

AQA qualification training

A-level Economics

Feedback on Units 1&2 (ECON1&ECON2)

Post-event participant handbook

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A level

Economics

ECON1/Unit 1: Markets and Market Failure
Report on the Examination

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Unit 1: Markets and Market Failure (ECON1)**Section A: Objective Test (ECON1/1)****General**

The mean mark for the paper was 14.93 and the standard deviation 4.31. The corresponding marks for the June 2012 test were 15.30 and 5.13, and for the June 2011 test were 13.9 and 4.9. These statistics indicate that candidates found the test to be slightly more demanding overall than the June 2012 test but less demanding than the June 2011 test.

The test contained twelve easy questions compared with nine in June 2012 and seven in the June 2011 test. In contrast with previous tests, only one of the twelve was exceptionally easy, with more than 80 per cent of candidates answering it correctly. There were more difficult questions than in the June 2012 and 2011 tests and two questions also had a prominent distractor. However, the level of difficulty overall was consistent with the examiners' expectations. The statistical analysis of the questions did not indicate any problems which would invalidate individual questions or the test as a whole. The statistical analysis of each individual question indicated that all the questions discriminated very effectively between more and less able candidates. Indeed, the discriminatory power of the test was amongst the highest achieved to date. All the questions performed within acceptable limits and none was rejected from the test.

The individual question statistics indicated that candidates found questions 1, 5, 6, 7, 8, 11, 13, 15, 17, 20, 23, and 24 fairly easy in that 65 per cent or more of the candidates answered them correctly. Question 6 was very easy in that it was answered correctly by 81.36 per cent of candidates. It was followed by Questions 5, 11, 13, 17 and 20 all with facilities of over 75 per cent. There were three exceptionally difficult questions with facilities less than 40 per cent. A further three questions proved to be difficult with facilities of less than 50 per cent. Question 19 was the most difficult question with a facility of only 31.52 per cent followed by Question 21 with a facility of 33.26 per cent and Question 25 with a facility of 37.35 per cent. Two of the difficult questions, 19 and 25, had prominent distractors. Questions 9, 18, and 22, with facilities of 45.38, 41.62, 47.23 respectively, were the next three most demanding questions in the test.

Question 9

The key, A, was selected by 45.38 per cent of candidates. This relatively poor figure indicated that the majority of candidates found the question surprisingly demanding. The explanation for why more than half of the candidates found the question demanding is provided by the high proportion of 41.23 per cent selecting Distractor B, which involved the distribution of wealth not income. These candidates confused wealth with income. A rent subsidy for housing is the equivalent of an increase in income but does not affect wealth directly. B was incorrect because a rent subsidy does not affect the ownership of housing as an asset and hence the distribution of wealth. In contrast, subsidising social housing can be justified as a means of improving the unsatisfactory allocation of resources resulting from inequality in the distribution of income and wealth.

Question 18

The key, A, was selected by only 41.62 per cent of candidates. The pattern of response to each one of the three distractors was similar, ranging between 18 – 21 per cent. Questions involving the diagrammatic representation of subsidies, and indirect taxes, are typically found demanding, and this was demonstrated once again. But on this occasion the question proved to be even more challenging because it also involved an externality in production. The question tested candidates' knowledge and understanding of market failure arising from a divergence between private and social costs, and the operation of a subsidy to correct such a divergence and move the market equilibrium to the social optimum. The required subsidy was equal to the excess of the marginal private cost of production over the marginal social cost of production at the output level where $MSC = MSB$. In the diagram the required subsidy was equivalent to the distance FH.

Question 19

This proved to be the most demanding question in the test with less than 32 per cent of candidates selecting the key, B, and almost 40 per cent of candidates selecting response D, which made it a prominent distractor. The question involved an elasticity calculation which typically made for a more demanding question because of a general weakness in candidates' ability to undertake numerical tasks. However, in this case the choice of distractor D by such a high proportion of candidates, and of Distractor C by a further 11.27 per cent, pointed to a more fundamental deficiency in more than half of the candidates' understanding of the relationship between price elasticity of demand and total revenue. When demand is price inelastic, any increase in price necessarily results in an increase in sales revenue. By definition of inelasticity, the proportional decline in sales is less than the proportional increase in price leading to a rise in total revenue. Distractors C and D both involved a fall in total revenue which was only possible following a price rise if demand were price elastic. Given the information that the price elasticity of demand is -0.5, meaning that it was inelastic, a 10% increase in the price of a product must result in a rise in total revenue of less than 10%.

Question 21

This was the second most demanding question in the test with less than 34 per cent of candidates selecting the key, B. In contrast with the other two very demanding questions, 19 and 24, there was no prominent distractor with the three distractors being selected more equally. For this question, the high proportion of candidates who were apparently unable to do simple percentage change calculations was surprising. To answer the question, candidates merely had to be able to use the price index data to calculate $25/125 = 20\%$, from which it followed that the price of clothing was 20% cheaper in the base year than 2012. Distractor A should have been obviously incorrect if read carefully because although the price of clothing rose over the whole period it did not rise each year. The price index for clothing was lower in 2011 than in 2010 meaning that it did not rise throughout the period. Distractor C required information on the sales of clothing, which was not provided, and therefore could not be answered. Distractor D tested candidates' ability to calculate and interpret a percentage change in the price index data. In this case the calculation was $10/120 = 8.333\%$, which is unambiguously less than 10%, thus making D incorrect.

Question 22

This question proved surprisingly difficult for what was a straightforward test of candidates' knowledge and understanding of the meaning of the concept of factor immobility. The key, A, was selected by 47.23 per cent of candidates. The weakness in understanding the concept of factor immobility was evident by the 27.29 per cent of candidates whom selected distractor D. The unwillingness of workers to change jobs, which was the key, is an example of the immobility of a factor of production. An unwillingness to attend training courses may well be associated with an unwillingness to change jobs, and hence associated with factor immobility, but it is not necessarily associated with factor immobility. There are many other reasons why some workers might be unwilling to attend training courses. These reasons include the possibility that some workers regarded further training for their current jobs as unnecessary because they had already decided on a career change. Consequently, response D was not the most likely example of the immobility of a factor of production.

Question 25

The final question in the test proved to be the third most demanding with less than 38 per cent of candidates selecting the key, C. Nearly 50 per cent of candidates selected response B which made it a very prominent distractor. The low facility, combined with the high proportion of candidates selecting distractor B, indicated that the concept and operation of a scheme of pollution control based on the use of pollution permits was not well understood. The number of pollution permits issued under such a scheme is designed to cap the absolute level of pollution permitted. The success of the scheme does not require each firm to create pollution just equal to the amount fixed by its initial allocation of permits. Firms can create more pollution than allowed by their initial allocation of permits provided they can purchase additional permits from those firms which have, for whatever reason, created less pollution than allowed by their initial allocation of permits. The ability to sell unused permits creates the profit incentive for firms to reduce their actual pollution below the level they have been allocated. The cost to firms of acquiring additional permits, to enable them to create more pollution than allowed by their initial allocation of permits, provides them with a financial incentive to find ways of reducing their pollution. Allowing firms which do not use all their permits to sell some of them to other firms is not an indication of the failure of the scheme to reduce pollution but rather an essential feature of how the scheme is meant to operate. In contrast, such a scheme will prove ineffective in achieving the intended reduction in pollution, such as carbon emissions by firms, if the limit set by the initial allocation of permits to firms is set too high and does not require any of them to curtail their pollution.

Section B: Data Response (ECON1/2)

General

The paper offered a choice of two contemporary Contexts – Context 1: the provision of higher education in the UK, and Context 2: the markets for smartphones. Just under 60% of candidates selected Context 1, and just over 40% selected Context 2. The mean mark on the paper was just over 31 marks; however, the mean mark achieved by those students who attempted Context 2 was significantly higher than the mean mark for those attempting Context 1. The statistical evidence suggests that students scored more highly on all questions in Context 2 with the exception of the definition question. When selecting the context, students should be encouraged to give consideration to *all* of the questions before making a choice. That choice should not just be made on the basis of the definition question which carries the lowest marks on the paper.

Many students were well prepared for the first part of a data-response question and provided a concise definition. Even though the definitions given were not always correct or were incomplete, many students were able to achieve up to 4 marks by providing partial definitions and/or a diagram and/or an example.

Similarly, with the second part of questions, students have become better prepared at identifying two *significant* points of comparison. Significant points of comparison might include comparing the beginning and the end of the two data series; comparing peaks in the two data series; comparing troughs in the two data series; noting that the values in one of the two data series are always above (or below) those of the second data series, where applicable, identifying positive or negative correlations between the two data series; identifying volatility or stability in a particular data series. Students should be aware that a good answer provides an overview, backed up by statistical evidence from the data. They must also remember to quote the units of measurement in their answers.

For the third part of the data-response question, students should look for appropriate *prompts* in the relevant Extract and ensure that they answer the question set. A prompt is there to help the student to answer the question, and provides a starting point from which the chain of reasoning in the explanation can be developed, and from which the diagram can be drawn. Even though a question might not specifically ask for a diagram, up to 4 marks are awarded for a relevant diagram, providing that it is referred to in the accompanying explanation. Marks are not rewarded for simply *describing* what the diagram shows, although marks are awarded for explaining the adjustment to the initial equilibrium. Students can also achieve up to two marks for including relevant definitions.

Finally for the last question, it is important to point out that students should *carefully* read the question to ensure that they answer the question asked! Frequently, for example, when asked to evaluate the case for and against government intervention, students instead evaluated different policies which might be used to correct the market failure. In addition, students should remember that before they *evaluate*, they must first *analyse*, ie provide some relevant economic theory from which to build their evaluation. Students should also ensure that their theory is *applied* appropriately to the context in the question, and that the answer includes *explicit* reference to the data. It is good practice to evaluate each argument as it is introduced into the answer, as well as providing an overall conclusion. Students should be reminded that the ‘essay’ questions provide each of them with the ideal opportunity to demonstrate their understanding of economics and their ability to think like an economist, and they should make the most of it.

CONTEXT 1

Question 01

This question was generally very well answered with a significant majority of students scoring full marks for an accurate definition stating that a subsidy, for example, was a payment made by the government to reduce costs of production *or* increase supply *or* reduce price. Indeed, many made reference to a number of acceptable alternatives. The mean mark for this question was 4.37.

