

**Economics**

Advanced GCE A2 7812

Advanced Subsidiary GCE AS 3812

**Report on the Units**

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**January 2008**

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Any enquiries about publications should be addressed to:

OCR Publications  
PO Box 5050  
Annesley  
NOTTINGHAM  
NG15 0DL

Telephone: 0870 770 6622  
Facsimile: 01223 552610  
E-mail: [publications@ocr.org.uk](mailto:publications@ocr.org.uk)

## CONTENTS

### Advanced GCE Economics (7812)

### Advanced Subsidiary GCE Economics (3812)

#### REPORTS ON THE UNITS

<b>Unit/Content</b>	<b>Page</b>
Chief Examiner's Report	2
2881 The Market System	3
2882 Market Failure & Government Intervention	7
2883 The National & International Economy	10
2884 Economics of Work and Leisure	12
2885 Transport Economics	15
2886 Economics of Development	18
2887 The UK Economy	21
2888 Economics in a European Context	24
Grade Thresholds	27

# Chief Examiner's Report

## General Comments

This session, the candidate entry increased from that of January 2007, particularly at AS. Whilst some of this increase is due to more candidates re-sitting, it seems to be that Economics as an AS subject continues to grow in popularity in schools and colleges. More centres also now recognise the benefit of a January sitting of 2881 for year 12 candidates.

Principal Examiners have reported the following general matters for the attention of Centres:

- (i) for essay questions (A2), and where extended writing is required (AS), candidates should be encouraged to write out a brief plan or mind map for their answer. Quality not volume tends to be rewarded with a Level 4 mark.
- (ii) in the above types of questions, to reach Level 4, it is usually necessary to pose the question 'why'? This should provide the underpinning that is required to differentiate a Level 4 answer from one that is only Level 2.
- (iii) A2 optional Unit examiners have reported an improvement in responses to part (b) in Section B questions. This is pleasing, although there was some evidence this session that a greater number of answers to part (a) were of a lower standard. Also, please remind candidates that when questions contain a stem or preamble, this is there for a purpose- namely to provide a steer with respect to the context of the question.

Three administrative points are:

- please remind candidates to make sure that for A2 optional Units, the questions they have answered are shown on the front of the answer booklet;
- examiners continue to report on the growing problem of illegible writing, often towards the end of a script when time is running out.

## 2881 The Market System

### General Comments

The examination for this unit was taken by 8000 candidates, an increase of around 1000 on January 2007. Although it is not possible to ascertain how many of these were A2 re-sit candidates, there is evidence from our Centres that overall, numbers at AS level are increasing and that more year 12 candidates are being entered for the January examination in this unit.

The view of assistant examiners was that this was a fair question paper at this level. It was clearly accessible in terms of context, with some candidates displaying what appeared to be extensive first hand knowledge of the pizza business. Marks, though, were only awarded where answers contained appropriate Economics content.

Overall, the paper produced a wide range of responses. At the top end, there was effective, widespread use and application of the concepts that were covered by the questions. Although there were also weak performances, as one would expect, very few candidates appeared to have absolutely no idea of what was being examined.

The paper differed from previous ones in its assessment of the description of market structure. Part (e) was worth six marks, three of which were for evaluation. A shorter answer, therefore, was required, compared with the usual 12 marks for this type of question. This change probably threw some candidates who spent far too much time in writing an over-long answer to this question. As a consequence, some answers to (fii) seemed to suffer in terms of length and were either rushed or unfinished.

There were two aspects of the paper where some candidates seemed confused. These were

- understanding what was meant by 'the release of US stockpiles' in (cii). Although no line reference was provided in the question, lines 12-14 of the case material ought to have confirmed that this was referring to a particular increase in supply. Not all candidates saw it this way. Some answers were very short, whilst some candidates did not even attempt to answer the question.
- the difference between mozzarella cheese production and the production of pizzas. This was particularly so in part (f) where some candidates assumed that the price elasticity of demand for quality pizzas was inelastic. This seems unlikely even for high quality pizzas, given the number and type of firms in this market.

### Comments on Individual Questions

#### Q No)

(a) This was a gentle opening question which has been asked in various earlier examinations. For most candidates, it was well answered. Four marks tended to be the norm for answers that stated two of the four factors of production, followed by an example. Capital or labour tended to be the most common responses. A small number of candidates gave land as an example of a factor of production but then gave a wrong example that did not refer to the site or raw materials characteristics. A minority of candidates gave entrepreneurship, usually followed by a correct example.

(b) The idea behind this question, as flagged up by the wording, was for candidates to choose two of the recognised *determinants* of demand and to explain how these might explain the increase in demand for high quality pizzas.

A wide range of answers were produced. The best answers usually referred to a change in income/disposable income as a possible determinant. A lot of candidates drew extensively on the first five lines of the case study. The majority of these answers, however, did not recognise the reasons given as being the taste / fashion determinant of demand. Another weakness was that this same so-called determinant was used for a second time.

