks if they are insured against any negative impact of their actions
- C** Goods are under demanded by consumers and therefore underprovided by markets
- D** People are able to consume a good without paying for it

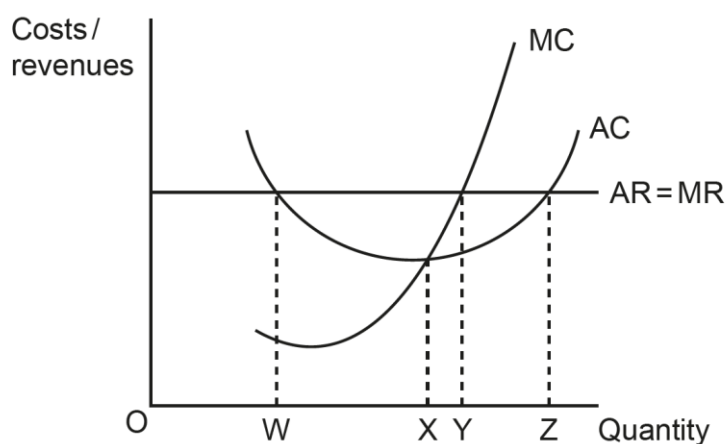
Your answer

[1]

This question was answered well by most candidates.

Question 21

21 The diagram shows a firm in a perfectly competitive market making supernormal profit in the short run.



What is the allocatively efficient level of output?

- A** W
- B** X
- C** Y
- D** Z

Your answer

[1]

Not many candidates could find the point where price equalled marginal cost on this diagram.

Question 22

22 A firm wants to use third degree price discrimination.

Which of these factors would make it difficult for the firm to adopt this strategy successfully?

- A** All consumers have the same price elasticity of demand for the good
- B** Consumers from the lower price market are not able to sell to consumers from the higher price market
- C** The firm is able to segment the market
- D** The firm operates under imperfect competition

Your answer

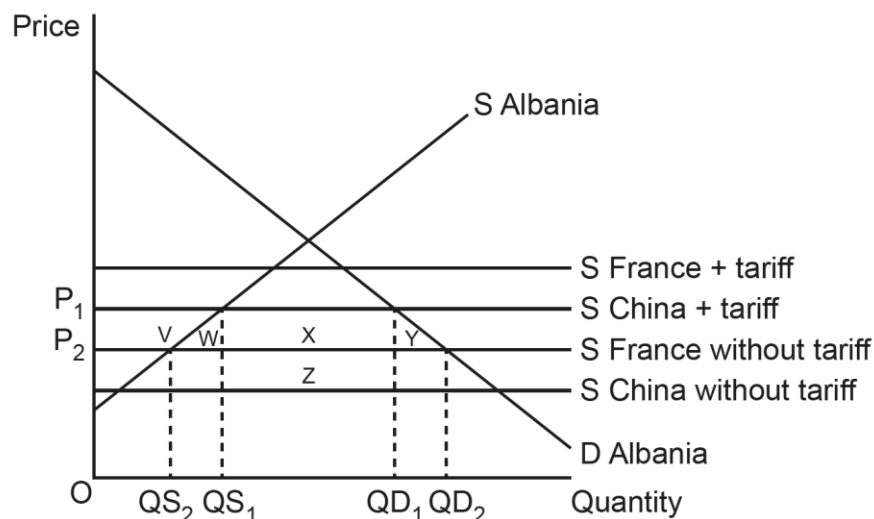
[1]

This question was answered well by most candidates.

Question 23

- 23** If Albania were to join the European Union (EU) then tariffs on goods from EU countries such as France would be removed, however tariffs on goods from China would remain.

In the diagram the price of the good would fall from P_1 to P_2 as Albanian consumers could access supply from France without a tariff.



What would be the net impact to the Albanian economy because of this change?

- A** $V + W + X + Y$
- B** $V + X + Z$
- C** $W + X + Y$
- D** $W + Y - Z$

Your answer

[1]

Although similar to a multiple-choice question on last year's paper, not many candidates could answer this correctly. Most candidates answered C, forgetting to deduct the part of the lost tariff revenue from China that is not compensated by the increase in consumer surplus.

Question 24

24 What is the least liquid asset?

- A** Central bank reserves
- B** Sight deposits
- C** Notes and coins
- D** Time deposits

Your answer

[1]

Surprisingly this question was not answered correctly by a lot of candidates, highlighting that more focus needs to be given to this part of the specification.

Question 25

25 A maximum price for rent is imposed in the London housing market.

What is the likely impact?

- A** A decrease in consumer surplus
- B** An excess demand for rental housing
- C** An increase in government tax revenue
- D** An increase in producer surplus

Your answer

[1]

This question was answered correctly by most candidates.