Question 02

Many students struggled with this question, which was surprising given the seemingly relatively straightforward nature of the data. Firstly, they did not compare students on full-time courses with those on part-time courses as was required; rather they compared undergraduate and postgraduate courses. Secondly, many failed to score full marks even where the comparison was correct as a result of not including the ‘thousands’. Surely students should have been able to recognise that there were more than 269 full-time postgraduates in 2008/9. Some made the question more difficult by attempting various unnecessary calculations which were frequently incorrect – it is sufficient to use the figures as written. However, this said, a number of well-prepared candidates identified two significant points of comparison, supported by accurate statistics. The mean mark for this question was 4.91.

Question 03

According to statistics, students performed better in Question 03 than in Question 07. The mean mark for this question was 7.9. Students also coped better with this question than they have in previous examinations, which showed an improvement over time. Many students correctly identified education as a merit good and subsequently went on to give an appropriate explanation of the reasons for under-provision, making good use of relevant terminology, such as marginal private and social benefits, positive externalities and information failure. Such explanation was often supported by an accurate, well-labelled diagram. However, ‘weaker’ students, who perhaps did not recognise education as a merit good, a good which gives rise to external benefits, scored lower marks. In order to achieve up to 12 marks, a number of students also attempted to define relevant terms.

Question 04

A good starting point here, which many students adopted, was to recognise university education as a merit good. They subsequently included relevant market failure analysis and terminology, and appropriately repeated the diagram they had used in Question 03, in order to support the argument *against* charging fees. The argument *for* charging fees tended to focus on the fact that payment of fees was justified because of the private benefit to the individual in terms of higher lifetime earnings, notwithstanding the equity issues that society needed to take into account; the functions of the price mechanism were discussed; and as was to be expected given media coverage, nearly every student mentioned the size of the national debt. The analysis was usually complemented by the prompts in the data, and some were able to use the data extremely effectively. ‘Weaker’ students adopted a purely descriptive, text-inspired, rather general approach to this question and did not, for example, use relevant diagrams. Such responses, which did not use adequate economic analysis, tended to remain in Level 2. Most students considered alternative methods of funding, usually subsidies, but sometimes one or more of the other options referred to in the data. In the case of the latter, however, many found it difficult to add pertinent economic analysis. There was some evidence of good evaluation, better students in particular, recognised the significance of the word ‘mainly’ in the question, and addressed it in their final conclusions. The mean mark for this question was 12.49.

CONTEXT TWO

Question 05

This question was not as well answered as Question 01, less than half of the students scored full marks. The mean mark for this question was 3.25. A common approach was to refer to 'lowest cost', with no reference to 'average' or 'unit', which was not adequate but scored 2 marks. A number of students constructed a diagram, either a PPF or cost curve diagram, but these were not fully or accurately labelled, therefore, they did not achieve up to the 2 marks available. Indeed, many students clearly struggled with this definition and often succumbed to using 'efficient' in their attempt to provide an answer, and in doing so scored no marks.

Question 06

This question was much better answered than Question 02. The mean mark for this question was 6.56. A range of valid comparisons was quoted, and the majority used the data with great accuracy, including use of 'percentage'. Students often played safe, quoting three-way comparisons, whilst it was sufficient to compare two brands. As usual, some did not state what was *significant* about the figures quoted and only described the data; a few did not refer to the *whole* period as was required.

Question 07

This was a straightforward question and there were several prompts in the extracts, both demand and supply factors, which explained why the sales of smartphones had changed. Consequently, it did not discriminate well, with the majority of students gaining the full 12 marks. The mean mark for this question was 10.68.

Many quoted several reasons, developed their chains of reasoning, and easily scored the maximum marks when taking the best two into account. The majority included a diagram(s), even though it was not required, and earned up to 4 marks. However, some students lost potential marks by failing to refer to their diagrams, students would be well-advised always to refer to any data that are drawn, whether specifically required by the question or not. A minority of students only referred to *one* reason, and in such cases the answer was constrained to a maximum of 8 marks.

Question 08

There were some accomplished and convincing answers to this question which used a good combination of theoretical analysis and evidence from the data to argue either for or against governments attempting to influence how mobile phones are manufactured and used. Yet whilst the wording of this question provided an automatic structure for students, many discussed either *use* or *manufacturing*, but not both. As expected, most focused on *use*, with just passing reference to 'broadcasting masts' and 'low wages paid to Asian workers' in dealing with the *manufacturing* aspect; rarely was good use made of the 'market share' versus 'economies of scale' prompts. When *manufacturing* was discussed, students were generally unable to evaluate what were often impractical and inappropriate suggestions for intervention. Regarding *use*, most students were able to identify the negative externalities associated with mobile phone use, with negative externalities in both consumption and production being accepted as valid analysis.

Some students offered a policies-based response, and indeed, if there were no discussion of the arguments for and against governments influencing markets, no matter how good the analysis and evaluation, the answer was constrained to top level 3, ie 16 marks. So it is therefore imperative that students carefully read the questions. Weaker answers lacked economic content, and tended to copy the data rather than use it effectively, similar to the weaker responses in Question 04. The mean mark for this question was 12.74.

The best answers were written completely in context, included good theoretical analysis, contained supported evaluation throughout and offered a clear, final judgement.

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A level

Economics

ECON2/Unit 2: The National Economy
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Unit 2: The National Economy (ECON2)

Section A: Objective Test (ECON2/1)

General

The mean mark for the test was 15.69 and the standard deviation was 4.89. The corresponding values for the June 2012 test were 16.24 and 4.87 and for 2011, 16.20 and 4.70 respectively. The differences in the mean indicated that students found the June 2013 test slightly more demanding than in 2011/2012. However, the difference is well within the range of normal variation and that, plus the almost identical standard deviation, implies that the overall demand of the test is very similar to that for last June.

The individual question test statistics indicated that students found Questions 1, 5, 6, 12, 13, 14, 15, 17, 18, 19, 20, 21, 22, and 23, easy in that 65 per cent or more of the students answered them correctly. Three of these questions, 14, 15 and 20, were found to be very easy with more than 80 per cent of students answering them correctly. Question 15 was the easiest question in the test. Three questions, 4, 7 and 25 were found to be very difficult in that they were answered correctly by less than 40 per cent of students. Questions 8 and 16 were the next most demanding questions in the test with facilities in the range 40 to 45 per cent. Questions 4, 7 and 25, the most demanding questions in the test, had facilities of 26.08, 33.96 and 36.71 respectively, and all three had prominent distractors. Despite these differences in facilities between questions, the detailed statistical results did not indicate any unacceptable performance with individual questions. The individual question test statistics showed clearly that the test discriminated effectively between more and less able students. All the questions performed within acceptable limits and none was rejected from the test.

Question 4

This was the most demanding question in the test. Data interpretation questions often have a low facility due to weaknesses in students' numerical application capabilities. The key of D only had a facility of 26.1 per cent which is unusually low, even for this type of question which requires interpretation of data. Distractor A was a prominent distractor selected by nearly 42 per cent of students. There appeared to be two main reasons for the high proportion of students choosing distractor A. Too many students failed to read through the question with care and give attention to each of the four possible responses. If they had done so they should have had no difficulty in recognizing that three years of a positive rate of inflation would have resulted in a fall in the value of money, the correct response, D. A second possible reason for many students selecting distractor A, was confusion of a percentage variation in a variable with a change in its absolute value. The data showed a decline in the percentage rate of unemployment over the three year period which students incorrectly interpreted as implying that employment rose between 2010 and 2012. No such inference was possible without data on the size of the labour force over the period covered by the unemployment rate data. Total employment could have fallen over the period, despite the fall in unemployment, due to a decline in the size of the available labour force. Indeed, the fall in unemployment could be a direct consequence of a decline in the size of the available labour force and total employment. Thus response A could not be inferred from the data and was thus incorrect.

Question 7

This was the second most demanding question in the test with a facility of 33.9 per cent for the key D. It also had a prominent distractor, with the majority of students, 40.08 per cent, selecting response B. The low facility combined with a prominent distractor was due in large part to lack of understanding of the concept of deflation and how it differs from inflation. The majority of students selecting distractor B either mistakenly believed that deflation meant a decline in the rate of inflation or confused a deceleration in the rate of inflation for an absolute decline in the general level of prices. Deflation is not the same as a decline in the rate of inflation. Deflation means that the general level of prices in an economy declines over time with the result that the real value of money rises over time. In direct contrast, a decline in the rate of inflation, which nevertheless remains positive, implies a continued fall in the real value of money over time.

Question 8

This question did not have a prominent distractor but still had a relatively low facility of 45.57 per cent for D, the key. However, a surprisingly high proportion of students, 39.15 per cent, went for Distractor A. The selection of Distractor A indicated the weakness, noted in previous reports, in students' understanding of the factors affecting the demand for imports and the balance of payments on current account. A significant increase in aggregate demand is likely to lead to an increase in the rate of inflation and growth of GDP as well having an impact on the current account of the balance of payments. Responses A and D both included increases in inflation and the growth of GDP but differed in the implications of an increase in aggregate demand for the deficit on the current account of the balance of payments. The question specified that the balance of payments on current account was initially in deficit. All other things being equal, it followed that an increase in the growth of GDP would lead to an increase in the demand for imports and an increase in the deficit on the current account of the balance of payments. Given the initial conditions, and no change in exports, it is impossible for the deficit on the current account of the balance of payments to decrease as the economy grows, as stated in Distractor A.

Question 16

This was expected to be a relatively straightforward question but the pattern of responses indicated that the majority of students were unable to apply their knowledge and understanding of the domestic economy to its interaction with the world economy. The key, B, was selected by 44.08 per cent of students, while Distractors A, and C were selected by 19.67 per cent, and 30.70 per cent respectively. The difficulty experienced by the majority of students with this question once again highlighted the more general weakness in their knowledge and understanding of the factors affecting levels of imports and exports in an economy. It may also reflect a lack of understanding of the meaning of an economic recession. A recession in the world economy is likely to lead to an increase in unemployment in the UK as a result of a decline in world demand for exports from the UK, key B. Distractor C stated that the price of oil and raw material imports was likely to rise which, if it did occur, would lead to a rise in unemployment in the UK. However, if the world economy went into recession the global demand for oil and raw materials would fall leading to a decline not a rise in their prices. Likewise, response A was incorrect. The world demand for basic commodities is most likely to decline if the world economy goes into recession. This reduction in world demand will increase, not decrease, the ability of other economies to supply the UK with basic commodities.

