



**General Certificate of Education (A-level)  
January 2011**

**Economics**

**ECON2**

**(Specification 2140)**

**Unit 2: The National Economy**

***Report on the Examination***

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## Unit 2: The National Economy (ECON2)

### Section A: Objective Test (ECON2/1)

#### General

The mean mark for the paper was 16.03 and the standard deviation was 4.35. This result indicated that the majority of candidates found the test to be relatively easy but less so than in January 2010. The corresponding mean mark for the January 2010 paper was 17.21, with a standard deviation of 4.58. The level of difficulty was consistent with Senior Examiners' expectations given the difference in the entry of candidates for this paper in comparison with that for ECON 1. The detailed question statistical results for this test, while generally indicating a high level of facility, did not indicate any unacceptable performance with individual questions. In particular, the statistics showed clearly that the test discriminated effectively between more- and less-able candidates. All the questions performed within acceptable limits and none were rejected from the test.

Candidates found 13 of the 25 questions in the test easy compared to 16 in the January 2010 test. The individual question test statistics indicated that candidates found Questions 1, 2, 3, 7, 8, 9, 10, 11, 13, 14, 16, 21, and 22 easy in that 65% or more of the candidates answered them correctly. Questions 2 and 13 were found to be very easy with more than 80% of candidates answering them correctly. Questions 12 and 18 were found to be very difficult in that they were answered correctly by less than 40 per cent of candidates. No question had a prominent distractor.

#### Question 12

This was the most difficult question in the test with a facility of 32.63%, key **C**. The very low facility was unexpected. Examiners assumed that the majority of candidates would have a sound understanding of the meaning and significance of an economy's production possibility frontier and its representation and interpretation in diagrammatic form, because it underlies the economy's long-run aggregate supply curve. When an economy operates on its production possibility frontier it is also on its long-run aggregate supply curve. If an economy is operating at any point within its production possibility frontier it is operating to the left of its long-run aggregate supply curve with unused capacity. In the diagram given in the question, the economy moves from a point within its production possibility frontier to a point on the frontier. The resultant increase in output is a rise in real national income, response **C**. Such a movement to the frontier does not involve an increase in the economy's underlying rate of economic growth. Economic growth is shown by an outward expansion of the production possibility frontier, not a movement from within the frontier to a point on the frontier. Consequently, response **A** was unambiguously incorrect. Somewhat surprisingly, it was selected by nearly 30% of candidates. Likewise, an improvement in technology, all other things being equal, would be represented by an outward expansion of the production possibility frontier, not a movement onto the frontier from a point within. Consequently, response **D** was also unambiguously incorrect but was nevertheless selected by more than 27% of candidates.

#### Question 13

This was the easiest question in the test with a facility of 87.97%. The question involved a test of candidates' knowledge and understanding of which government policy decisions constitute fiscal policy. The examiners, who intended the question to be easy, were encouraged that so many candidates understood that government plans to increase expenditure on public construction projects, including schools, was an example of expansionary fiscal policy and not monetary or supply-side policy.

### Question 18

This was the second most difficult question in the test with a facility of 33.75%, key **A**. Examiners were surprised that so many candidates experienced difficulty with this question. The pattern of responses to this question revealed the same inadequacies in subject knowledge and understanding of economic growth as evidenced on Question 12. A measure of the weakness in understanding and applying the different concepts of economic growth demonstrated on this question was the selection of distractor **B** by 31.56% of candidates. The data given in the question showed that Country X had a positive rate of growth in real national income each year. A positive rate of real economic growth each year in an economy necessarily implies a matching increase in aggregate demand. It was therefore worrying that 31.56% of those answering the question believed that the growth of real national income data implied a fall in aggregate demand in the economy. Likewise, a positive rate of growth in real national income also necessarily implies an increase in an economy's productive capacity. Response **C**, selected by 18.51% of candidates, was thus incorrect. The growth rate data showed that, in each of the four years given, the economy grew at less than its underlying trend rate of growth of 2.75%. An economy has a negative output gap if its rate of real growth is less than its underlying trend rate of growth. The existence of an increasing negative output gap in the first three years of the four-year period covered by the data will lead to an increase in unemployment. The low facility and choice of distractors demonstrated a clear lack of understanding of the significance of growth in an economy's level of real national income in relation to its underlying trend rate of growth. Given the equally poor performance of candidates on Question 12, examiners believe that candidates should have a sounder knowledge and understanding of this part of the subject content.

