

**A LEVEL**

**Examiners' report**

# **ECONOMICS**

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**H460**

For first teaching in 2019

**H460/02 Summer 2024 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.

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## Paper 2 series overview

This paper provides candidates with the opportunity to showcase their understanding of macroeconomic concepts and principles. Candidates who performed well used the extract material in Section A as a starting point for analytical chains of reasoning and regularly used correct diagrams to support their answers. They also concentrated on the focus and full scope of the question, for example, when asked about fiscal policy they discussed both taxation and government spending. Successful answers also contained balanced, well-structured answers, analysing the question and then counterarguing, rather than jumping between analysis and evaluation. Candidates who performed less successfully often missed the main point of the question, for example discussing the effect on Kenya not Kenyans, or drifted away from the question by discussing alternative policies.

Candidates who did well on this paper generally:	Candidates who did less well on this paper generally:
<ul style="list-style-type: none"> <li>• included accurate and well-integrated diagrams</li> <li>• used the extract material as a starting point for the chains of reasoning</li> <li>• had well-structured, balanced answers</li> <li>• used aggregate demand and aggregate supply analysis to support their answers</li> <li>• understood the difference between short run and long run aggregate supply</li> <li>• answered the full scope of the question.</li> </ul>	<ul style="list-style-type: none"> <li>• missed the starting chain of reasoning so their answer was vague and not specific to the question</li> <li>• often had missing links in their chains of reasoning or did not link back to the point of the question</li> <li>• included inaccurate or inappropriate diagrams</li> <li>• answered the question they wanted rather than the one set</li> <li>• did not use the extract to support their answers in Section A.</li> </ul>

## Section A overview

For the most part candidates answered Section A well, making good use of the extract material. Many candidates spent too much time on Questions 1 (e), 8 marks and Question 1 (f), 12 marks, limiting their time on the 25-mark essays. Some candidates missed high marks on Questions 1 (e) and 1 (f) as, although they gave a balanced answer, they did not include an overall supported judgement.

### Question 1 (a)

1

- (a) Using information from the stimulus material, identify **two** components of Kenya's aggregate demand.

Component 1 .....

.....

Component 2 .....

.....

[2]

This question was well answered, although many students wrote more than was needed, e.g. full sentences or detailed explanations.

### Question 1 (b)

- (b) Using information from the stimulus material, calculate to one decimal place Kenya's terms of trade in 2019.

.....

..... [1]

This question was rarely answered correctly. Mistakes ranged from subtracting indices or inverting the formula or forgetting to multiply by 100.

### Question 1 (c)

- (c) Explain if the relationship in **Fig. 1** between IDA assistance per capita and GDP per capita is the expected one.

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.....

..... [3]

This question was generally answered well, although some candidates missed marks by being too vague, e.g. just stating a country rather than using data or explaining why it proved the relationship.

### Question 1 (d)

- (d) Using **Table 1**, explain the relationship between mean years of schooling and life expectancy.

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..... [4]

Again, this question was well answered, but many candidates missed the final mark as they did not refer to exceptions of the relationship or why the relationship may exist. As in the previous question, less successful responses referred to countries but did not use data to prove their point.

## Question 1 (e)

- (e) Using information from the stimulus material, evaluate whether the increase in Kenya's government spending is likely to increase the government's budget deficit.

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..... [8]

This question was usually well answered, with most candidates understanding there would likely be a deficit in the short run but less likely in the long run. Some candidates used AD/AS analysis well to explain how government spending could increase economic growth and bring about future increases in tax revenue. However, fewer candidates adequately used the extract material to fully explain why initially a budget deficit would be more likely in Kenya i.e. due to the high cost of infrastructure spending and reduced ability to gain tax revenue due to high unemployment.

### Misconception



Unfortunately, some candidates are still confusing the budget with the balance of payments.