Question 25

This was the third most demanding question in the test and also had a prominent distractor. The key, D, was only selected by 36.71 per cent of students while Distractor C attracted 41.06 per cent of students. The question tested students' knowledge and understanding of the fundamental determinants of long-run aggregate supply. The Specification contains a section on the determinants of long-run aggregate supply and students are expected to have a knowledge and understanding of these determinants. The institutional structure of the economy, key D, such as the banking and education systems, is one of the fundamental determinants of long-run aggregate supply. Response C, selected by 41.40 per cent of students, was a distractor. Real national output is determined by the interaction of aggregate demand and supply and consequently is partly determined by aggregate supply rather than a determinant of it. For a given level of aggregate demand, real national output will increase with an increase in long-run aggregate supply which, in turn, is influenced by the institutional structure of the economy amongst other fundamental determinants.

Section B: Data Response (ECON2/2)

General

Approximately 55 per cent of the students chose Context 1 and around 45 per cent chose Context 2. The mean mark achieved by the students who attempted Context 1 was almost identical to the mean mark achieved by those who attempted Context 2. Overall, the mean mark on the paper was just below 30 marks. Around 12 per cent of students scored fewer than 20 marks and almost 13 per cent of students scored 40 or more marks. The performance of students was very similar on both questions.

When answering Questions 01 and 05, most students demonstrated some knowledge of the terms but in each case, the definitions were often either incomplete or inaccurate in some respect. For example, some of those who answered Context 1 were unable to provide a satisfactory definition of 'income' and many of those who attempted Context 2 did not provide an adequate definition of the term 'current account of the balance of payments'.

Students' responses to Questions 02 and 06 continue to improve. To achieve full marks for a comparison, the student should state the comparison clearly and then use the statistical data to support the comparison. It is strongly recommended that students use a separate paragraph for each comparison. Despite the improvement, some common errors persist; examples of such errors are given below.

Many students included one and usually two relevant definitions when answering Questions 03 and 07, however, the definitions were sometimes inaccurate. Many students included a diagram but some did not refer to the diagram in their written response. It is standard practice to use diagrams to support a written explanation and it should not be assumed that the examiner will understand its relevance to the question. In addition, too many of the diagrams contained basic errors such as axes labelled incorrectly.

The proportion of students who achieved Level 4 or above for their answers to the last parts of the questions was 28 per cent, this is higher than in Summer 2012. Almost 30 per cent were awarded Level 4 or above for their responses to Questions 04 whereas nearly 26 per cent were awarded Level 4 or above for their answers to Question 08. It was noticeable that more students were making explicit use of the Extracts and many demonstrated relevant knowledge of recent developments in the UK economy. The majority of students incorporated some evaluation in their answers but in many cases this was fairly superficial. The conclusion was the weakest part of most answers. These were often very brief or just repeated previous arguments.

Context 1**Growth of the UK economy****Question 01**

Around 22 per cent of students were awarded five marks for providing an accurate definition of the term 'real incomes' but approximately 18 per cent of the students failed to score any marks for their attempt to define the term. The mean mark for this question was 2.76. Many students recognised that 'real' meant that the effects of inflation had been removed but far fewer students provided an acceptable explanation of the term 'income'. Only a small minority recognised that income is a flow. Some students confused the term 'real income' with 'disposable income'.

Question 02

The mean mark for this question was 5.6, just over 44 per cent of the students achieved full marks for their answers and around 80 per cent scored at least 4 marks. This is much better than for the equivalent questions on the Summer 2012 paper. Good students were able to identify two significant comparisons such as: comparing the highest points, comparing the lowest points or stating that both real GDP and employment were higher at the end of the period than at the start of the period. Weaker students compared random years that were not significant and did not take into account the whole time period. Another common error was to make comparisons within a single data series, for example, comparing the highest index of real GDP with the lowest index of real GDP. The units of measurement were not always quoted correctly, some added a percentage sign to the index of real GDP and others omitted the 'millions' from the employment figures.

Question 03

The mean mark was just over 8 marks, approximately 5 per cent achieved full marks but approximately 82 per cent achieved at least 6 marks. Many students started by attempting to define relevant terms, for example, 'economic growth' and 'unemployment'. However, the definitions were poor and not rewarded. Only a small minority of students recognised that 'low economic growth' did not mean negative growth and falling aggregate demand. Students who discussed the impact of a fall in aggregate demand on unemployment were restricted to a maximum of 10 marks. Diagrams often contained basic errors, for example, many students stated that a reduction in aggregate demand would reduce output and then, incorrectly shifted the SRAS curve to the left rather than showing the fall in output as a movement along the SRAS curve. Students who presented a trend growth diagram frequently labelled the vertical axis GDP rather than real GDP or total output.

Question 04

The mean mark for this part of the question was 13.24. Many students were able to explain what was meant by economic growth but very few distinguished between short-run and long-run growth. It was often recognised that boosting growth might conflict with other objectives of economic policy such as controlling inflation, achieving a satisfactory position on the balance of payments and reducing the budget deficit. Most students attempted to analyse the impact of policies that are designed to boost growth but weaker students just identified a couple of specific measures, for example, tax cuts or more spending on education and training. Better students considered both demand-side and supply-side policies and discussed the difficulties associated with individual policies. For example, explaining how low interest rates may be ineffective in stimulating demand when confidence is low, as well as a discussion of the wider problem of possible conflicts with other policy objectives. The best answers also made use of the Extracts and related their discussion to the current situation in the UK.

Context 2**UK balance of payments on current account****Question 05**

Only 12 per cent of the students achieved full marks for providing a complete, accurate definition of the term 'deficit on the current account of the balance of payments', however, almost 88 per cent were awarded at least 3 marks. Only 8 per cent of the students did not achieve any marks for their response to this part of the question. The mean mark for this question was 3.22.

A minority of students confused the 'current account of the balance of payments' with the 'budget balance'. Many stated that there was a deficit when imports were greater than exports but, despite the data in Extract D, did not make any attempt to define the 'current account of the balance of payments'. Some recognised that the current account included trade in both goods and services but did not mention transfers or income flows.

Question 06

The mean mark achieved by students answering this question, at 5.2, was a little lower than the mean mark achieved by students answering the equivalent Question 02. Approximately 42 per cent achieved full marks and just over 9 per cent were not awarded any marks. As with Question 02, one common mistake was to make comparisons that were not significant, for example, comparing the balance of trade with the current account in an arbitrary year rather than making a comparison that took into account the whole time period. Marks were also lost because the units were not stated. Surprisingly, the most common error was made by students who made comparisons involving the total income balance or the current transfers balance. Such comparisons failed to answer the question set.

Question 07

The mean mark for this part of the question was 8.5, marginally higher than the mean mark for the equivalent Question 03. However, significantly more students, around 45 per cent, achieved full marks but slightly fewer, 78 per cent, achieved 6 marks or more and 11 per cent did not score any marks.

Most of the students who did not achieve any marks confused a balance of payments deficit with a budget deficit. Despite the emphasis in the question, a few students explained the impact of a fall in the value of the pound. Some of these did not appreciate that a fall in the value of the pound is equivalent to an increase in the value of other currencies. Many students achieved full marks without the use of a diagram, but some did make appropriate use of a diagram by, for example, shifting the AS curve to the right to illustrate the impact of supply-side improvements on competitiveness. However, a significant minority of diagrams were inappropriate and showed the consequences of a fall in the current account deficit upon the macroeconomy; such diagrams were not credited. Nevertheless, many students demonstrated a good grasp of the factors that affect the size of the deficit on the current account of the balance of payments.

Question 08

The mean mark for this part of the question was 13.03, very close to the mean mark achieved on Question 04. Most, but not all, students recognised that more exports and fewer imports would increase aggregate demand. Many structured their answer by considering the impact on the main macroeconomic policy objectives, sometimes including the budget balance. The analysis was often supported by appropriate use of AD/AS diagrams. Weaker answers often confused the budget deficit and the balance of payments deficit, believing that more exports would directly finance an increase in government spending or reduce the national debt. Some answers argued that the impact on the UK economy depended on the cause but this was often used as an excuse for discussing the general benefits of supply-side policies, with a consequent lack of focus. Whilst most students made use of the data in the Extracts, weaker students were unable to use the information in a meaningful way. As part of their evaluation, students sometimes discussed reasons why it might be difficult to achieve a rise in exports and reduction in imports with the best answers recognising that, recently, the UK balance of payments has deteriorated rather than improved. Only a very small minority of the best answers understood, despite the obvious prompts in Extract F, that in a period when the government is cutting its spending and consumer spending is only growing slowly, more exports and fewer imports would help to sustain demand, supporting employment and recovery.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the Results Statistics page of the AQA Website.

Converting Marks into UMS marks

Convert raw marks into Uniform Mark Scale (UMS) marks by using the link below.

UMS conversion calculator www.aqa.org.uk/umsconversion

ECON2 Context 1

[01] Define the term 'real incomes' (Extract B, line 13).

Exemplar 1 (0 marks)

Real incomes is the actual amount of wealth an individual is receiving, this takes into account ~~the~~ value before taxes.

This candidate wasn't awarded any marks because they did not provide an acceptable definition of either 'real' or 'income'. 'Wealth' is not a source of income, this was a fundamental misunderstanding. They also confused 'real' with 'disposable', another basic error.

Exemplar 2 (5 marks)

Real incomes, is defined as the money a household receives through means such as wages, interest and rent taking into account the rate of inflation.

This response provides an acceptable definition of income 'the money a household receives through wages, interest and rent'. It also defines 'real', the phrase 'taking into account' the rate of inflation was judged to be sufficient.

In addition, it is very clear that they do understand what is meant by the term 'real incomes'.

ECON2 Context 1

Define the term 'deficit on the current account of the balance of payments' (**Extract E**, line 11).

Exemplar 3 (5 marks)

This is when the total value of imports of goods and services is greater than the total value of exports of goods and services in an economy. The difference between the two is the value of the deficit. It also includes the flow of investment income and net transfers.

