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

Economics **ECON2**

(Specification 2140)

Unit 2: The National Economy

Report on the Examination

Unit 2: The National Economy (ECON2)

Section A: Objective Test (ECON2/1)

General

The mean mark for the paper was 16.21 and the standard deviation was 4.73. The corresponding values for the June 2010 paper were 16.71 and 4.92. Although not directly comparable because of significant differences in the entry, the corresponding results for the January 2011 paper were a mean of 16.00 and the standard deviation 4.40. These statistics indicate that students found the paper to be very slightly more demanding than the June 2010 paper but slightly less demanding than in January 2011. The differences in mean mark are slight and well within the range of acceptable variations for the paper. The lower value of the standard deviation compared with June 2010 indicates a slight reduction in the overall discriminatory power of the paper, but this variation is also within acceptable limits. The detailed statistical results do not indicate any unacceptable performance with individual questions. The individual question test statistics show clearly that the paper discriminated effectively between more-able and less-able students. All questions performed within acceptable limits and none were rejected from the paper.

The individual question test statistics indicate that students found Questions 1, 2, 3, 4, 5, 7, 9, 13, 14, 17, 20, 23 and 25 easy in that 65% or more of the students answered them correctly. Three of these questions, 1, 3, and 9, were found to be very easy with more than 80% of students answering them correctly. Question 1 was the easiest question on the paper. Only one question, 21, was found to be very difficult in that it was answered correctly by less than 40 per cent of students. Question 8 was the second most difficult question on the paper with a facility of 42.30 per cent. No questions had a prominent distractor, although Questions 11 and 21 came close to doing so.

Question 1

This was the easiest question on the paper. Key A was selected by 84.01 per cent of students. Examiners were not surprised by this result as it was expected that the overwhelming majority of students would have a very sound knowledge of what constituted fiscal policy and the difference between fiscal and monetary policy measures.

Question 8

This was the second most demanding question on the paper. The correct answer, C, was selected by 42.30 per cent of students. The pattern of response to the three distractors was fairly evenly distributed but the measure of discrimination showed a high level of fit between students' overall performance on the paper and the choice of the Key. A rise in a country's exchange rate, all other things being equal, results in a fall in the cost of imports and a rise in the overseas price of its exports. The resultant decline in the country's export competitiveness will cause its AD curve to shift inwards. The fall in the cost of imports will reduce production costs and shift the short-run aggregate supply curve downwards and to the right. This pattern of shifts in the AD and AS curves is shown accurately in diagram C.

Question 11

Although not a difficult question with 53.98 per cent of students selecting Key C. It was the third most demanding question on the paper and a surprisingly high proportion of students, nearly 41 per cent, went for distractor D. One of the fundamental roles of banks in the

financial system is to provide the mechanism linking the supply of savings to the demand for investment funds. The choice of distractor D by 41 per cent of students is surprising. The economy, not the banking system, has to meet the inflation target set by the Bank of England. Some students' difficulty with this question is possibly due to gaps in knowledge surrounding the importance of the institutional structure of the economy as a determinant of long-run aggregate supply, including the role of the banking system in providing business investment funds. Examiners recommend that more attention should be given to ensuring that students have a sound knowledge and understanding of the determinants of an economy's long-run aggregate supply.

Question 21

This question was the most demanding question on the paper with only 35.94 per cent selecting Key C and nearly 30 per cent selecting distractor D. This question shares with Question 8 the fact that it tests students ability to relate changes in an economy's exchange rate to its levels of aggregate demand and supply. The topic area of exchange rates and the balance of payments is usually less well understood by students than other topic areas in this subject. However, this question does not involve any complexity and the poor performance of the majority of students on the question is disappointing. The exchange rate data given in the question shows that the UK £ has depreciated in value against the US $. The depreciation in the value of the currency on the foreign exchange market, all other things being equal, increases the domestic currency cost of imports and is thus a source of inflationary pressure. Conversely, a currency depreciation, all other things being equal, reduces the foreign currency price of exports which increases export competitiveness, and an increase in exports adds to aggregate demand.

Section B: Data Response (ECON2/2)

General

Approximately two thirds of students chose Context 1 and one third chose Context 2. The mean mark achieved by the students who attempted Context 1 was virtually identical to the mean mark achieved by those who attempted Context 2. Overall, the mean mark on the paper was almost 31 marks. Around 10% of students scored fewer than 20 marks and nearly 13% of students scored more than 40 marks.

Many answers to Parts 01 and 05 were brief, concise and accurate. One, or possibly two, sentences are usually all that is required to achieve full marks for the definitions. The responses to 01 were marginally better than the responses to 05.

Whilst some students scored full marks for their answers to the second parts of the contexts, many did not. Too many students fail to use a separate paragraph for each of the features identified and consequently the answers were often muddled. It is important that the significant feature of the data is clearly stated and supported by quoting relevant figures. Most, but not all, students do quote figures but a disappointing number of students fail to state the units of measurement correctly. Despite regular comments in previous reports, some students still try to explain the statistics. This wastes time and usually results in an answer which lacks clarity.

