General Certificate of Education

Economics ECON1

Unit 1   Markets and Market Failure

Report on the Examination

2010 examination - June series

Unit 1: Markets and Market Failure (ECON1)

Section A: Objective Test (ECON1/1)

General

The mean mark for the paper was 15.88 and the standard deviation 4.6. The corresponding results for the June 2009 paper were 15 and 4.7. Although not directly comparable because of the differences in entry, the corresponding results for the January 2010 paper were a mean of 14.3 and standard deviation of 4.3. These statistics indicate that candidates found the paper to be slightly less demanding than the June 2009 and January 2010 papers. However, the differences are small and well within the acceptable range of variation. The level of difficulty was consistent with examiners' expectations. The statistical analysis of the questions does not indicate any problems which would invalidate individual questions or the paper as a whole. The individual question test statistics indicate that the paper discriminated very effectively between more- and less-able candidates. All the questions performed within acceptable limits and none were rejected from the paper.

The individual question test statistics indicate that candidates found questions 1, 3, 5, 6, 8, 13, 16, 17, 18, 19, 20 and 25 fairly easy in that 65% or more of candidates answered them correctly. Question 16 proved especially easy in that it was answered correctly by 80% of candidates. None of the questions proved to be overly-demanding (with facilities of less than 40 per cent). Question 21 proved to be the most demanding question on the paper with a facility of 45.58 per cent, followed by Questions 2, 22 and 23, which all had facilities of less than 50 per cent. No questions had prominent distractors.

Question 2

The relatively low facility for Question 2, 47.56 per cent, is consistent with previous questions involving elasticity of supply. The concept, determinants and numerical values of elasticity of supply, always seem to be less well understood than the concept and measurement of elasticity of demand, despite the fact that they are equally important. Candidates should have a sound knowledge and understanding of the concept of elasticity of supply and its determinants. The correct response is C. The degree of capacity utilization by firms in an industry is one of the main determinants of the elasticity of supply by firms and hence the industry. It follows that the greater the degree of spare capacity in an industry, the greater the elasticity of its supply.

Question 21

This question involved the concept of elasticity of demand and the relationship between elasticity of demand and a firm's sales revenue (average revenue). The relationship is clearly not well understood by the majority of candidates with only 45.56 per cent correctly selecting the key, A. The numerical value of - 0.6 means that demand is inelastic and that an increase in price of X per cent will result in a decline in demand of less than X per cent. It thus follows that, when demand is inelastic, an increase in price will lead to an increase in sales revenue.

Question 22

Candidates typically do less well in questions requiring simple numerical comparisons than they do in non-numerical questions. This proved to be the case with this question, with less than 50 per cent of candidates answering it correctly. The required comparative numerical calculations in this question are simple and the relative poor performance of the majority of candidates suggests that the difficulty they experienced was due to inadequate understanding of the concepts of social costs and benefits.

To determine which of the four projects adds most to the economic welfare of the whole community, it is only necessary to add private benefits to positive externalities for each project and subtract from this figure the sum of private costs and negative externalities. The project yielding the largest net benefit is the one which maximises economic welfare. The key is C; the project has a net benefit of £70 million, but this was selected by only 47.77 per cent of candidates.

Question 23

This is a straightforward demand and supply curve application question and should have presented no difficulty to the majority of candidates. However, the majority of candidates demonstrated a surprisingly poor understanding of the implications for the market equilibrium of the introduction of a subsidy. The fact that the market in question involves a merit good is irrelevant as the required answer simply tests candidates' ability to determine the magnitude of the subsidy required to shift the supply curve to intersect the new demand curve at the initial equilibrium price. The key is B and this was selected by 46.20 per cent. Examiners recommend that more attention needs to be given to ensuring that students have a well developed knowledge and ability to apply demand and supply diagrams in contexts involving the introduction of taxes and subsidies.

Section B: Data Response (ECON1/2)

General

The June 2010 examination was similar in ease (or difficulty) to the June 2009 and the January 2010 examinations. Pleasingly, teachers have taken note of advice given in previous reports on the examination and have advised their candidates on how to avoid a number of errors that were apparent in past examinations. These errors were: writing over-long answers to the first part of the question which simply asks for a definition; unnecessarily explaining possible *causes* of the features/comparisons identified in the data when answering the second part of the question; sloppy drawing of diagrams when answering the third part of the question, particularly through failure to label axes, curves and coordinates; and lastly failing to realise that, for the last part of the question, good *evaluation* first requires some focused *analysis* of the issue or issues posed by the question.

Centres are thanked for preparing so thoroughly their candidates to work with the new numbering system and the new style answer book. The majority of candidates responded well to the changes to the June 2010 exams, but where difficulties were experienced, centres are asked to draw candidates' attention to the comprehensive range of guidance material that is available on this subject in order that they are confident about what is required of them in future examinations. Support available on this issue includes Guides for teachers and students, and specimen question papers and mark schemes showing the changes in action. All documents published in support of the changes to exams can be accessed via notices published on all qualification homepages, all subject notice boards, and on the parent and student area of the web.

More specifically, teachers and their candidates should take note of some extra advice which is relevant for all future ECON1 examinations. The sub-questions within each whole question (either Question 26 or Question 27) are labelled by numbers, rather than by letters. Candidates should write the sub-question number, eg 01, 02 etc (and **not** 26 or 27) in the spaces provided in the left-hand margin of the page on which the answer is written.