If the candidate had only written the first sentence, they would have been awarded 4 marks, it shows an understanding of what is meant by 'deficit' but the definition of the 'current account of the balance of payments' is incomplete. The third sentence shows that the candidate really knows what is meant by the current account.

Extract D provided some very strong clues about the current account.

Exemplar 4 (3 marks)

A deficit on the current account of the balance of payments means that a country is importing more than it is exporting. This is not good because it creates a negative component of aggregate demand, and so growth becomes less significant. It also shows too great a reliance on other countries. The UK currently has a deficit on the current ~~acc~~ account of the balance of payments.

This candidate is awarded 3 marks for the sentence, ie for defining what is meant by 'deficit'. The rest of the answer fails to address the question. No further marks were awarded.

ECON1 Context 2

Define the term 'productive efficiency' (**Extract E**, line 12).

Exemplar 5 (0 marks)

Productive efficiency is when the price consumers pay for a product is equal to the cost of producing the product.

This answer wasn't awarded any marks. The candidate seems to be confusing productive with allocative efficiency.

Exemplar 6 (5 marks)

Productive efficiency is whereby a firm is producing at the lowest point on the average cost curve. In the short run this simply involves being at the lowest point on the average cost curve. Long run productive efficiency involves a firm reducing their average costs as much as possible through innovation or productivity increases. (look to page 6)

The candidate was awarded full marks for the first sentence. The rest of the answer was relevant but not needed.

Exemplar 7 (4 marks)

productive efficiency is ~~rather~~ when the economy is producing at a point on its product possibility frontier and all resources are utilised.

This answer doesn't quite get to an accurate and complete definition of the term. They were awarded 2 marks for 'when the economy is producing at a point on its product possibility frontier'. This doesn't show that the candidate understands that this means that 'it isn't possible to produce more of one good without producing less of another'. Two marks were also awarded for 'when all resources are fully employed'.

Data interpretation, answering the second part of the DRQs

To achieve high marks for these questions you should:

1. Use a separate paragraph for each feature/comparison
2. State the point made at the start of the paragraph
3. Features/comparisons should relate to the whole data series
4. Use figures to support the point
5. Make sure that your figures do **support** the point
6. Make sure that your figures are accurate
7. Make sure that you quote the units of measurement correctly
8. If a comparison is required, supporting figures must be quoted from each data series

Examples of significant comparisons could include:

1. Comparing the **start and end values of each data series**, eg one series might be higher at the end of the period than at the start of the period whereas the other series might be lower at the end of the period than at the start of the period
2. Comparing the **maximum values**
3. Comparing the **minimum values**
4. Identifying an **inverse or direct relationship** between 2 data series, if there is one
5. Stating that **one set of data is consistently higher** than another set of data **but** this is only meaningful if the unit of measurement is the same for each series

ECON1 Context 1

Using **Extract A**, identify **two** significant points of comparison between the number of students on full-time courses and those on part-time courses over the period shown.

Exemplar 8

In 1980/81 the number of students in undergraduate education higher education full time was 4.73 thousand students, and post graduate 6.2 thousand students.
In 1980/81 the number of students in undergraduate higher education part time was 2.47 thousand students and post graduate 4.5 thousand students.
In 2008/09 the number of students in undergraduate higher education, full time was 13.28 thousand students and post graduate 2.69 thousand students.
In 2008/09 the number of students in undergraduate higher education, part time was 6.86 thousand students, and post graduate 2.74 thousand students.

This answer wasn't awarded any marks. It is just a trawl through the data. There is no attempt to make a valid comparison between the number of part-time students and the number of full-time students.

Exemplar 9

Over the time period shown, a point of comparison is that all areas experienced an increase in numbers of students, Full time going from 535'000 to 1.597million, whilst part time increased from 292'000 to 933'000!

Another comparison is that in 2008/09 there was significantly more full time undergraduate and post graduate students than part time students. With 1.597 million full time students and 933'000 part time students.

The first paragraph identifies a valid comparison but the last figure is inaccurate, it should have been 960 000 and not 933 000. Hence, 3 marks rather than 4 marks were awarded.

The second paragraph does not make a valid comparison '**over the period shown**', ie it only considers 2008/09 and ignores 1980/81. The error in the figure for part-time students is carried forward from the first to the second paragraph but the student isn't penalised twice. The second paragraph was treated as a valid feature with supporting data and so 1 mark was awarded.

Exemplar 10

Over the time period shown, both the number of students in full time courses and part time courses increased (full time going from 535 in 1980-81 to 1597 in 2008/09 and part time increasing from 292 students in 1980/81 to 960 students in 2008/09)

There was a greater increase in the number of full time students over the period shown compared to the number of part time students increasing. Full time increased by 1062 students (on both under and post graduate) ~~and~~ however part time increased by only 668 ~~over~~ students over the time period shown

This is a clearly written, well-structured answer. There are two significant comparisons and data is used to support the comparisons, BUT the unit of measurement was thousands and this wasn't recognised. It is astonishing how many students wrote, for example, that the number of full-time undergraduate students rose from 473 in 1980/81 to 1328 in 2008/08.

A full mark response

The number of undergraduates studying full time increased from 473,000 students in 1980/81 to 1,328,000 students in 2008/09. Whereas the number of undergraduate students studying part time increased from 247,000 in 1980/81 to ~~1100~~ 686,000 in 2008/09.

As for postgraduate study, the number of full time students increased from 62,000 students in 1980/81 to 269,000 students in 2008/09. But for part time postgraduate students, there was an increase from 45,000 students in 1980/81 to 274,000 students in 2008/09.

The answer above was awarded 8 marks; there are two valid comparisons each of which is supported by accurate use of the data. The comparisons are made 'over the period shown', ie 1980/81 to 2008/09.

ECON2 Context 2

Using **Extract D**, identify **two** significant points of comparison between the balance of trade in goods and services and the current account balance over the period shown.

Exemplar 11

The point at which the deficit in the balance of trade in goods and services was greatest was in 2005 when it was £42.7 bn. The biggest deficit on the current account balance, on the other hand, was in 2006 when it reached £43.11 bn.

The point at which the deficit on the balance of trade in goods and services was the lowest was in 2009 when it was £25.64 bn. The lowest deficit on the current account balance was in 2008 £19.75 bn.

This is a model response and was awarded the full 8 marks.

In the first paragraph the candidate compares the largest deficit on the balance of trade in goods and services with the largest deficit on the current account. Accurate figures are quoted to support the comparison.

In the second paragraph the candidate compares the smallest deficit on the balance of trade in goods and services with the smallest deficit on the current account. Again, accurate figures are quoted to support the comparison.

Exemplar 12

Extract D shows the UK balance of payments on current account between 2005 and 2010.

The total income balance in 2006 was at its lowest, when it was only the equivalent of £9.5 billion. This is also the time when the current account balance was at its lowest, reaching £-43.11 billion. The opposite happened in 2008, when the income balance was £33.14 billion, and the current ~~and~~ account balance was at its highest of £-19.75 billion. This highlights the relationship between the two factors. When the income balance is low, so is the current account balance and vice versa.

The current transfers balance has become progressively more negative. 2005 shows that it was at its lowest ~~deficit~~ deficit figure of £-11.85 billion, and the deficit ~~has~~ has increased by £8.23 billion ~~since~~ between 2005-2010. This shows just how much we have imported in comparison to exported, and explains why the deficit is so big.

In this response, the comments regarding the income balance and current transfers balance are irrelevant. No valid comparisons were made. However, it was possible to award 2 marks in the second paragraph where the candidate identifies the 'lowest' and the 'highest' values for the current account balance. Two significant features of one of the data series were identified.

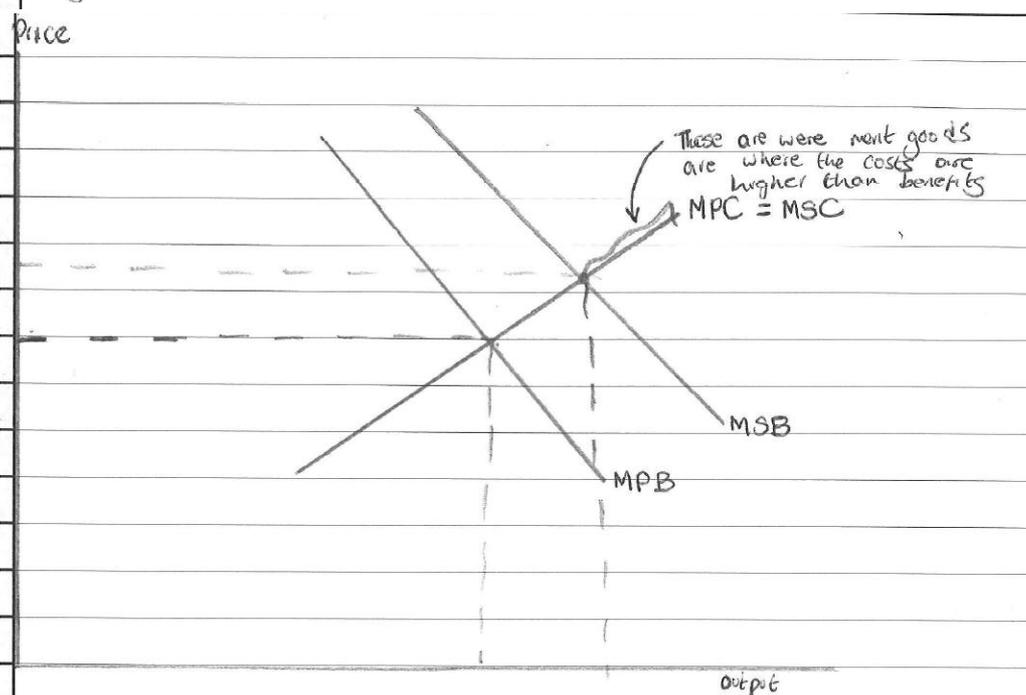
ECON1 Context 1 Part [03]

Exemplar 13

Services are intangible materials (can't be touched) we can buy services ~~but we don't~~ for example trains or education when we buy them we don't buy the material like the train or the school but we do get a benefit from buying them for example a journey or education.

Merit goods are goods that will be under-provided for when left to the market system for example education or NHS.