Where questions ask for 'significant' features, some students ignore this instruction. Identifying what has happened in one random quarter is unlikely to be significant unless it is related to what is happening over the whole time period. For example, in Part 02, it was significant to state that, in 2008 Q4, the deficit in the balance of trade in goods and services was at its lowest value. To draw this conclusion, it is necessary to inspect the data for each of the other quarters. However, it is not significant to state that between 2008 Q4 and 2009 Q1, the deficit increased. Whilst explanation is not necessary, if in doubt the student should state clearly why the point they have made is significant.

The mark schemes for the third part of the Contexts allow 1 mark for each relevant definition, with 'up to a maximum of 2 marks' for definitions. Many, but not all, students included one, and occasionally two, definitions as part of their answer. However, marks are not awarded for repeating the definition that was required in response to the first part of the context. Equally, including a definition that is not relevant to the question asked will not gain any marks.

Up to 4 marks are available for relevant diagrams and most students included a diagram as part of their response to these questions. However, as stated in previous reports, marks are only awarded for diagrams that help students to provide a valid response to the question. For example, in relation to Part 03, an AD/AS diagram showing that an increase in exports would increase aggregate demand and is likely to increase national income and possibly inflation was not a suitable diagram. A diagram of this type illustrates the likely impact on the economy of a rise in exports and hence was relevant to Part 04, **not** Part 03. Students should be aware that, unless the question states that a diagram is required, full marks can be achieved without a diagram.

On the whole, the quality of diagrams is improving but, as in previous exams, a large minority failed to achieve all the available marks for diagrams because they did not label the diagrams correctly. For example, when answering Part 07 some students labelled the curves S and D, rather than AS and AD.

The proportion of students who were awarded Level 4 or above for their answers to the last parts of the questions was fewer than in Summer 2010. Just over 20% were awarded Level 4 or above for their responses to 04 whereas nearly 30% were awarded at least Level 4 for their answers to Part 08. Some students failed to read the questions carefully and produced answers that were poorly focused either throughout or in significant sections. For example, in Parts 04 and 08, too many students discussed the pros and cons of supply-side policies without sufficient linkages to the question set. A significant minority used diagrams well to support their analysis but, in lots of cases, relevant diagrams were drawn but barely referred to in the text. Most answers included an attempt to evaluate but, in many cases, the evaluation was very low level and weakly supported. Although effective evaluation is not an easy skill to master, many students would undoubtedly benefit from more practice.

Pleasingly, it was noticeable that, this year, more students were making use of the data and their knowledge of recent developments in the UK economy to inform their answers. The best students provided answers that were focused throughout, used relevant theory to analyse the problem, evaluated issues as they were working their way through the question and finished off with a conclusion that included a final judgement that was related to the question posed.

Two technical errors that appeared on many scripts were:

1. Students confused the budget deficit with the balance of payments deficit. Occasionally this resulted in an answer that was very muddled.

2. Students did not understand the difference between the factors that shift the SRAS curve and the LRAS curve. In particular, they didn't fully appreciate that the position of the vertical LRAS curve represents the normal capacity level of output of the economy and that, for example, rising factor prices shift the SRAS curve to the left rather than the LRAS curve.

Context 1

Part 01

Over 50% of students were awarded five marks for defining 'aggregate demand' correctly. Fewer than 4% of the students failed to score any marks for their attempt at a definition. A few students just quoted the formula without attempting a formal definition. Some students said that 'aggregate demand' is 'total demand' without trying to define the word 'demand'. A small minority of students confused aggregate demand with consumption.

A single, well-focused, precise sentence would have been sufficient to gain 5 marks but some students wasted time by writing far too much.

Part 02

This question was not answered as well as the equivalent part of Context 2. Just fewer than 40% of students scored the full 8 marks but, even so, almost 80% of the students scored 4 or more marks. The most common reason why students lost marks was because they failed to quote the units of measurement. For example, when quoting the figures, if they omitted the '£' sign and/or 'billion' they would not achieve full marks for identifying a significant feature of the data. Some of the weaker students attempted to identify a feature of the data but the feature identified was of little, if any, significance.

Part 03

This question was answered well by the majority of students, with over one third achieving full marks. Students who analysed the relationship between a fall in the exchange rate and the demand for exports were usually able to present a clear, logical chain of reasoning. However, some students failed to answer the question and wasted time explaining why a rise in the exchange rate will reduce the demand for UK exports. The most common second factor identified was technological change but, sometimes, explanations of this were weak. The better responses discussed the impact of technological change on the quality of the product and upon efficiency, productivity and costs.

As indicated earlier, many students wasted time by including an AD/AS diagram that illustrated the consequences of a fall in the exchange rate and rise in exports on the macro-economy, rather than a diagram that helped to explain the cause of a rise in exports. Students who included a diagram illustrating how supply-side improvements that reduce costs, shifting the AS curve to the right, increase aggregate demand, including the demand for exports, were rewarded.