As in June 2007, the final mark was awarded for a clear explicit statement that as a consequence, the demand for pizzas increased. Some candidates failed to go as far as this in their answers.

(c) (i) This was well answered, with four marks being regularly awarded. The original intention of this question was to award a mark for answers that explicitly recorded \$1940 and \$3000 on the vertical axis, hence the line reference. Very few candidates did this, so it was agreed at the standardisation meeting to also accept  $P_1$  or  $P_2$  or similar as evidence of the prices being charged for the two equilibria.

A surprising error was that a good number of candidates shifted S to the left. Such answers normally received two marks. Where the diagram contained a shift of S to the right, as well as a shift to the right of D, full marks could be gained if the new equilibrium price was above that of the old equilibrium price.

(ii) This question caused problems for many candidates for the reason stated above. Given the context, it is difficult to see candidates confusing 'stockpile' with 'stocks', as used to describe a synonym for shares. So not as many candidates as might have been expected gained four marks for some simple market analysis of the sudden release of the additional supply of US cheese onto the market. Although not required, a diagram could achieve three marks.

(d) (i) This was a variant on previous questions on price elasticity of demand. A high proportion of candidates got two marks for the correct calculation of 0.2 or -0.2. A few who did not give the correct answer, gave 5 as their answer. (The own figure rule was applied to these candidates in the next part.) An even smaller group of candidates gave an answer that had not been correctly calculated, although the formula had been correctly used. These answers were awarded one mark.

- (ii) This part produced a wide range of responses. Where the price elasticity estimate had been correctly calculated, most candidates went on to explain that it was inelastic and that an increase in price would lead to a less than proportionate increase in the quantity demanded. Many candidates struggled to go beyond this. There was considerable confusion between revenue and profits when referring to the effects of an increase or decrease in price. Only a handful of candidates stated that the 0.2 estimate indicates that there are seemingly few close substitutes for mozzarella cheese. Rather more candidates explained that the statistic was an estimate and that producers should bear this in mind when making pricing decisions.
- (e) This was another question that produced a wide range of responses. There were three pieces of evidence suggesting that the retail market for high quality pizzas was monopolistically competitive. Many candidates saw this. Some candidates, however, failed to recognise the significance of low barriers to entry. To obtain marks though, it was essential that the written answer was applied to the high quality pizza market.
- As in previous examinations, there were some weak answers from candidates who wrote about 'monopolistic' and not 'monopolistic competition'. These answers did not gain marks due to the confusion with monopoly.
- The comment element was answered quite well by those candidates who realised that there was more to this question than just picking out pieces of evidence. Two marks were most typical for commenting that the market was most likely an oligopoly due to the dominance of well known brands. Rather more comment was needed for full marks; for example, that data was needed to make a proper assessment or further information was needed on some of the other characteristics of an oligopoly.
- (f) (i) This question was well answered. Most candidates scored three marks for clear definitions and a relevant example. A few candidates failed to recognise that variable costs varied with output. Production was accepted as an alternative to output. The example had to be explained – no marks were awarded from just drawing examples for the table of data above this question.

- (ii) This question produced a pleasing number of Level 4 responses. The style of question has been asked before on various previous examinations, the last one being Flybe in January 2005. Having said this, most answers tended to be assessed as seven-nine marks rather than above this range. It was noticeable that many answers were short in length, perhaps indicative of a lack of time, rather than a lack of knowledge.

The main way that most candidates used to reach Level 4 was to distinguish between large and small pizza producers. This was usually done by considering how larger firms could benefit from economies of scale, particularly through the bulk purchasing of mozzarella cheese. Other possibilities were to make assumptions about the price elasticity of demand for pizzas or to discuss how other variable costs might be reduced. Some answers recognised correctly that all producers would have to bear the costs and that the market structure could have a bearing on pricing decisions. A high mark on this part required a discussion of more than one of these aspects.

As in all previous examinations, a good mark could be obtained where the discussion was underpinned with relevant economic analysis. Where this was not evidenced, then it was most likely that the answer met the criteria for a Level 2 response.

A few candidates tackled this question from the standpoint of the alternative objectives of firms. This interpretation was accepted. Other analysis and discussion were required for a Level 4 mark.



## 2882 Market Failure & Government Intervention

### General Comments

With just over 2,500 candidates entered for the paper this session, this was one of the largest January sittings for unit 2882. Overall the standard of response was very pleasing with many examiners commenting upon how well candidates had been prepared by Centres, for which they are to be congratulated. Whilst the stimulus material focused upon an issue arising from competition policy, candidates were well able to apply their knowledge of market failure in this context.

### Comments on Individual Questions

- (a) (i) This question was very well answered with the vast majority of responses gaining both marks here. Unfortunately, a very small number of candidates failed to identify the two characteristics as instructed, and whilst marks were awarded for explanations which were clear and accurate, in a few cases marks were lost because the instruction word was not followed.
- (ii) This question required candidates to apply the characteristics of rivalry and excludability. Whilst many responses accurately noted that education could possess both of these characteristics, the explanations which followed often confused rivalry with excludability. That said, a majority of scripts received three or four marks on this question.