Education is a merit good and these can tend to be under-provided by the market and this is because they are not valued as much as demerit goods by the producers. Demerit goods are goods like cigarettes and alcohol which are over provided by the market system as they create business because people are addicted to them and will buy them as they take up less of their income so they are inelastic. It's under-provided because people don't see the gain and benefits of education they think the Marginal Private ^{and Social} Costs are higher than the private and social benefits. because education benefits the society in the long run and people think that is too long to wait.



This is a curve for a merit good like education

With the help of an appropriate diagram, explain the view of education as a ‘...service which markets tend to under-provide’ (Extract C, line 18).

Commentary

The marks awarded for this answer were as follows:

Definition of a merit good	1
Stating education is a merit good – the start of a logical chain of reasoning	2
Merit goods such as education are likely to be under-provided in a free market ‘people don’t see the gain’ ‘it’s too long to wait’	2
Diagram: MPC same as MSC = 1 mark, MSB > MPB = 1 mark	2

The first paragraph wasn’t awarded any marks; the attempted definition was weak and not very relevant. It didn’t contribute to the answer to the question.

In the second paragraph, 1 mark was awarded for an adequate definition of a merit good.

Although 4 marks were awarded for the third paragraph, the explanations were generally weak and the discussion of demerit goods was irrelevant. Some ‘benefit of the doubt’ was given.

The diagram was accurate but incomplete. The equilibrium points weren’t labelled and the under-consumption was not shown.

Definition = 1, Explanation = 4, Diagram = 2

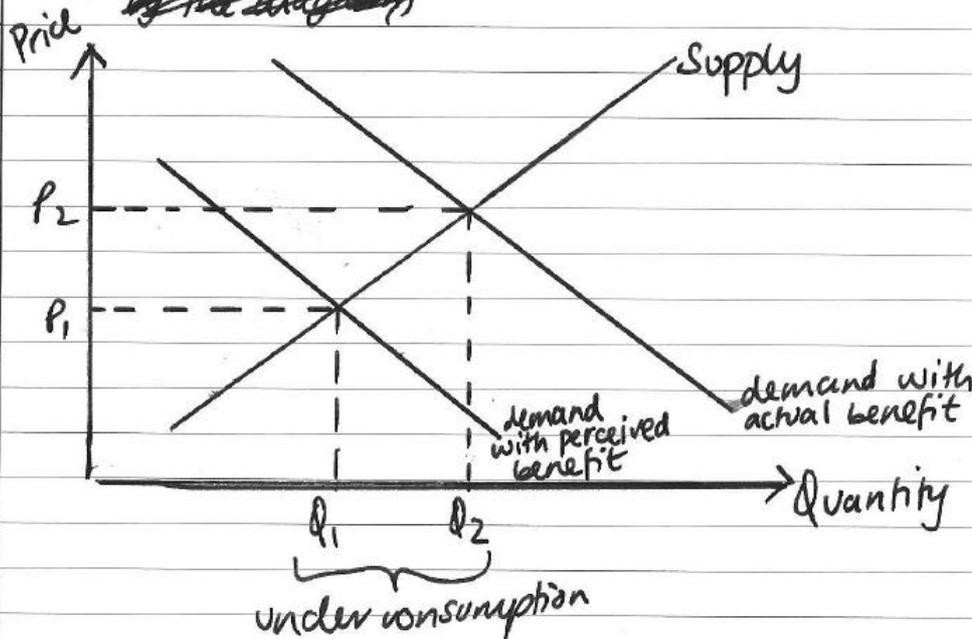
Total of 7 out of a possible 12 marks

ECON1 Context 1 Part [03]

Exemplar 14

Education is a merit good (one that is under consumed in a free market). This is because of lack of information. Since most people only think of the short term benefits of education and don't fully understand the long term benefits, there is information failure. Parents usually pay for education even though children receive

the benefits and therefore the perceived benefits of education are lower (lower demand - ~~with~~ the quantity of a product consumers are willing and able to buy) than the actual benefits. Therefore there is underconsumption of education ~~if it was paid for by students in the free market (education by the state)~~



There are also positive externalities in the education market as the marginal social benefits are greater than the marginal private benefits.

Commentary

Marks were awarded as follows

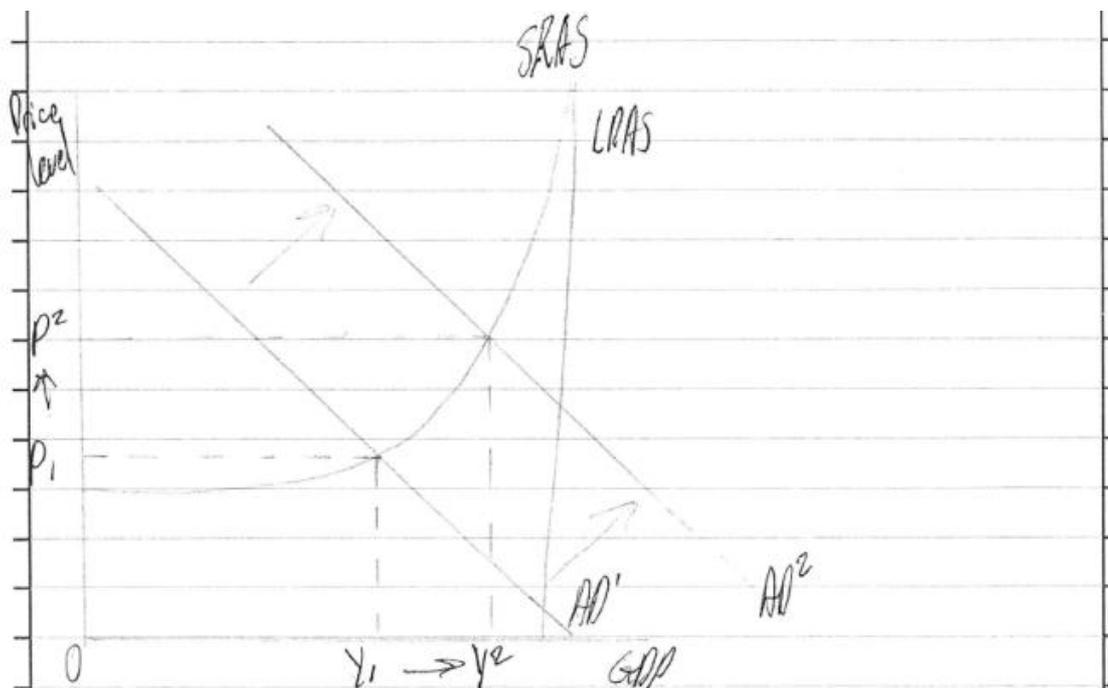
Identifying education as a merit good	2
Definition of a merit good	1
Under-consumption linked to information failure	2 + 2
Short-term v long-term benefits	2
Full benefits are not taken into account, leading to lower demand than would be the case with perfect information and foresight	2
Diagram: Setup = 1, Actual & perceived demand = 1, Socially optimal equilibrium point = 1, Under-consumption = 1	4
Positive externalities associated with education	2
Marginal social benefits > Marginal private benefits	2

Diagram = 4, Definition = 1, Explanation = 14

Total of 19 marks constrained to 12 marks

ECON2 Context 2 Part [07]

Exemplar 15



AD is moving to the left as the UK begin to export more than import.

This can be achieved by lowering income taxes as this can give people incentives to work at the same time you can reduce the welfare benefit so that consumers will want to earn more money by working.

If an employment is reduced productivity will should increase as supply should increase. If there is more employment incomes rise meaning that people will spend which will boost it even more.

If business and consumer confidence is high then investment in capital investment will be high meaning machines can efficiently allocate resources and increase output by not misusing resources and working on the PPF boundary.

Extract E (lines 11 – 12) states that ‘the deficit on the current account of the balance of payments is likely to be lower in 2011 than it was in 2010.’

Explain two factors, other than a fall in the value of the pound, which might help to reduce the size of the deficit on the current account of the UK balance of payments.

Commentary

This answer wasn’t awarded any marks.

The diagram was not relevant to the question; it illustrated the effect, on the macroeconomy, of an increase in exports and did not support an explanation of a factor that might reduce the size of a current account deficit.

The second paragraph below the diagram did not provide a coherent explanation of a factor that might increase exports or reduce imports. The attempted explanation was muddled.

The same comment applies to the final paragraph. This is a very weak answer.

ECON2 Context 2 Part [07]

Exemplar 16

A raise in income tax should reduce the size of the deficit on the current account because people will have less disposable income (this is income after taxes and national insurance that can be spent). This will mean people won't be able to spend as much money on imported goods, especially 'luxury items'. As imports ~~create the~~ are a leakage from the circular flow of income and create a current account deficit, when these are reduced so is the deficit.

Placing higher taxes ~~on~~ specifically on imported goods is another potential way to reduce the value of imports to the UK. This is because they become less price competitive compared to domestic goods so the demand for them falls. UK consumers will be more likely to purchase domestic goods and less likely to

spend money on imports once again reducing the size of the current account deficit. A tax on imported goods will signal to consumers to look elsewhere for products.

Extract E (lines 11 – 12) states that ‘the deficit on the current account of the balance of payments is likely to be lower in 2011 than it was in 2010.’

Explain two factors, other than a fall in the value of the pound, which might help to reduce the size of the deficit on the current account of the UK balance of payments.

Commentary

This answer was awarded full marks. 7 marks were awarded for the first paragraph and 6 marks for the second paragraph – 13 constrained to 12.

Rise in income tax as a factor	2
Definition of disposable income	1
Fall in disposable income will reduce spending on imports	2
If imports fall the size of the current account deficit will fall	2
Tax on imports as a factor	2
Imports less price competitive	2
Demand for imports falls	2

Note that a statement such as ‘if imports fall the size of the current account deficit will fall’ was only rewarded once.

Application ECON2 Part 04

The red boxes highlight where the examiner might identify the skill of application.

Example 1

Another way the govt could
try to improve growth would
be to increase productivity as
stated in line 2 of extract
c. The govt could subsidise
spending on capital goods
in an attempt to boost the
productive capacity of the economy
and make UK businesses more
competitive on the world stage.

In this example, the candidate uses the Extract as a prompt. They use the data to identify an important influence on economic growth and then develop that influence in a relevant manner.