Question 26

26 What is a characteristic of both a market operating under perfect competition and a contestable market?

- A** Freedom of entry and exit
- B** Homogenous goods
- C** Many firms
- D** Price discrimination

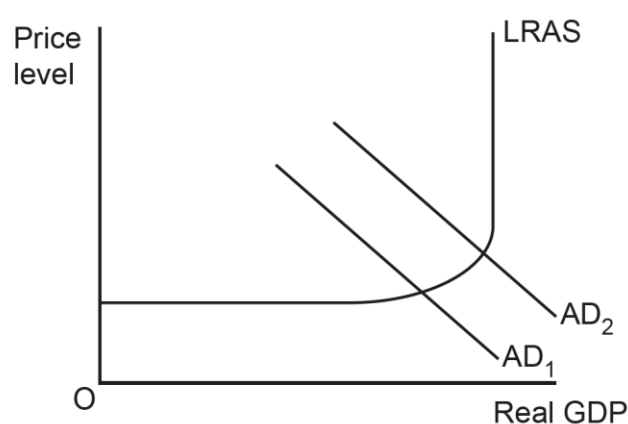
Your answer

[1]

Many candidates struggled with this question by incorrectly answering C and therefore misunderstanding the concept of contestability i.e. the threat of competition rather than current levels of competition.

Question 27

27 What is likely to have caused the shift in Aggregate Demand shown in the diagram?



- A** A decrease in consumer confidence
- B** A reduction in income tax rates
- C** An increase in corporation tax rates
- D** An increase in the price of oil

Your answer

[1]

This question was answered correctly by most candidates.

Question 28

28 Which of these is measured as part of the Human Development Index (HDI)?

- A** Costs of environmental degradation
- B** GNI per capita
- C** Literacy rates
- D** Population with no access to health services

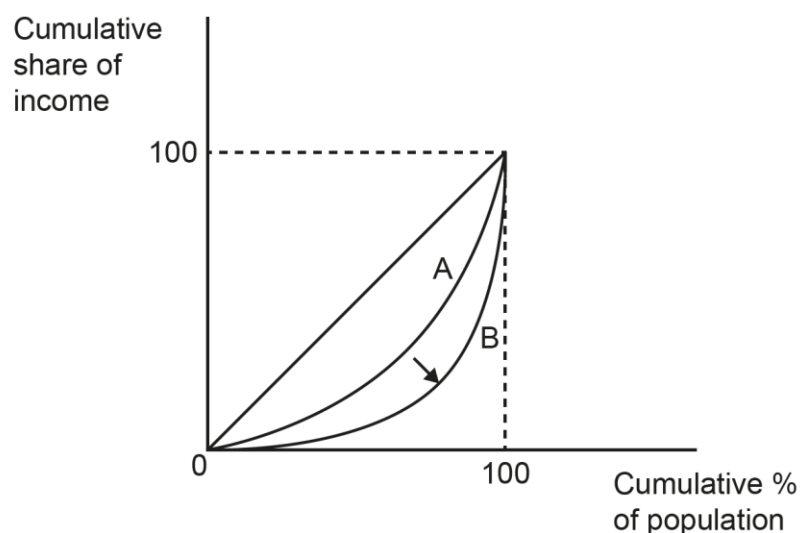
Your answer

[1]

Many candidates confused literacy rates with years of schooling or access to health services with life expectancy and therefore were incorrect in their answer.

Question 29

29 What could have caused the shift in a country's Lorenz curve shown in the diagram?



- A** An increase in access to healthcare that is free at the point of use
- B** An increase in the inheritance tax rate
- C** An increase in the market power and influence of large firms
- D** New legislation that protects workers from discrimination based on their race or gender

Your answer

[1]

This question was answered correctly by most candidates.

Question 30

30 Where would Foreign Aid appear on the current account of the balance of payments?

- A** Primary income
- B** Secondary income
- C** Trade in goods
- D** Trade in services

Your answer

[1]

This question was answered correctly by most candidates.

Section B overview

Some candidates found the first extract challenging and misunderstood the public sector involvement in water supply. However, the other two extracts seemed more accessible to candidates, and they were able to use the evidence well to support their answers. The last extract contained a huge amount of relevant context, and some candidates struggled then to focus their answers, thinking that it all needed to be included. These rarely scored higher than Level 1 and candidates should practise identifying the most relevant point, developing it with long chains of reasoning. Most answers were balanced, and counter arguments developed, but few contained supported judgements. Some candidates missed out on marks as they did not spot the difference between the command words in the shorter questions. For example, Question 34 asked candidates to 'use data' and Question 35 'use evidence' so specific data was required. However, Question 37 only asked candidates to compare, and thus general trends and differences were required.

Question 31

- 31** Using the data in **Fig. 1.1** and information in **Extract 1**, calculate public sector expenditure on water supply as a proportion of GDP in 2021/22.