## **Section B: Data Response (ECON2/2)**

### **General**

Approximately a quarter of candidates chose Question 26 and three quarters chose Question 27. The mean mark achieved by the candidates who attempted Question 27 was slightly higher than the mean mark achieved by those who attempted Question 26. As has been the case in recent examinations, there were relatively few very poor answers; most candidates demonstrated some economic knowledge and understanding of the topics that were assessed by the questions on this paper.

Most candidates are now sensibly just writing one or two sentences for their answers to the first part of the questions. Provided a clear, accurate and succinct definition is offered, full marks are awarded.

On the whole, candidates' answers to the second parts of the questions are also improving. Very few candidates just trawled through the data and most included the units of measurement. However, some candidates did not distinguish clearly between the two points of comparison and a significant minority failed to provide supporting statistics for at least one of their comparisons. A few weak answers just identified a significant feature of one of the data series without attempting any comparison.

The mark schemes for the third part of the questions now allow 1 mark for each relevant definition, with up to a maximum of 2 marks for definitions. The majority, but not all, of the candidates included one or more relevant definitions as part of their answer. Up to 4 marks are available for relevant diagrams and it was noticeable that most candidates included a diagram as part of their response to these questions. However, marks are only awarded for diagrams that assist candidates in providing a valid response to the question. For example, in relation to part 03, an AD/AS diagram showing that an increase in aggregate demand would not affect the price level if the economy was operating on the perfectly elastic section of the AS curve, below the normal capacity level of output, was worth full marks. However, a PPC diagram showing the current level of output inside the boundary is unlikely to help to support an explanation of why spare capacity is likely to keep inflation low. In general, the quality of the diagrams presented was good but a significant minority failed to achieve all the available marks because they did not label the diagrams correctly. For example, some incorrectly put 'price' (and not 'price level') on the vertical axis, whilst others failed to show and label the equilibrium points.

As in January 2010, fewer than 30% of candidates were awarded Level 4 or above for their answers to the last parts of the questions. This compares unfavourably with a significantly higher proportion of candidates who achieved a Level 4 or above in June 2010. Most candidates were able to provide some relevant analysis in respect of both questions but too often the evaluation was non-existent, weak and/or unsupported. In most cases, where a conclusion was attempted, it often either repeated previous unsupported assertions or was barely plausible. Effective evaluation, linked to the question asked, is a skill that candidates appear to find difficult.

### **Question 26**

#### **Part 01**

Over 50% of candidates were awarded five marks for defining 'productive capacity' correctly. Fewer than 10% of the candidates failed to score any marks for their attempt at a definition.

## 02

This question was not answered as well as the equivalent part of Question 27. Only 20% of candidates scored the full 8 marks but, nevertheless, over 80% of the candidates scored 4 or more marks. The most common reason why candidates underachieved was because they confused levels of real GDP and productivity with the rate of change in these variables. A statement such as 'real GDP was negative between 1991 and 1992' is clearly nonsense but, regrettably, too many candidates made this type of error.

## 03

A majority of candidates defined 'spare capacity' and some also defined 'inflation'. However, many candidates struggled to provide a plausible link between the existence of spare capacity and the rate of inflation. Fewer than 10% of candidates were awarded full marks for their answers to this part of the question, although nearly 60% of candidates were awarded at least half the available marks. Many candidates presented a reasonable AD/AS diagram but struggled to use it effectively to support their explanations. Some of the better candidates associated spare capacity with unemployment, low wage increases and hence the absence of cost-push inflationary pressures. Amongst other plausible explanations was the recognition that, if there is spare capacity, output can be increased to meet an increase in aggregate demand without a significant rise in costs, making it less likely that firms will raise prices.

## 04

Whilst many candidates showed an appreciation of some of the factors that influence economic growth, the majority found it difficult to evaluate the role played by supply-side and demand-side policies in achieving a period of prolonged growth. Fewer than 30% of candidates achieved Level 4 or above. In general, the analysis of the role of demand-side policies in increasing growth was better understood than the role of supply-side policies. A significant number of candidates identified supply-side influences on growth but, apart from government spending on education and training, they seemed largely unaware of the range of supply-side policies available to governments.