Example 2

In this AD/AS diagram the effects of expansionary fiscal policy are shown ~~that~~ The increase in AD causes an increase in real GDP (Y_1 to Y_2) but such economic growth will experience a level of inflation, this is seen in the change from P_1 to P_2 . The level of inflation depends upon the elasticities of supply and the level of capacity reached. ~~The~~ If the economy reaches full capacity inflation levels will rise ~~to~~ to extreme levels. This is a conflict of macro-economic objectives. Extract B supports the argument fiscal policy is used to achieve economic growth (Lines 6-7). There are two types

This is a very poor example of an attempt to use the Extracts. The reference to Extract B (lines 6-7) does not link well with the previous discussion and it is not correct to assert that the quote 'supports the argument that fiscal policy is used to achieve economic growth'. The data in the Extract is applied inappropriately.

Example 3

In conclusion it seems there are difficulties to be faced when attempting to boost growth. ~~The AS~~ Extract C says "rising demand, unless accompanied by improvements in the supply-side performance of the economy, risks higher inflation and a larger balance of payments deficit". Furthermore the government if it wishes to try expansionary fiscal policy with additional supply-side measures, it must weigh up the costs and benefits of doing that rather than taking a wiser - ~~wise~~ approach.

This is the best of the four examples. Earlier in the answer, the candidate discussed the possibility that achieving growth by boosting aggregate demand might conflict with other objectives of economic policy. At this point, the candidate is summing up and quoting Extract C to support their conclusion.

Example 4

The government could try to boost growth by devaluing the pound to make our exports cheaper and more competitive.

Exporting countries such as China, India and Germany all have high growth. A trade surplus

would be good for Britain's industries such as manufacturing and provide people with well-paid and long-term jobs.

However devaluing the pound would make imports more expensive.

Firms who import raw materials from abroad would see their costs of production increase, causing cost-push inflation.

This example is different from the other three. The candidate is using their own knowledge of developments in the world economy to support an argument rather than quoting from one of the Extracts.

Commentary on ECON1 Part 08

Knowledge and understanding	Generally sound although there is some confusion between externalities and social costs.	L3
Application	The candidate's answer includes some relevant application economic concepts. The extensive use of the data from the Extracts is strength of this answer.	L4
Analysis	There is some basic analysis but it is limited in scope. The lack of diagrams is also a weakness.	L3
Evaluation	The evaluation is reasonable. The candidate presents arguments both for and against regulation and uses the data to support the evaluation. However, there is only limited use of economic analysis to support the evaluation.	L4

The mark awarded was 17. The very limited analysis restricted this answer to the bottom of Level 4.

Outline Lesson Plan

Developing students' ability to demonstrate the skill of analysis

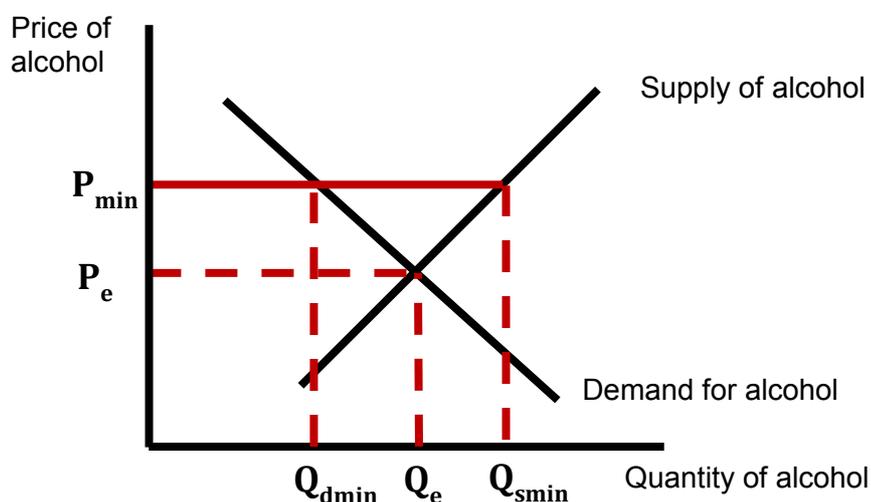
Type of activity	Activity	Time
Q&A session	Ask students what they understand by 'analysis'	2
Presentation	Outline the characteristics of analysis in economics. Show an example of good analysis and explain why it demonstrates good analysis	10
Gap filling exercise	Students fill in the gaps to complete the analysis	5
Paired discussion	Students assess the quality of analysis taken from a candidate's answer in this summer's exam. The analysis in this answer is quite limited to allow students to identify areas for improvement.	5
Whole class activity	A selection of students report back on their findings	5
Teacher demonstration	Show the students an example of good analysis taken from a candidate's answer in this summer's exam.	3
Individual activity	Students write a paragraph and include a diagram that might have been included as a response to a question in this summer's exam.	10
Teacher	Teacher collects the responses so that they can be marked and feedback given. This also allows the teacher to assess the effectiveness of the session, identify general weaknesses and individuals who need further support.	3
	Set homework task.	2
	Plenary – teacher summarises the key points of the lesson, pupils have the opportunity to ask questions, maybe in relation to the homework that has been set.	5

Total time: 50 minutes

Analyse the impact of a government imposing a minimum price for alcohol

In a free market the price of a product is determined by the interaction between supply and demand. If the current price is above the equilibrium price there will be excess supply encouraging producers to cut the price to get rid of unsold stocks. If the current price is below the equilibrium price there will be excess demand and competition between buyers will lead to an increase in the market price.

The diagram below shows the effect of a government imposing a minimum price for alcohol that is above the current equilibrium price.

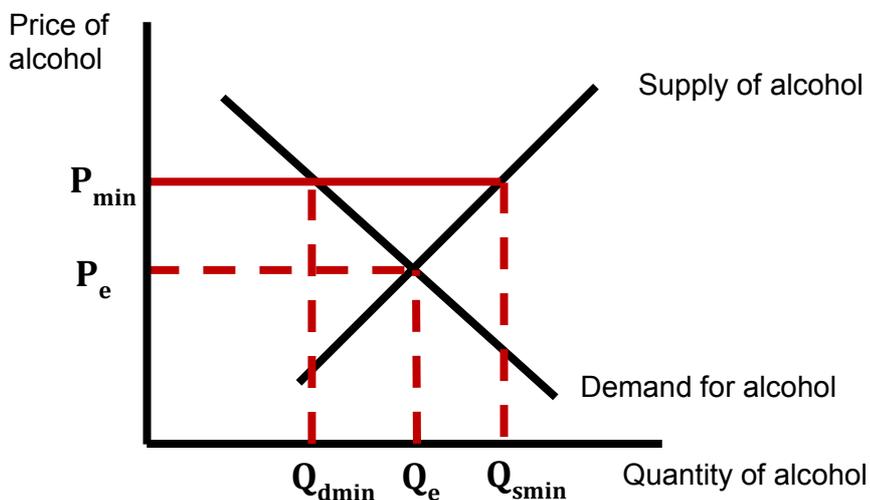


The diagram shows that the higher minimum price will reduce the demand for alcohol from Q_e to Q_{dmin} and increase the amount firms wish to supply from Q_e to Q_{smin} . The excess supply of alcohol is likely to encourage some people to try to sell the alcohol below the legal minimum price.

Analyse the impact of a government imposing a minimum price for alcohol

In a free market the price of a product is determined by the interaction between supply and demand. If the current price is above the equilibrium price there will be excess supply encouraging producers to cut the price to get rid of unsold stocks. If the current price is below the equilibrium price there will be excess demand and competition between buyers will lead to an increase in the market price.

The diagram below shows the effect of a government imposing a minimum price for alcohol that is above the current equilibrium price.



The diagram shows that the higher minimum price will reduce the demand for alcohol from Q_e to Q_{dmin} and increase the amount firms wish to supply from Q_e to Q_{smin} . The excess supply of alcohol is likely to encourage some people to try to sell the alcohol below the legal minimum price.

Analysis in ECON1

In economics, analysis involves constructing logical chain of reasoning using relevant economic concepts and principles.

The example below shows part of a candidate's response to the following question.

Using the information in the data and your own economic knowledge, evaluate the economic case for and against governments attempting to influence how mobile phones are manufactured and used.

Read the candidate's response and then, after discussing the response with a classmate, you are to:

As stated in extract F mobile phone manufacturing could lead to cancer ~~to~~ due to radiation from the phones and broadcasting masts. If this is the case the there are negative externalities in production. Negative externalities lead to market failure as they result in the wrong level of output due to the price mechanism not taking account of the wide consequences to society. As a result of this there will be a loss in economic and social welfare as cancer would ruin lives and drain state provided healthcare with increased costs.

Identify at least **THREE** ways in which the analysis could be improved.

Evaluation ECON2 Context 1 Part [04]

Using the data and your economic knowledge, discuss the difficulties that the Government is likely to encounter when attempting to boost the rate of growth of the UK economy.

Example 1

Boost AD through monetary policy may not be that effective as shown currently in the eurozone. The European central bank has cut interest rates to 0.5% however this has not increased growth. Thus proving interest rates to be a blunt instrument. ~~At~~ Growth has not been increasing at the required level as shown in Extract B 'unemployment as measured by the Labour force survey, has risen from 7.9% to 8.3% of the working population'.

Commentary

There is an attempt to evaluate the effectiveness of monetary by referring to the impact of interest rate reductions in the eurozone. However, the conclusion is, at best, simplistic. Also, the phrase 'blunt instrument' is used inappropriately.

The final sentence switches from actions in the eurozone to the UK economy and there is no logical link in the argument presented.

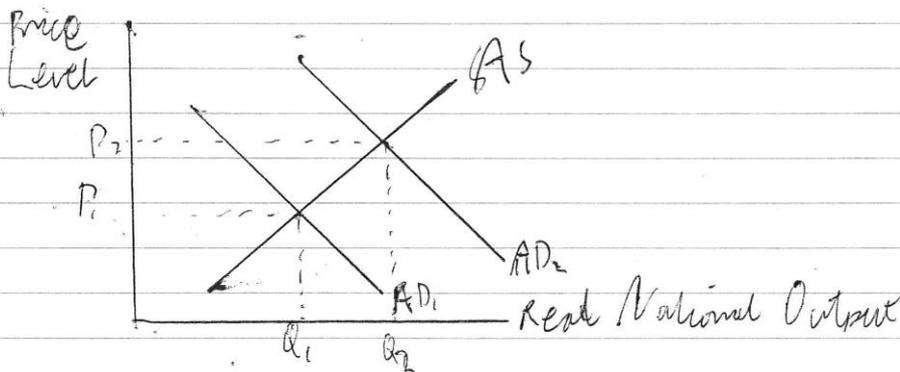
Overall, this is a very weak attempt to evaluate the effectiveness of monetary policy as a means of boosting growth.