## Question 1 (f)\*

- (f)\* Using information from the stimulus material, evaluate whether Kenyans are likely to benefit from globalisation. [12]

Most candidates showed a reasonable understanding of globalisation but unfortunately many missed the point of the question and discussed the effect on Kenya rather than Kenyans. However, there were some very good answers that considered the impact on Kenyans both from increased trade and increased FDI and counterargued this with issues such as brain drain or exploitation.

## Section B overview

For the most part candidates offered well-structured essays and attempted to use AD/AS analysis to support their answers. Good responses gave a balanced answer, considering one or two issues in detail, and then a supported judgement, considering what determined the outcome. Less successful responses contained too many issues that were not fully developed and had final judgements merely summarised that had already been discussed or brought in a new point. In Section B, both questions demanded AD/AS analysis. Not many candidates realised when both aggregate demand and aggregate supply shift, e.g. an increase in investment, the outcomes are different from when just one curve shifts. The Short Run Phillips curve was often used incorrectly with candidates not understanding that it can and does shift. Therefore, they incorrectly concluded that any increase in inflation will be accompanied by a fall in unemployment and vice versa.

### Option overview

For both options in Section B the full scope of the question involved analysing increases in both aggregate demand and aggregate supply. Candidates are improving at integrating diagrams and avoiding careless mistakes. However, deeper analysis is possible by shifting aggregate demand and aggregate supply on the same diagram rather than producing two separate diagrams. By far the most popular choice was question 2.

### Question 2\*

- 2\*** Finland and the Philippines are experiencing rapid advances in technology. In 2021, they both had an unemployment rate of 8.7%.

Evaluate, with the use of an appropriate diagram(s), whether advances in technology will help a government to achieve its macroeconomic policy objectives. **[25]**

A very popular question. Successful answers began by considering what the macroeconomic policy objectives are and then structured their answers to consider the impact of advances in technology on those objectives. Whereas most candidates understood policy objectives and how they might be met, good responses explained the processes rather than just stating the outcome. For example, references to an increase in productive capacity or an improvement in the quality/quantity of factors of production/capital when showing an increase in long run aggregate supply. Better responses also distinguished between potential growth and actual growth in real GDP and understood the time lags between increases in aggregate demand and long run aggregate supply. To reach Level five, candidates should have discussed both aggregate demand and aggregate supply. While most candidates realised that technology would increase aggregate supply, few understood that the act of installing technology through increased investment would have itself also increased aggregate demand. This led to incorrect conclusions of increasing negative output gaps. In the same way, candidates who only discussed increases in aggregate demand made incorrect statements about inflation.



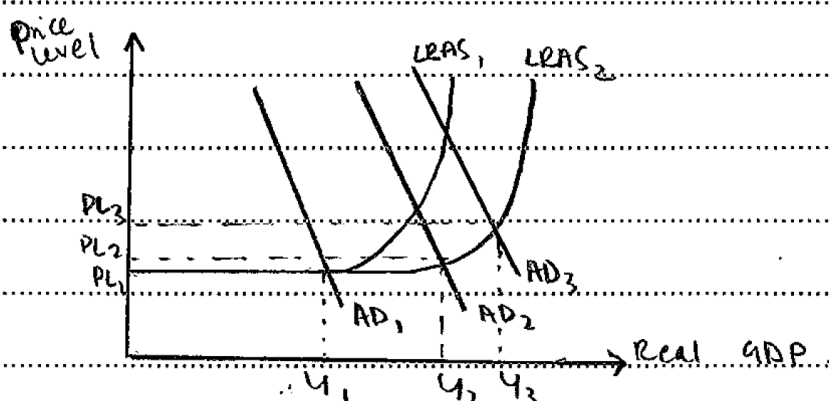
## Assessment for learning



When teaching diagrammatic analysis of aggregate demand and aggregate supply, students should be highlighted to the triple power of investment. Understanding it as an element of aggregate demand as such increasing aggregate demand; reducing cost of production therefore increasing short run aggregate supply; and increasing the quality or quantity of capital so increasing long run aggregate supply.

## Exemplar 1

The government's macroeconomic objectives are goals it sets in order to maintain a stable economy. The major objectives of the include sustainable economic growth, low and stable inflation, a sustainable balance of payments position and low rate of unemployment. An increase in technological advances may create some policy conflicts for a government.