It is likely that answers to this question would have been improved if candidates had started their answers by distinguishing between the actual rate of economic growth and the long-run trend rate of growth. Both of these concepts were mentioned in Extract B, together with a number of other clues that were intended to help the candidates.

Whilst many candidates stated that supply-side policies were vital in sustaining economic growth, relatively few were able to justify their assertion. It was very unusual to find an answer that attempted to analyse the importance of maintaining a high and stable level of demand in encouraging firms to pursue activities that sustain growth, eg investment in capital goods, research and development, and training. On the other hand, some candidates recognised that too much demand can lead to inflation and instability but many did not.

Overall, whilst many candidates were able to demonstrate reasonable knowledge, understanding and analytical ability, the quality of the evaluation was generally weak. A simple statement relating to the time it takes for supply-side policies to have an impact was all that some candidates could muster. Both extracts included a number of ideas that candidates might have used to develop their assessment of the role of demand-side and supply-side policies in influencing economic growth.

## Question 27

### 05

Approximately 75% of candidates were awarded five marks for providing an accurate definition of the term 'budget deficit'. However, almost 10% of the candidates failed to score any marks for their attempt at a definition of the term.

### 06

Over 30% of candidates achieved full marks for their answers to this question. Some limited their mark because they did not quote the units of measurement correctly, for example they did not make it clear that the data in Extract D are public expenditure and taxation as a percentage of GDP. Some other candidates failed to compare the two data series. Instead, they just described the trends in taxation and public expenditure as a percentage of GDP without attempting a comparison.

### 07

Very few candidates understood what is meant by the term 'pattern of economic activity' even though it is stated in the specification that candidates should understand that fiscal policy can have microeconomic functions. In the event, the mark scheme was amended so that candidates were able to earn up to 8 marks for an answer that only explained the impact of fiscal measures on the level of economic activity. Fewer than 4% of candidates achieved more than 8 marks for their response to this part of the question. Those candidates that provided a correct response to this question focused on the way in which increasing the tax on a particular product will increase the price, reducing demand and output. Subsidies and government expenditure designed to allocate more resource to particular activities were also discussed by a small number of candidates.

### 08

The mean mark achieved by candidates attempting this part of Question 27 was slightly lower than the mean mark achieved by the candidates who attempted **04** of Question 26. Fewer than 20% of candidates achieved a level 4 or above for their answers to this part of the question. It was, however, pleasing that many candidates began their answers by defining monetary and fiscal policy, and explaining what is meant by a 'stable economy'. However, despite this encouraging start, too many candidates focused almost entirely on the role of monetary and fiscal policies in generating recovery from recession rather than their role in achieving a stable economy. Many candidates quoted from the data and used their knowledge of recent events to inform their answers but too often they failed to get to the heart of the question. As with the equivalent part of Question 26, attempts at evaluation were often superficial and unsupported. Too many candidates did not present a conclusion and, when a conclusion was attempted, it was often brief and repetitive, adding little to the overall quality of the answer.

Some candidates mentioned supply-side policies but, despite the clues in the data, relatively few recognised that there are aspects of fiscal policy that can influence the supply-side performance of the economy. Too often, candidates asserted that supply-side policies are a panacea or, to quote, "the holy grail of economic policy" without showing any appreciation of the range of supply-side policies, their limitations and the problems associated with their use.

### **Minor changes to rubric instructions from June 2011 onwards**

Finally, we would like to draw your attention to cosmetic changes to the rubric that have been made to the ECON1 and ECON2 papers from this June 2011 onwards. Instead of being labelled Question 26 and Question 27, the two optional questions will now be labelled as **Context 1** (parts 01 to 04) and **Context 2** (parts 05 to 08). Slight modifications have also been made to the front cover of the question paper to help candidates meet the rubric instructions more effectively. **Please be assured that these changes will not affect, in anyway, what candidates are being asked to do.**

### **Mark Ranges and Award of Grades**

Grade boundaries and cumulative percentage grades are available on the [Results statistics](#) page of the AQA Website.