AS Economics Managing the Economy   03 June Examiners report Unit 3

Question 1

1 (a) This was a relatively easy warm up question. Some candidates found it difficult to express the principle of weighting, resorting to "weights reflect the importance of the goods to the household" rather than referring to the percentage of income spent. A few forgot to say that the RPI measures inflation or the cost of living.

1 (b) Most candidates identified the need to keep up with changes in tastes or changes in technology. Fewer were able to relate this to the accuracy of the index. Too many answers merely reproduced (often extensive) parts of the text.

1 (c)(i) This proved to be a surprisingly difficult question, especially since it has appeared in various guises on previous papers. About half the candidates incorrectly inferred that the price level of goods had fallen throughout the period. The ability to differentiate between levels and rates of change remains a key skill for success on this Unit.

1 (c)(ii) This proved to be a more difficult question than anticipated, mainly because many candidates tried to make microeconomic explanations of a macroeconomic fact. Credit was given to references to differing patterns of demand for goods and services, or for recognition that cost increases might have been different in the two sectors. Many were preoccupied with the fall in petrol prices, declaring that this affected the price of goods but not that of services.

(d) This was a relatively easy question, for which candidates seemed well prepared. Many answers focused on the consequences for international competitiveness or the likelihood of cuts in interest rates by the MPC. However, a few misread the question and wrote about the consequences of inflation being higher than expected.

(e) This question had two marks available for evaluation, indicated by the "assess" command word. Most candidates understood that a high exchange rate can contribute to low inflation (and by a variety of transmission mechanisms). However, few went on to consider the relative importance of the exchange rate e.g. that the UK is a very open economy or that other factors such as the independence of the MPC may have made more contribution.

1 (f) Most candidates gave this question sufficient time. However, despite having had very similar questions in the past it differentiated very well between candidates. Weaker answers focused exclusively on aggregate supply (often on the "aggregate supply of health services"). A number of candidates continue to use standard microeconomic demand and supply diagrams, with disastrous results. In the middle range of answers there was a discussion of the impact on both AD and AS and some consideration of multiplier and other knock-on effects. Too many answers failed to indicate the changing levels of GDP on their diagrams. Only the strongest candidates went on to consider the "financed through a rise in public sector borrowing" part of the question and so lost a number of evaluation marks.

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Question 2

2 (a) This was an easy warm-up question, but a number of answers simply stated that GDP stands for gross domestic product rather than defining it.

2 (b) This was a relatively easy question with many strong answers focusing on both AD and AS effects and considering the likely multiplied consequences of the fall in investment. However, the weakest answers confined themselves to shifts in aggregate supply.

2 (c)(i) This section was well answered. Candidates seem to be much better informed about the basic macroeconomic indicators than in previous years.

2 (c)(ii) The quality of answers to this question varied very widely. Surprisingly few made any reference to the graph, despite the question beginning "with reference to Figure 3". Most candidates could identify a difference between the two measures, but few went on to explain why that difference might have caused the growing gap between them.

2 (d) This proved to be an unexpectedly difficult question, although the topic is clearly described in the specification. Few candidates could produce an accurate definition of injections and withdrawals and much confusion was evident from the examples chosen to illustrate the concepts. Only the best candidates were able to use the data in Figure 1 to illustrate their answers. A large number of candidates

believed that at fiscal surplus represents a net injection.

2 (e) This question was relatively straightforward. Most candidates gave at least an implicit definition of the current account and could come up with factors causing a deficit. However, many answers were let down by insufficient evaluation: an obvious strategy on questions of this kind is to assess the relative importance of the two factors discussed.

2 (f) This proved to be a relatively easy question for those with a secure grasp of the concept of fiscal policy. A surprisingly large number of answers wrote about supply side policies rather than fiscal policies. Quite a few candidates wrote about changes in interest rates and failed to consider changes in the fiscal side at all. However, the majority of candidates used the AD/AS model correctly to explain how the government could shift the AD curve via changes in government spending and taxation to minimise fluctuations in GDP. There was then some excellent evaluation on offer, including some sophisticated analysis of the problems of using fiscal policy well in excess of the demands of the mark scheme.