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..... [2]

Very few candidates could answer this question with the most misunderstanding the units and confusing billions with millions. This is an essential skill for handling economic data.

Question 32

32 Explain why privatisation may increase long run aggregate supply (LRAS).

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..... [3]

Although most students could access one mark by defining privatisation or LRAS, most then confused planned and potential output. Many answers incorrectly referred to increased competition and investment reducing the cost of the production for the firm and thus SRAS, rather than improving the quality or quantity of factors of production.

Misconception



Changes in the cost of production affect SRAS and thus planned production, whereas an increase in the quality or quantity of factors of production affect LRAS and thus potential production.

Question 33*

33* Evaluate, using an appropriate diagram(s) and the information in **Extract 1**, whether a natural monopoly such as water supply should be run by private sector firms. **[15]**

Candidates found this question more challenging than the other 15-mark question. This was mainly due to not answering the question and instead discussing the advantages and disadvantages of monopolies. The point was missed that the natural monopoly would remain regardless of which sector it was in, and thus their arguments that stemmed from increased competition were inappropriate. Only a few candidates could accurately use a natural monopoly diagram to support their answer and instead used a standard monopoly diagram which restricted them to reasonable analysis.

Misconception



A natural monopoly has a minimum efficient scale that is larger than the market, with such large economies of scale there is only room for one firm to operate efficiently in that market. Moving this firm to the private sector does not change this and therefore does not create competition. Regional water companies are natural monopolies in each region. They do not provide competition.