Finally, it is also important for centres to familiarise candidates with the 'instructions to candidates' on the first page of the answer book. These include the instructions to write *only* in black ink (although pencil is still permissible for drawing diagrams) and to leave a space of two lines between each question. Whenever an additional loose answer sheet is used, the relevant number for the question should be repeated in the left-hand margin of the sheet.

Question 26

Part 01

Most answers were very good, being limited to a short precise definition of an economy of scale. Nevertheless, some candidates picked up full marks by using a scatter gun approach in which a long-winded ramble just happened to include a correct definition along the way. Since positive marking is always used, full marks are possible even when an answer contains a lot of rubbish, though the candidate may be penalised by wasting valuable examination time. A few candidates omitted the *average* part of the definition and thus failed to gain all the available marks. Completely rigorous answers were not required because the AS specification makes no mention of the distinction between short-run and long-run costs.

Part 02

This question was best answered by an overview accompanied by two broad points of comparison backed up by some illustrative statistical data. Many candidates had no conception

of index numbers. Others, while showing some understanding, failed to see that the data reflected two separate price indices. Failure to understand this led to candidates asserting that used cars were more expensive than new cars in 1996. Weaker candidates saw great significance in 2005 when the indices crossed. The occasional candidate interpreted the graph in terms of demand and supply curves, in which case the point where the indices crossed was depicted as equilibrium. Teachers and candidates should always remember that the AS Unit 1 specification includes the following advice: *Candidates should be familiar with the various types of statistical and other data which are commonly used by economists. For example, they should be able to interpret data presented in the form of index numbers.*

Part 03

Many candidates scored 6 marks for the diagram, showing a shift of demand to the left. Explanations were frequently less successful, with candidates often resorting to a simple description of the diagram. Surprisingly few candidates harvested the simple marks available for providing definitions and explaining the adjustment process to a new price.

The question asked candidates to explain the reasons for the falling prices of used cars in 2008. Many candidates referred to the car scrappage scheme. Unfortunately the scheme did not start until after the 2009 Budget and therefore was not relevant to the question. However most candidates, including those who mentioned the car scrappage scheme, picked up marks by drawing on the prompts in Extract B.

Part 04

Candidates sometimes struggled to answer convincingly this part of the question. A common mistake was to answer the question in terms of *how* the government could intervene in car markets rather than evaluating the *case for and against government intervention*. The former approach was, however, able to earn some credit if done well. Other candidates limited their discussion to the market for electrically-powered cars, ignoring the fact that the question was set in the plural.

Candidates were often constrained to Level 2 for making their responses too general and not providing sufficient economic analysis. The best answers evaluated the general case for intervention in car markets against the case for leaving everything to unregulated market forces. A common approach was to assert that electrically-powered cars are merit goods and that petrol- or diesel-powered cars are demerit goods, and then to develop the answer from there. While this approach was valid, it reinforced the impression that candidates increasingly regard *all* goods as either merit goods or demerit goods.

Question 27

Part 05

As was the case with 01, most candidates have learnt how to answer this type of question. Answers were good, typically defining a positive externality as a positive third-party effect.

Part 06

This question was generally better answered than 02. Candidates found it easier to make simple cross-sectional comparisons of the data, as opposed to the times-series comparisons of index numbers required in Question 26. A rather strange mistake was to add up the numbers in each column and then to conclude that 127% of men take part in selected physical activities, but only 90% of women. Of those candidates who drifted into offering redundant explanations of the data, perhaps the most droll interpretation was that 2% of both men and women play tennis because they play solely mixed doubles!

Part 07

Many candidates scored 6 marks for the diagram, showing a shift of supply to the right, but other diagrams were also used which frequently scored full marks as they were supported by logically consistent explanations. As was the case with 03, only a minority of candidates availed themselves of the easy definition and adjustment process marks. School playing fields were deemed to be merit goods, though some candidates stated they are public goods. A school playing field is generally a private good (as well as, arguably, a merit good).

Part 08

Whereas 04 focused on the case for government intervention in car markets, this question asked candidates to evaluate different economic policies that could be used to encourage schoolchildren to undertake more exercise. While virtually all candidates were able to identify appropriate policies, relatively few were able to analyse the chosen policies. All too often, answers were devoid of any economic theory or analysis. Some relied simply upon copying out or paraphrasing the information in Extract E. It is worth repeating the advice given earlier that good *evaluation* first requires some focused *analysis* of the issue or issues posed by the question. The best answers used relevant economic analysis (often of subsidies) and the data to address the question. The least successful candidates mainly reworked the points in Extract E in a purely descriptive manner, adding little or no economic analysis of their own.

Some ways in which candidates can improve their answers:

The standard of answer can be improved by:

(i)   taking care to answer the question as it is set;

(ii)   remembering to quote the until of measurement when asked to identify features of data or when comparing data;

(iii)   obeying the key instruction word(s) for each part of the chosen question;

(iv)   defining key terms and concepts used in answers to all parts of the question (except possibly the second part);

(v)   reminding candidates that good evaluation is built upon strong analysis.

Mark Ranges and Award of Grades

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