Evaluation ECON2 Context 1 Part [04]

Using the data and your economic knowledge, discuss the difficulties that the Government is likely to encounter when attempting to boost the rate of growth of the UK economy.

Example 2

One way the government could boost economic growth is through a fiscal stimulus either generated through government spending or tax cuts in order to increase AD.



As you can see an increase to AD would move real national output from Q_1 to Q_2 thus generating economic growth. However this runs the risk of increasing the budget deficit thus raising up interest repayments. This could mean that long term the country could be harmed through a fiscal stimulus. Furthermore at the moment cuts in income and corporation taxes would only add a little to consumer spending and investment.

This is because at the moment both business and consumer ~~confidence~~ confidence are low (extract B) so increasing disposable income would lead to saving rather than spending. A further problem with this is that if we boost AD we move from P_1 to P_2 causing inflation. At a time when wage growth is low this will negatively affect households who will see their real incomes fall.

Commentary

The evaluation in this example is reasonable but could be improved.

The candidate starts by analysing how a fiscal stimulus can be used to boost growth. They then attempt to evaluate by identifying reasons why a fiscal stimulus might be undesirable and/or ineffective. There is some development of the arguments and some supporting use of the Extracts.

There is, however, a logical inconsistency. They assert that cutting taxes will not increase aggregate demand but they then argue that fiscal measures will cause inflation because aggregate demand will increase. With some judicious use of words such as 'may', 'but', 'if' and 'however', this contradiction could have been avoided.

Although the question asks about 'the difficulties the Government is likely to encounter when attempting to boost the rate of growth', the case in favour of using fiscal policy to boost growth in the UK should perhaps have been considered.

Nevertheless, this extract does contain some reasonable and supported evaluation. Most candidates sitting the AS examination have been studying economics for less than a year and this is typical of the evaluation that is found in a Level 4 response.

Conclusions

ECON1 Context 2 part [08]

Example 1

To conclude it is advisable that the government attempt to influence how mobile phones are manufactured and used to prevent market failure. Despite the economic benefits the production of mobiles leads to the potential exposure to radiation is grounds for intervention

Example 2

Task

Overall, there is not actually a definite risk and until we know more about the dangers there is no real need for governments attempting to influence how mobile phones are manufactured and used. It is worth reevaluating the issue once more conclusive information comes to light on the issues involved. At the current point it should be left to the free market to either decide how much and how it is produced. Government intervention could be costly in this time of austerity and could impact UK competitiveness. Intervention, though helping to solve the market failure if it is proven to be a demerit good, would lead to inequalities and would potentially be market failure.

- Explain why the second example is better than the first example.
- How could the second example have been improved?

Commentary on ECON1 Full Mark Part 04

Using the data and your own economic knowledge, assess the case for financing universities mainly through charging fees to their students.

Part	Commentary	Mark
04	<p>This is a top L5 response.</p> <p>Whilst it is possible to criticise some parts of this answer, overall it clearly satisfies four assessment objectives at level 5.</p> <p>Unlike some answers, this response includes relevant application and sound analysis of the case for introducing the market mechanism into the higher education sector. This is a key aspect of the debate concerning the merits, or otherwise, of charging fees to finance universities.</p> <p>The answer has a clear logical structure. It begins by recognising that market failure provides an argument for government intervention and identifies education as a merit good. An overview of reasons why the existence of merit goods can lead to market failure is presented. Three possible methods of financing universities are identified and assessed, with arguments for and against each method discussed. The answer concludes with a final judgement that does more than just repeat previous arguments.</p> <p>Knowledge & understanding Good throughout, there are few if any weaknesses.</p> <p>Application The response is fully focused. The application of economic theory to the context is sound and appropriate use is made of the Extracts. Several direct quotes were included to support the arguments present.</p> <p>Relevant parts of the Extracts that were not used but there is only so much a candidate can do in the notional 25 minutes available.</p> <p>Analysis A well-organised response that includes a number of examples of good analysis. A diagram was used to support the analysis of the effect of introducing a subsidy.</p> <p>It could be argued that the candidate should have included an MSC/MSB diagram to illustrate why, in a free market, merit goods are likely to be underprovided but this was the focus of part [03].</p> <p>Evaluation The candidate evaluates each of the methods of financing universities as they work their way through the answer. The evaluation is well-supported and is built upon a firm foundation of sound analysis. There is also a final judgement. As mentioned above, the conclusion does more than just repeat previous arguments but it is a bit contrived.</p> <p>Overall, the best fit for this answer is at the top of Level 5. It certainly satisfies to summary for this level, 'Good analysis and good evaluation'.</p>	25

AS Level Data Response Assessment Sheet

Name: _____

First part – definitions

Have you:	Student	Teacher
provided a clear, succinct definition of the term?		
included an example to illustrate that you have understood the term?		
Mark out of 5		

Student comment:

Second part – data interpretation

In this part of the question you should NOT attempt to explain the data.

Have you:	Student	Teacher
used two separate paragraphs?		
stated a clear point of comparison (or significant feature of the data) in each paragraph?		
supported each point by quoting figures?		
quoted accurate figures?		
stated the units correctly?		
Mark out of 8		

Student comment:

Third part – explanation/analysis

Sometimes the question states that you are to draw a diagram but even if it doesn't there are always marks available for relevant diagrams.

Have you:	Student	Teacher
defined two relevant terms (perhaps in the opening paragraph)?		
drawn a diagram?		
i. labelled axes correctly?		
ii. labelled the curves correctly?		
iii. shown and labelled the equilibrium points correctly?		
briefly explained the diagram?		
constructed a logical chain of reasoning that helps answer the question?		
if the question asks for two explanations, fully explained each point in a separate paragraph?		
Mark out of 12		

Student comment:

Fourth part – essay style response

In this part of the question, your answer is assessed using a Levels Mark Scheme. The mark awarded is determined by the extent to which you are able to demonstrate four skills. These skills are:

- Knowledge and understanding
- Application
- Analysis
- Evaluation

The basis of a good answer is provided by a student who demonstrates sound knowledge and understanding and reasonable analytical ability. This should allow up to 13 marks to be awarded. However, to achieve more than 13 marks the student must also demonstrate the ability to evaluate arguments and issues.

In each of the boxes below you should indicate the level that you think you have achieved in each of these skills. Use the Levels Mark Scheme to help you make your assessment.

	Student Level	Teacher Level
Knowledge and understanding: i. Have you defined and used technical terms correctly? ii. Have you shown knowledge of relevant theory?		
Application: i. Have you applied your knowledge of economic theory to help answer the question? ii. Have you quoted the data source? iii. Have you used your knowledge of recent developments in the economy?		
Analysis: i. Have you included diagrams? ii. Have you explained the diagrams? iii. Have you constructed logical arguments that involve a 'chain of reasoning'? iv. Does your answer have a clear, logical structure?		
Evaluation: i. Have you evaluated as you progressed through the answer? ii. Have you made a well-supported final judgement? iii. How good is your conclusion?		
Mark out of 25		

Student comment:

Target(s):

Writing frame (June 2013 ECON2 Context 1 Part 08)

Extract F (lines 1 – 2) states: ‘Economic policymakers hope that UK trade with the rest of the world will help to rebalance the economy and boost aggregate demand.’

Using the data and your economic knowledge, assess the impact on the performance of the UK economy of a significant increase in exports and a reduction in imports of goods and services.

(25 marks)

Planning your response:

Create a structure for your answer	
1	
2	
3	
4	
5	
6	
All answers should have an introduction. What will you include in your introduction?	
1	
2	
3	
4	
Read the extracts. Underline and write down the parts of the data that you might use.	

Analysis	
What diagrams could you include?	
What economic concepts and principles could you use?	
Evaluation	
What are the benefits for the UK economy of an increase in exports and reduction in imports?	
What are the possible disadvantages for the UK economy of an increase in exports and reduction in imports?	
Relate the above to the current state of the UK economy.	
Are the short-run effects likely to differ from the long-run effects? Explain why.	
On balance, do you think that an increase in exports and reduction in imports will be beneficial or harmful? Explain why.	
Now write your conclusion	

Improving answers to the last part of the DRQs

Using ECON2 Context 1 as an example (Part 04)

Extract C (lines 1 – 2) states: ‘Many believe that the main objective of government economic policy should be to increase productivity and economic growth.’

Using the data and your economic knowledge, discuss the difficulties that the Government is likely to encounter when attempting to boost the rate of growth of the UK economy.

- 1) **Focus on the question** – consider what it is asking you to do
 - I. Define economic growth
 - II. Distinguish between short-run and long-run (or underlying) growth
 - III. Identify policies that can affect short-run growth, ie mainly demand-management policies
 - IV. Identify policies that can affect long-run growth, mainly but not exclusively supply-side policies
 - V. Identify reasons why it might be difficult to boost both short-run and long-run growth
 - VI. Consider the current situation in the UK; why has the present Government found it hard to stimulate growth?

- 2) **Application:**
 - I. First element is to apply theory to the problem/question in a relevant manner
 - II. Use the data in the Extracts (should be referred to explicitly)
 - III. Bring in your own knowledge of relevant, recent developments in the UK economy

- 3) **Analysis:**
 - I. Use of diagrams
 - II. Constructing a logical chain of reasoning involving economic concepts and principles

- 4) **Evaluation:**
 - I. Identify policies a government might use to try to boost growth and discuss why, in current circumstances, such policies might be ineffective
 - II. Support the arguments by sound analysis
 - III. Use the data in the extracts to support the arguments presented
 - IV. Use their own knowledge of developments in the economy to support arguments
 - V. Distinguish between short-run and long-run consequences
 - VI. The ‘ifs’, ‘buts’ and ‘however’s’
 - VII. Does it depend on what else happens within and/or outside the UK economy and, if so, what else does it depend on?
 - VIII. Assess the strengths and weaknesses of the arguments and come to an overall conclusion (final judgement), albeit tentative

What is evaluation in Economics?