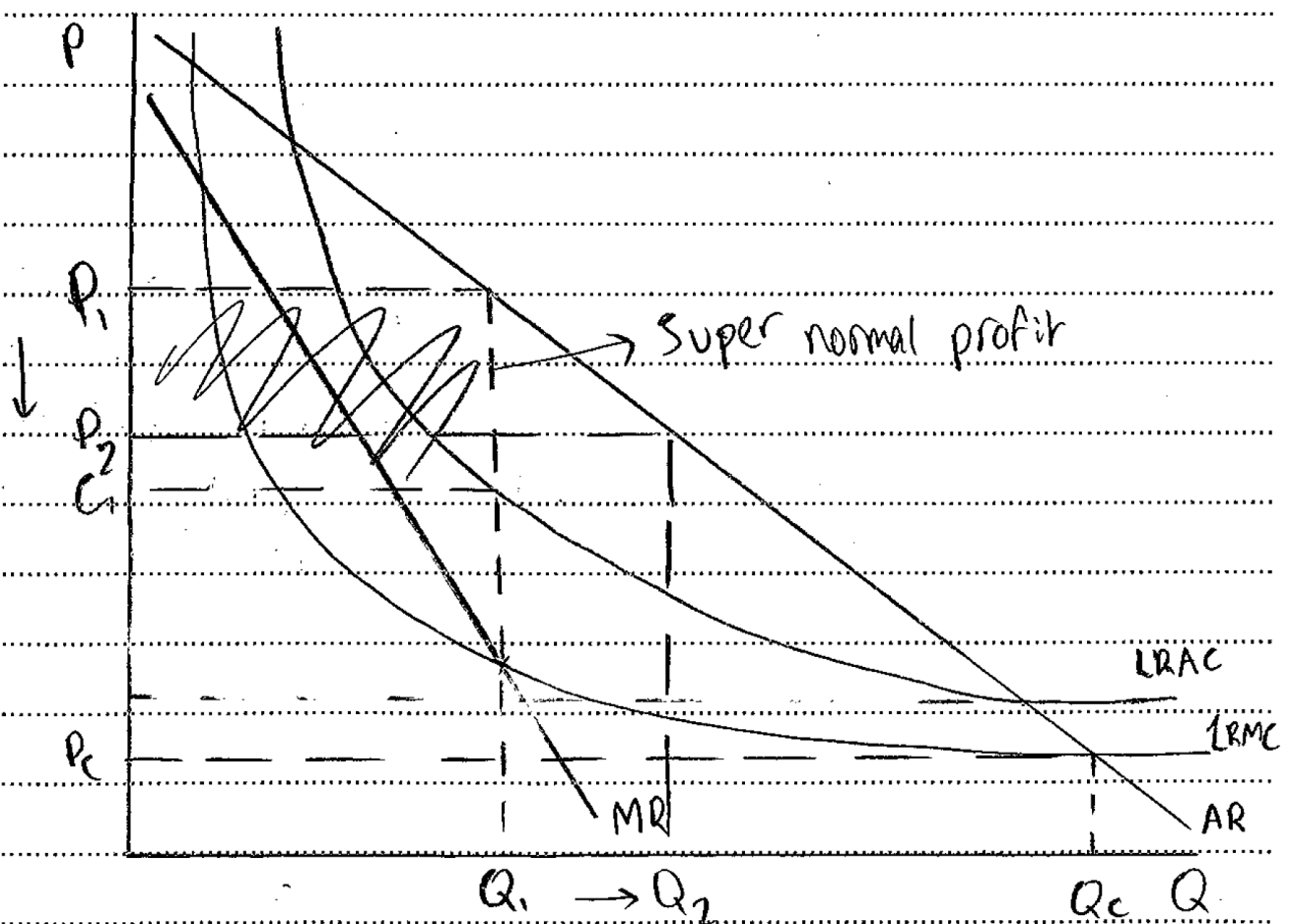
Assessment for learning



The specification asks candidates to explain with the use of a diagram a natural monopoly. Candidates should be able to use this diagram in their answers in addition to a standard monopoly diagram.

Exemplar 1

On one hand, it should be run by private sector firms. Natural monopolies have very high initial costs which deter firms. In addition, it makes sense to only have 1 supplier of a product because of the nature of the market and the efficiency.



As can be seen in the diagram above, a natural monopoly would produce at the point of profit maximisation, where $MR=MC$, setting price at P_1 and quantity at Q_1 . There is supernormal profit being made as price (P_1) is set above the cost (C_1). From this diagram, ~~no~~ only dynamic efficiency can be seen as there is supernormal profit being made. A natural monopoly is productive, allocative and ~~x~~ inefficient. ~~However,~~ This is bad for consumers as they ~~are~~ lack choice and are ~~are~~ charged at higher prices. However, this depends on how the firm utilizes its dynamic efficiency. By re-investing back into the firm by buying specialist capital and hiring specialist workers, the firm can then achieve ~~to~~ ~~territ~~ economies of scale. They can pass on the benefits of this to the consumers by reducing price from P_1 to P_2 , leading to an increase in quantity from Q_1 to Q_2 . This would also lead to an increase in consumer surplus and satisfaction.

In Exemplar 1, this candidate uses their natural monopoly diagram well to show the high price charged to consumers in the private sector. There is a long chain of reasoning resulting in strong analysis. Later they provide a counter argument by referring to the benefits of dynamic efficiency. Unfortunately, they did not reach a supported judgement, so this only displays good evaluation not strong.

Question 34

- 34** Using the data in **Fig. 2.1**, compare the annual inflation rate in August 2022 to the annual inflation rate in August 2019.

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..... [3]

Many of the candidates did not know how to calculate the annual inflation rate from the data given.

Question 35

- 35** Using **Fig. 2.2**, identify what evidence there is that the rate of interest may not have been a large determinant of household saving in the UK between 2020 and 2022.

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..... [2]

Most candidates answered this question well providing sufficient evidence to access full marks. However, many then lost time discussing why saving might not have increased when interest rates rose, which was not needed.

Question 36*

36* Evaluate, using the information in **Extract 2**, whether increasing the interest rate was an effective way to combat rising inflation. [15]

Most candidates achieved at least reasonable analysis and evaluation in this question and could use aggregate demand and aggregate supply analysis to support their answer. Stronger responses understood the difference between demand pull and cost push inflation and how this affected the usefulness of increasing interest rates. Some candidates suggested other policies (fiscal or supply side policies) or discussed the impact of contractionary monetary policy on other economic indicators which was not relevant to the question. There was some confusion between hot money and FDI.

Exemplar 2

In conclusion, increasing the interest rate is not effective at combating inflation, further indicated by the fact changes in interest rates had no effect on the savings rate from 2021 Q4 to 2022 Q2. However, this depends on whether the main issue is cost-push inflation or demand-pull. If the issue is cost-push inflation, as indicated by the fall in "Output" interest rate increases will be ineffective, but if caused by demand, it is an effective policy.

In Exemplar 2, this candidate had previously shown strong analysis and good evaluation via a developed counterargument. This last paragraph takes their evaluation up to strong, as it clearly answers the question identifying what the effectiveness of interest rates depends on. This is a supported judgement.

Question 37

37 Using **Fig. 3.1**, compare GDP and HDI growth between 2011 and 2021.

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..... [2]

This was a straightforward question that some candidates lost marks with as they did not refer to the whole period. Less successful responses gave a year-by-year comparison or confused growing at a slower rate with falling GDP.

Question 38

38 Evaluate, using the information in **Extract 3**, whether firefighter pay is likely to increase.

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..... [8]

Although many candidates could identify contextual information in the extract, few reached full marks on this question. Points were copied out of the text rather than taking one or two and correctly applying economic theory. More successful answers used simple demand and supply of labour analysis, using the evidence to explain why demand for labour was increasing and supply decreasing. Many correctly discussed bilateral monopsonies in evaluation. As with the previous evaluate questions, there was a lot of repetition at the end of the response, or new points being discussed, rather than a supported judgement.

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