



**General Certificate of Education (A-level)
June 2012**

Economics

ECON1

(Specification 2140)

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 15.30 and the standard deviation 5.13. The corresponding marks for the June 2011 paper were 13.86 and 4.9, and for the June 2010 paper were 15.88 and 4.6. These statistics indicate that students found the paper to be slightly less demanding overall than the June 2011 paper but very similar overall to the demands of the June 2010 paper. The paper contained nine easy questions compared with seven in June 2011 and twelve in the June 2010 paper, and one very easy question, the same as in June 2010. There were fewer difficult questions than in the June 2011 and 2010 papers and no question had a prominent distractor. The level of difficulty was consistent with examiners' expectations. The statistical analysis of the questions did not indicate any problems which would invalidate individual questions or the paper as a whole. The individual question test statistics indicated that all the questions discriminated very effectively between more and less able students. Indeed, the discriminatory power of the paper was the highest achieved to date. All the questions performed within acceptable limits and none were rejected from the paper.

The individual question test statistics indicated that students found questions 1, 8, 10, 13, 14, 15, 16, 24, and 25 fairly easy in that 65% or more of the students answered them correctly. Question 3 was very easy in that it was answered correctly by more than 85 per cent of students. It was followed by Questions 1, 8, 14, 15 and 16 all with facilities of over 75 per cent. There were no exceptionally difficult questions with facilities less than 40 per cent. Three questions proved to be difficult with facilities of less than 50 per cent. Question 20 was the most difficult question with a facility of 41.36 per cent followed by Question 4 with a facility of 44.67 per cent and Question 23 with a facility of 44.87 per cent. No question had a prominent distractor although Question 4 came close to having such a distractor. The lack of any questions with a prominent distractor accounts for there being no exceptionally difficult questions on the paper and for Question 4 being the most demanding.

Question 4

This was the most difficult question in the paper with a facility of 44.6 per cent, Key C, followed by distractor A, selected by 40.43 per cent of students. The question tested application of knowledge and understanding of the formula for elasticity of supply. The Examiners have noted in several previous reports that students appear to have an inadequate understanding of elasticity of supply compared with their understanding of price elasticity of demand. The weakness persists as evidenced by the fact that the majority of students failed to select the key as well as the disproportionate high percentage selecting distractor D. The difficulty faced by the majority of students with the question may also be a reflection of the fact that it involves simple algebraic manipulation of the formula for elasticity of supply as well as knowledge of the formula. Elasticity of supply is calculated as the percentage change in quantity supplied divided by the percentage change in price responsible for the change in quantity supplied. The result of multiplying the known value for elasticity of supply by the percentage change in price will be the resultant percentage change in quantity supplied.

Question 11

This question worked in a satisfactory way and was answered correctly by 52 per cent of students, Key A. However, as a straightforward test of students' knowledge and understanding of the concept of government failure, Examiners expected the facility to be much higher. Just over 31 per cent of students selected distractor B which implies that they confused market failure, in the form of under-consumption of merit goods, for government failure, which is quite different. Government failure occurs when government intervention in the economy leads to a misallocation of resources. Responses B, C and D are incorrect by definition because they do not involve any form of direct government intervention.

Question 20

This question tested students' knowledge and understanding of the meaning and nature of merit goods. The only possible explanation for the low facility of 41.36 per cent, Key A, and the even distribution of responses between the three distractors, is that far too many students lacked sufficient understanding of the nature of a merit good. A merit good, such as education, is underprovided in a free market because the private benefit from education is less than the social benefit.

Question 23

This was the third most demanding question in the test. Unlike Questions 11 and 20, it tested analysis and as such was expected to be more demanding than questions testing knowledge and understanding alone. Even so the facility of only 44.87 per cent, Key C, was lower than expected given the nature of the distractors. The low facility indicates the need for students to have greater understanding of the role and operation of the market mechanism. Choice of distractor B involved students confusing cross elasticity of demand for price elasticity and also failing to recognise that a positive cross elasticity applies to substitutes not to composite demand. Even more surprising was that some students selected distractor D which implies either that they failed to understand that price elasticity of demand is negative for all normal goods or that they thought petrol was not a normal good. Either way such an inadequate level of understanding of goods, demand and elasticity concepts and relationships is a cause for concern. Examiners expect the majority of students to have a sound knowledge and understanding of the key demand concepts at AS level.

Section B: Data Response (ECON1/2)

General

Most, but not all, students are now well prepared for the first part of a data-response question and provide a concise definition. Although the definitions given are not always correct many students are able to accumulate up to 4 marks by providing partial definitions and/or a diagram and/or an example. They should be reminded that if two key words are used, they should define each of them.