Evaluation involves:

1. Making judgements
2. Presenting a variety of arguments, both for and against the proposition
3. Using economic theory and evidence to help support or reject the arguments presented
4. Weighing up the relative importance of the different arguments
5. Comparing alternative views about an economic issue and coming to a reasoned conclusion (final judgement), ie which view is best supported by the arguments and evidence

The following list is not meant to be exhaustive but it does provide examples of **'words and phrases'** that candidates might find helpful to get them started in making judgements.

However

Hence

Nevertheless

Although

It is likely that

The tendency is

But

In retrospect

With the benefit of hindsight

On the other hand

In the short run but in the long run

It depends upon (eg price elasticity of demand, what happens to the exchange rate, etc.)

The data (evidence) suggest that

The evidence in support of this view is not very strong

According to the extract

The writer argues that but

This view is controversial because ...

However, this conflicts with other objectives of economic policy

This is particularly important because

In current circumstances, the most appropriate policy is.....because...

ECON2 Script (49 marks)

0 5 A 'deficit in the current account of the balance of payments' occurs when the total value of imports of goods and services into a country exceeds the total value of exports of goods and services over a given period of time.

0 6, Over the period 2005-2010, the balance of trade in goods and services was highest ^{and most negative} in 2005 at -£25.64 billion whereas the current account balance was highest ^{and most negative} in 2008 at -£19.75 billion.

05: 4

06: 8

Over the period 2005-2010, the balance of trade in goods and services was lowest ~~6~~ and most negative in 2005 at -£42.70 billion whereas the current account balance was lowest and most negative in 2006 at -£43.11 billion.

07.

An increase in the value of UK exports would ~~increase the~~ reduce the deficit on the current account on the balance of payments. This could be caused by a recovery in the economy of the UK's major trading partners, most notably the Eurozone from recession, as it accounts for over 50% of UK's export markets. Such a recovery would increase the overall level of aggregate demand in the Eurozone, including demand for UK exports as ^{Eurozone} consumers would be more willing and able to buy UK goods and services, thus reducing the size of the UK current account deficit. However, this would rely on the recovery of the UK's trading partners being faster than the UK recovery, as otherwise UK imports would also increase.

Alternatively, a fall in the total value of UK imports would reduce the deficit on the UK current account. Measures to reduce UK consumption, such as increased income taxes or a rise in interest rates, providing these measures were not ~~replicated~~ also taken in the economy of the UK's major trading partners, would reduce consumption by reducing disposable income and raising the cost of credit, respectively. Then UK households would demand fewer imports as well as domestically produced goods and services, reducing the deficit on current account of the balance of payments.

08.

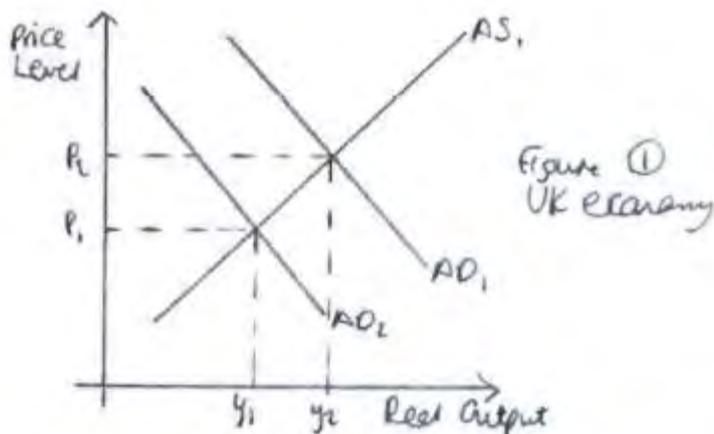
As stated in Extract F and recently explicitly stated by Mervyn King, Governor of the Bank of England, there is a need to 'rebalance' the economy, 'away from consumption and government spending (see Extract E), 'towards exports and investment' ~~to~~ to aid a UK recovery. There is significant argument that an increase in exports and reduction of imports would be greatly desirable to improve the outlook for the UK economy, with GDP growth weak at only 0.3% ~~off~~ in Q1 2013, given the weakness of consumption at 4% below its pre-recession peak ~~as shown in the~~ and ~~as the Coalition's~~ persistent commitment to austerity, despite Olivier Blanchard at the IMF suggesting a 'reversal' is needed. Thus it is indicative that an export led recovery, as noted in Extract E, combined with reduced imports would improve the performance of the UK economy. However, given the recent depreciation of sterling, with UK exports now 15% cheaper than in 2007 (see Extract F) and no noticeable improvement in net trade, such recovery

07.12

cannot be relied upon.

The impact of a significant increase in exports and reduction in imports of goods and services on the UK economy can be illustrated using aggregate demand (AD)/aggregate supply (AS) theory. AD is composed of consumption (C), investment (I), government spending (G) and net trade (X-M)

$$AD = C + I + G + X - M$$



In figure ①, real output equilibrium is y_1 and price level p_1 . A significant increase in exports and reduction in imports would be likely to ~~also~~ increase AD, by shifting it right from $AD_1 \rightarrow AD_2$, establishing a new equilibrium at $p_2 y_2$. ~~as~~ in theory ~~is~~ increasing real output and thus reducing unemployment, a particularly desirable effect given unemployment is currently high at 7.8%. Although ~~so~~ ~~R~~ consumption accounts for about $\frac{2}{3}$ of AD and the ~~as~~ a rise in consumption would perhaps be have

greater effect on real output rising than an improvement in net trade, as ~~the~~ Export F notes, there has been 'little or no growth in domestic consumption' indicating the desirable benefits of such improvements in net trade.

Furthermore, a significant increase in exports and reduction in imports may improve business confidence as firms regard the future as more profitable providing the improvements persist, thus increasing the incentive to invest. Rather shifting AD right and increasing real output whilst lowering unemployment. However, given the persistent weakness of domestic ~~demand~~ consumption and fear of a repeat of the Eurozone crisis, such channels 'are not guaranteed'. Furthermore, at present there is extensive spare capacity in the economy, limiting the need for investment amongst firms.

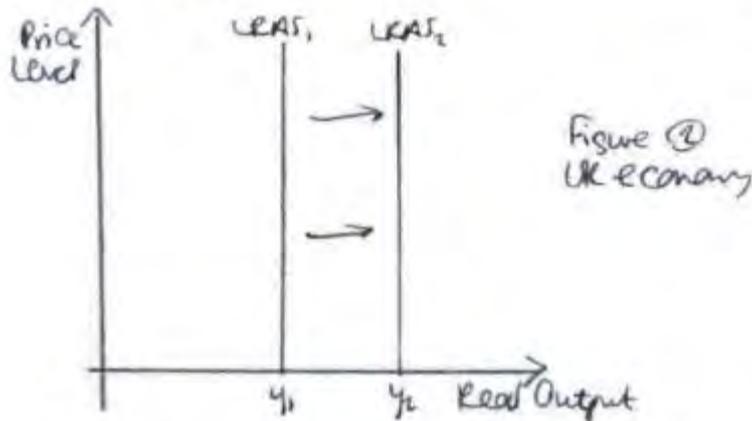
~~How~~ Regarding the demand-pull inflationary pressure caused by increased exports and reduced imports, raising AD, as illustrated in figure ① with price level rising from $p_1 \rightarrow p_2$, such inflation will ~~not~~ be likely to occur when the economy is working at full capacity or its production possibility frontier. However, since the current spare capacity in the UK economy, with the OBR estimating the ~~negative~~ output gap to be -3.6% of GDP,

It is unlikely that such increased AD will cause demand-pull inflationary pressure as spare capacity is utilised. This lack of concern for any foreseeable demand-pull inflationary pressure is demonstrated by the Bank of England's current very loose monetary policy with interest rate at 0.5%.

Evidently, a significant increase in exports and a reduction in imports of goods and services would by definition improve the UK balance of payments. This would be desirable given the UK runs persistent balance of payment deficits, as shown in Extract D, and with the balance of payments at -3.6% of GDP in 2012.

Turning to the supply side of the economy, in the short-run it is unclear what the effects of increased exports and reduction in imports will be on short-run aggregate supply, as UK firms rely heavily on imports in the as working capital in the production process, indicating that a reduction of imports may perhaps temporarily lower short-run aggregate supply. However, as shown in Figure 3, in the long-run, the increased investment stimulated by the increased exports and reduced imports increasing national income, through the accelerator theory, is likely to increase the productive potential of the economy, shifting the long-run aggregate supply curve

right from $LRAS_1 \rightarrow LRAS_2$. This addition to the capital stock of the economy is likely to increase ~~the~~ the ~~base~~ underlying trend rate of economic growth for the UK, a crucial macroeconomic aim.



08: 25

However, such increase in the productive capacity would be greatly facilitated by supply-side improvements (see Extract F) to the economy, ~~and as indicated that~~ perhaps the government ~~will~~ ~~is~~ entering the long run increase in both capital stock and productivity.

Overall it is clear that a significant increase in exports and a reduction in imports of goods and services would ~~be~~ be a balance beneficial for UK ~~macro~~ macroeconomic performance given the ~~etc~~ improvements ~~of~~ ^{to} ^{high} real output, ~~as~~ low unemployment, questionable effects on inflation given the current output gap, ~~and~~ improvements to the balance of payments and benefits to long run growth providing investment correspondingly.

Website navigation and AQA support

For general queries about additional AQA support; follow these web links:

e-aqa: <http://web.aqa.org.uk/help/eaqa.php>

[Secure Key Materials \(SKM\)](#) can be accessed through the above e-AQA link. You will find copies of some of the materials that we have used in this meeting on this site, as well as selected items that have been used at previous Teacher Support Meetings.

Online Booking Service: <https://coursesandevents.aqa.org.uk>

In-school CPD: http://web.aqa.org.uk/qual/cpd/cpd_inschool_guidelines.php

For subject coursework and controlled assessment standardisation meetings; please contact either the Internal Assessment Standardisation team or relevant subject departments.

For further guidance on standardisation please refer to:

<http://web.aqa.org.uk/support/teacher-online-standardisation>

<http://store.aqa.org.uk/support/pdf/AQA-TOLS-GUIDE.PDF>