An improvement in technological advances in an economy improves the quality of factors of production, and enables them to produce more in the long run, resulting

in long run economic growth, ~~show~~ increasing long run aggregate supply ( $LRAS_1$  to  $LRAS_2$ ). If aggregate demand stays the same ( $AD_1$ ), then output ( $Y_1$ ) and price ( $P_{L1}$ ) will remain fixed. This means that while there is long-run economic growth, there is no real output increase and in the short-run, output stays constant. However, improved factors of production in an emerging economy like the Philippines is likely to lead to investment by MNC's. This ~~means~~ ~~an~~ ~~aggregate~~ ~~demand~~ ~~is~~ which invest in an economy in search of profits. MNC intervention is likely to result in even more technological advances, and an increase in exports ( $X$ ) of the new, higher quality goods and services. Since net exports is a component of aggregate demand ( $AD$ ), it ~~has~~ increased, shown by shift to the right of  $AD$  curve ( $AD_1$  to  $AD_2$ ), resulting in higher output ( $Y_2$ ) at a ~~lower~~ ~~price level~~ slightly higher price level ( $P_{L2}$ ). This increase in ~~AD~~ is likely to increase national income, ~~and~~ which will further be spent on consumption and investment, increasing  $AD$  further, possibly causing a positive multiplier effect, and a significant final change in output, meaning the economic growth rate, one of the governments objectives, is satisfied.

Exemplar 1 shows the changes in aggregate supply and aggregate demand together allowing for a more logical discussion of the impact on macroeconomic objectives.

### Question 3\*

- 3\*** In recent years, household and business surveys have revealed improved economic expectations in many African countries.

Evaluate, with the use of an appropriate diagram(s), whether improved economic expectations will benefit an economy. **[25]**

Very few candidates chose this question, but those who did usually provided good answers. Strong answers were those that considered how the impact would be different depending on whether the improved expectations were those of producers (leading to increased investment) or consumers (leading to increased consumption) and referred to the accelerator and multiplier. To reach Level five candidates considered both consumers and producers and used combined diagrammatical analysis of aggregate demand and aggregate supply.

## Section C overview

Candidates who performed well in this section understood the full scope of the question they chose. They often used diagrams to support their answers, and although not asked for in the question, this was sometimes an easier route to Level five. Less successful responses considered alternative policies which was not answering the question.

### Option overview

There were some excellent answers in Section C, showing deep understanding of either fiscal or monetary policy. A few candidates answered Question 5 without a solid understanding of quantitative easing.

### Question 4\*

- 4\*** Nearly half of South Africa's population was considered to be living in poverty in 2021. The South African government uses fiscal policy measures to reduce poverty.

Evaluate whether fiscal policy can reduce poverty.

[25]