Likewise with the second part of questions, students have become better prepared at identifying two *significant* features of the data or two *significant* points of comparison. Significant points of comparison 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 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 overview, backed up by 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. 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. Marks are not rewarded for simply *describing* what the diagram shows, although marks are available for explaining the adjustment to the initial equilibrium. Students can also earn up to two marks for including relevant definitions.

Finally for the last question, students should remember that before they *evaluate*, they must first *analyse*, ie provide some relevant economic theory on which to build their evaluation. The 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.

CONTEXT 1

Part 01

Whilst most students were able to identify the four factors of production, and earn at least 3 marks, a surprising number of students were unable to take the definition further to demonstrate their understanding of the term. However, very few students scored zero marks.

Part 02

Generally this question was well answered and many students were able to achieve full marks by identifying two significant points of comparison between the global demand and supply of rare-earth metals fully supported by accurate statistics. One common mistake here, however, was to only refer to the changes that occurred in part of the data, for example during the actual period, while ignoring the forecast data.

Part 03

This question appeared to be accessible to most students with the majority achieving full marks. The data contained relevant prompts to help students explain how China could increase prices by using monopoly power, but some did struggle to develop these. A good number of students remembered to include one or more relevant definitions to accumulate up to two further marks, and many chose to define 'monopoly'. Most students earned the full four marks for the diagram, with most preferring to use a demand and supply diagram with a leftwards shift in the supply curve. The diagrams were generally well-labelled and it is pleasing to note a great improvement in the standard of the diagrams drawn.

Part 04

There were some very good answers to this question which included a genuine discussion of whether or not mining activities should be left to market forces, although only a minority of students picked up on the word 'with *minimum* intervention by governments'. These often proved to be the best answers and achieved level 5: the students demonstrated a strong awareness of the context of the question, drawing from the data, and considered the drawbacks and *benefits* of mining activities and came to a valid conclusion. Too many appeared to be influenced by the question and concentrated solely on the negative aspects of mining. Similarly, very few picked up on the reference to 'mining activities', so did not consider any other mining-related activity apart from the extraction of rare-earth metals. Some students still struggle with the concept of market forces, and perhaps to avoid this, some wrote about different types of policies which might be appropriate in the mining industry! Students should be reminded to read the questions carefully. Many students included diagrams but often these were not used - it is important that the diagrams are *used* in order to effectively develop theoretical analysis.

CONTEXT 2

Part 05

This was not as well answered as **01** as many students did not deal with both of the key words. Most students were able to define 'scarce' and often provided an example. However, they neglected or struggled to define 'resources', or as was often the case used the word 'resources' again. Consequently, many students earned either two or three marks.

Part 06

Students clearly found this data much more difficult to deal with than the data in **02**. Only a small minority of students appeared to understand the implications of the key words in the heading of Extract D, namely 'annual percentage change' and 'as a percentage of national output', so few earned full marks. For those who consequently referred to *levels* of spending, no marks were awarded. Students should be encouraged to use the data heading as it appears to avoid this confusion. As with **02**, students did not consider the whole period shown and a common error was to identify the lowest percentage change as being in 1997.

Part 07

This question represented a change from the norm and clearly some students were not prepared for this. Very few earned full marks for the diagram in which students were expected to illustrate an increase in excess demand. Most simply drew a typical demand and supply diagram with a rightwards shift in demand and made no reference whatsoever to excess demand. Others did illustrate excess demand at this point, though not necessarily at zero price, and only a minority actually illustrated an increase in excess demand. Having said this, many students earned the maximum 10 marks for the explanation by making good use of the prompts in the data. Only two marks were available to students who merely listed the relevant factors – students are expected to develop the links in the chain of reasoning to accumulate marks.

Part 08

The best answers to this question often started from the proposition that health care is a merit good, with the application of relevant economic analysis such as MSB/C to show market failure when positive externalities are generated. This provided a strong argument against charging, and many were able to provide equally strong arguments for using the rationing function of price and opportunity cost, for example. Coupled with sensible evaluation, and possibly consideration of distributional / equity issues these answers often achieved high level 4/5. A number of students seemed uncomfortable with the concept of 'charging' and were unable to illustrate the rise in price accurately on a diagram, probably because they had struggled with the diagram in the earlier question, and on occasions the answer turned into a state versus private sector debate. Given the context of the question, it is perhaps not surprising that there were a number of superficial answers which contained limited economic content, lacked analytical rigour and were consequently best suited to a level 2 mark. Students should be reminded that in particular, questions **08** and **04** provide them with the opportunity to demonstrate their understanding of economics, and their ability to think like economists and they should make the most of it.

Mark Ranges and Award of Grades

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

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