Only a minority of students included definitions of relevant technical terms such as exports and the exchange rate.

Part 04

The best answers to this question discussed the impact of a rise in exports on each of the main macroeconomic policy objectives. This approach resulted in a structured response to the question and provided opportunities for the student to analyse and to evaluate the impact of rising exports as they worked their way through the answer. Such students made good use of diagrams as part of the analysis, made effective use of the information in Extract C and were able to support their arguments by referring to developments in the UK economy. Some of these answers recognised that exports are only one component of aggregate demand and hence the impact of an increase in exports could be negated, for example, by a fall in consumer spending. However, it was very rare to find a response which recognised that, when the government is attempting to reduce the budget deficit and consumer spending is likely to be constrained, exports are particularly important as a means of generating a recovery in the economy. Despite the clues in the data and the prompt in the question, very few students recognised that a weak pound, leading to an increase in exports, is a vital part of the strategy designed to rebalance the UK economy.

Weaker answers often recognised that exports affected aggregate demand but failed to adopt a clear, logical structure. The impact of a rise in exports upon one or more objectives of policy might have been considered but the approach was haphazard and there was often unnecessary repetition.

Some students spent too much time explaining possible causes of a rise in exports and failed to address the question. This often led to a discussion of the role of supply-side polices, also with little relevance to the question. There was a fairly widespread view that a rise in exports would necessarily mean that there would be a fall in imports.

Another common confusion was the assertion that 'rising exports would reduce the balance of payments deficit and provide the government with more money to spend on public services'. However, some of the good students analysed the impact of an increase in exports on output, employment, incomes and company profits and hence tax revenues, concluding that a benefit of a rise in exports, in current circumstances, is that the large budget deficit will be reduced.

Context 2

Part 05

Just over 50% of students were awarded five marks for providing an accurate definition of the term 'supply-side policies'. Fewer than 6% of the students failed to score any marks for their attempt to define the term. The weak students included a vague statement such as 'policies that increase supply'. Such answers were often able get two marks by providing examples of supply-side policies. Incredibly, a few students defined supply-side policies as 'policies that increase demand'. Whilst it might be true that successful supply-side measures result an increase in total spending, such a definition shows no understanding of the nature of supply-side policies.

Part 06

Almost 50% of the students achieved full marks for their answers to this question and nearly 85% scored at least 4 marks. Most students included the '%' sign when quoting the figures to support the comparison identified. Many more students were able to identify significant comparisons when responding to this Part of Context 2 than were able to identify significant features of the data when answering Part 02 of Context 1. However, many still did not make sensible use of paragraphs to distinguish between the two comparisons. A small minority wasted a lot of time describing the difference between RPI and CPI and then tried to explain why the figures differed. A few students just described one or other data series without attempting a comparison. Students who do not follow instructions are unlikely to gain many marks.

Part 07

Students found this part of Context 2 more challenging than the equivalent part of Context 1. Fewer than 25% of the students achieved full marks but, nonetheless, almost 80% managed to achieve more than half marks. The best answers recognised that rising import prices increase firms' costs, resulting in cost-push inflationary pressures. They supported the written analysis by a diagram showing a leftward shift in the SRAS curve.

Surprisingly, the approach taken by the majority of students was to argue that a rise in the price of imports would divert spending towards domestically produced goods, thereby boosting aggregate demand and hence inflation. This approach could also gain full marks. However, some students argued incorrectly that the rise in the price of imports and consequently the fall in demand for imports would reduce aggregate demand and thus reduce inflation.

Some students failed to include relevant definitions as part of their introduction to this part of the question. An introduction that included definition of 'imports' and 'inflation' would have gained marks directly and assisted some students in producing a structured response to the question.

Part 08

Some answers demonstrated a detailed knowledge of supply-side policies but failed to provide a convincing analysis of the ways in which such policies might contribute to controlling inflation. Other responses attempted to explain, in general terms, how supply-side policies might affect inflation but failed to mention any examples of such policies. A minority of students correctly identified factors that influence the supply-side of the economy, such as investment and technological change, but did not show any knowledge of the policies that might be used to influence these factors. It was apparent that many

students did not appreciate the distinction between supply-side policies and supply-side
factors that influence an economy.

The best answers to this question explained why supply-side policies might help to moderate
inflationary pressures, generated by both increases in aggregate demand and rising costs,
and assessed their importance by comparing them with other policies that can be used to
control inflation. Good answers usually included relevant diagrams, for example an AD/AS
diagram illustrating that the impact of a rise in AD on the price level will be moderated if the
productive capacity of the economy is also growing (shown by a rightward shift in the LRAS
curve). Whilst many students included a concluding paragraph, only a very small minority
was able to provide a convincing assessment of the significance of supply-side policies in
controlling inflation. Many did not appreciate that too rapid increases in aggregate demand
are the prime cause of inflationary pressure and that monetary policy is generally regarded
as the main weapon in the fight against inflation.

Mark Ranges and Award of Grades

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

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