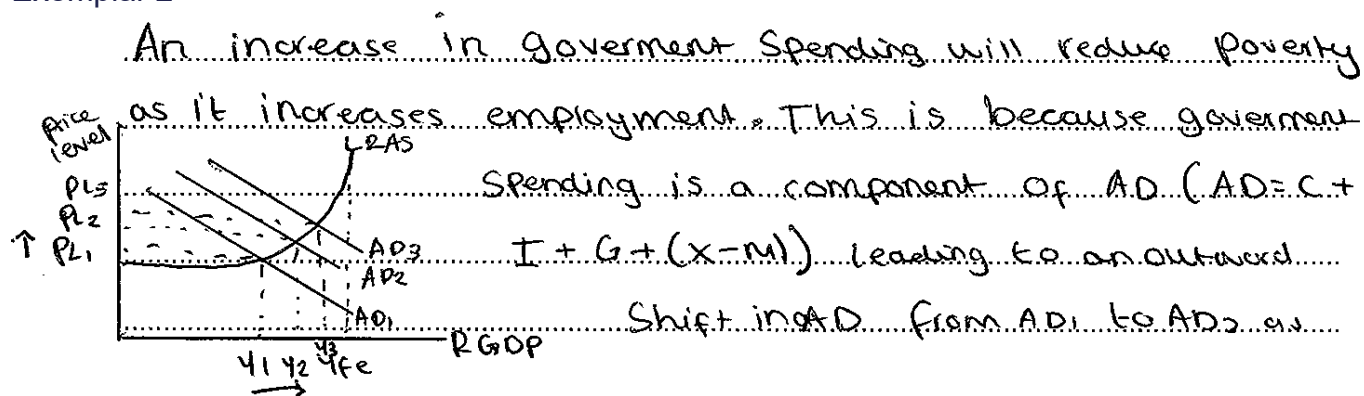
This was by far the most popular choice, and most candidates displayed at least reasonable knowledge of both fiscal policy and poverty. However, many candidates did not fully discuss both taxation and government spending or did not link back to the point of the question, i.e. impact on poverty. Strong responses clearly discussed how reductions in taxation, e.g. lower bands of income tax, could increase disposable income and reduce relative poverty. They coupled this with increases in government spending that either increased welfare benefits or improved health and education allowing for greater employment opportunities. Easy routes to evaluation showed how this increased aggregate demand and could therefore be inflationary, reducing real incomes and increasing poverty, or by discussing financial crowding out and the reduction in private sector investment.

### Misconception



Many students do not understand that expansionary fiscal policy necessitates an increase in government borrowing and instead wrongly discussed tax cuts being funded by reductions in government spending or increases in government spending being funded by increases in taxation.

## Exemplar 2



government expenditure has increased. This leads to an increase in RGDP from  $Y_1$  to  $Y_2$ . As RGDP has increased demand for labour increases as labour is a derived demand so employment increases. This ~~may~~ decrease relative poverty as incomes have risen and may decrease absolute poverty as incomes have increased so individuals can afford more essential goods and services. This increase in RGDP may have a positive multiplier effect further shifting aggregate demand to  $AD_3$  as ~~more~~ higher incomes means consumption increases which may further reduce poverty as RGDP increase to  $Y_3$ .

A decrease in taxes may reduce poverty as it increases investment. E.g. corporation tax falls (e.g. 2013 UK Coalition gov. decrease corporation tax for share and gas firms from 62% to 30%) firms retain more of their profits which can be used as investment (e.g. technology) to be more efficient which increases the productive potential of the economy. This reduces poverty as investment can create more jobs which increase incomes. This can also occur via an increase in foreign direct investment as it's more desirable to have low taxes for foreign investors.

Exemplar 2 analysed both increases in government spending and reductions in taxation, in both cases linking back to the effect on low-income individuals and therefore addressing the point of the question, poverty.

### Misconception



Some students do not understand the impact of a reduction in corporation tax and incorrectly think it reduces the costs of production for the firm (increasing short run aggregate supply) rather than leaving more funds for investment and increasing long run aggregate supply. The exemplar above explains this correctly.

## Question 5\*

- 5\* In 2021, the Economic Affairs Committee of the House of Lords in the UK published a report which questioned whether the Bank of England was addicted to using quantitative easing as a monetary policy measure.

Evaluate whether quantitative easing is an effective monetary policy measure.

[25]

The answers to this question were very polarised. Some candidates had a clear interest in quantitative easing and bond markets and gave answers that not only reached Level five but went beyond the demands of question. They were a delight to read. Unfortunately, other candidates did not clearly understand the process and gave answers that referred to the government injecting money into the economy. Although their aggregate demand and aggregate supply analysis was sometimes then correct, they could not access the marks as their answer could be for expansionary fiscal policy instead of the question asked. Strong answers discussed not only increasing liquidity but also the reduction in market interest rates due to the increase in the money supply or supply of loanable funds. Easy routes to evaluation used the fisher exchange to discuss inflation.

### Misconception



Some students are still wrongly thinking that quantitative easing is government borrowing. They must understand that it is Bank of England increasing the money supply to buy government bonds to reduce financial crowding out and increase loanable funds.

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