A common error was to try to explain rivalry in terms of the existence of several competing schools in local areas whilst examiners were looking for some explanation of rivalry in consumption – namely that the use of education by one candidate may well diminish the quality/availability of education available to others.

In addition, whilst many answers gained reward for stating that education could be seen as being excludable because some parents cannot afford fees or because people live outside of a school's catchment area, a number of candidates tried to explain excludability in terms of one candidate's use of education limiting another's. This was clearly not accepted as an explanation of excludability.

- (b) (i) This question was well answered with a large majority of answers receiving both marks for a simple explanation of externalities being effects upon a third party.

- (ii) Whilst many candidates were able to identify a relevant positive externality arising from education (such as a more skilled workforce), a minority of candidates stated private benefits which clearly gained no credit.

In addition, quite often candidates failed to respond adequately to the second instruction within the question – to explain why this was a positive externality. Whilst simple reference, for example, to social benefits exceeding private benefits would have gained both explanation marks this was often missing as candidates simply explained the nature of the benefit in much more detail. Such answers which often lacked relevant economics usually only gained one mark for the identification.

- (iii) Despite the fact that market failure is at the heart of the unit, this question has never been asked before! Nevertheless, on the whole, candidates were clearly well prepared with the majority of responses gaining both marks. The most common response was to explain market failure in terms of an inefficient allocation of scarce resources.

- (iv) Whilst most scripts gained a minimum of four marks on this question (from a simple diagram), it was not as well answered as may have been expected. Unfortunately a large number of diagrams attempted to show the existence of positive externalities by shifting the supply curve which was clearly incorrect whilst a small number drew negative externality diagrams.

Given that a sizeable minority of diagrams had shown supply shifting, it was not surprising that some responses then went on to explain how subsidies could be used to overcome market failure. This ignored what the question asked – namely, how the existence of positive externalities resulted in market failure.

Better answers focused upon the issue of under consumption and explained that this would arise as a result of individuals basing their consumption decisions solely upon their private benefits and, therefore, ignoring the external benefits of their actions. This was then developed in terms of the resulting underproduction leading to allocative inefficiency and a misallocation of resources. Clearly such responses which answered the question directly using accurate economic terminology were well rewarded.

- (c) (i) This was the first time that candidates had been expected to explain why market dominance results in economic inefficiency and there were some very impressive answers produced to this question which reflected a very clear understanding of productive and allocative inefficiency. For this, Centres are to be congratulated.

Weaker responses tended to ignore the economic efficiency aspect of the question and, instead, focused simply upon the ability of dominant firms to raise their prices with little real development of this. Specific reference to, and use of, productive and allocative efficiency were needed for full marks on this question.

- (ii) Responses to this question were disappointing. Whilst some candidates clearly knew how UK competition policy could be applied, too many responses gained no marks for answers which lacked relevant knowledge. Given that competition policy is an important form of government intervention, this is one area which candidates could focus upon in a little more detail.

The most common mistake on this question was to look at the advantages of increased competition rather than how the government could use its competition policy to stop the abuse of market power – quite a different question. Unfortunately, where candidates mistakenly took such an approach, then very few marks could be awarded.

- (iii) Whilst there were some very good answers here which built upon the article to criticise the application of competition policy in this context, a number of candidates did not answer the question set and therefore, unfortunately, could gain no reward. Candidates are advised to answer the question directly as such an approach is much more likely to be credited by examiners.

That said, there was some excellent evaluations of competition policy discussed here – from the fact that the investigation took a long time and may have cost the government money to discussions centred upon how significant the fines actually were. Such answers, where candidates responded to the command words '*comment upon*' were clearly well rewarded and a sizeable minority of candidates received all four marks for this question.

- (d) On the whole this question was well answered with candidates generally able to meet Level 4 criteria on the mark scheme by introducing appropriate discussion/evaluation of how effective subsidies would be as a solution to market failure. Very few candidates had little idea whatsoever of how subsidies would operate.

Some excellent answers gained full marks by developing several relevant evaluative points. Perhaps the most popular form of evaluation was to discuss the relevance of Price Elasticity of Demand when evaluating the effectiveness of subsidies. Candidates often developed this point using diagrams to show how, in the case of inelastic demand; subsidies would be less effective in raising output. Another popular form of discussion was to look at the problem of setting the correct level of subsidy due to the difficulty of measuring external benefits.

Even where relevant evaluation was lacking, candidates often gained up to six marks by analysing the impact of subsidies, often using an accurate diagram.

The only difficulty arose where candidates used this question as an opportunity to write about other forms of government intervention. Unfortunately, given that the question required specific discussion of subsidies, such answers could not be credited.

Overall, with candidates clearly well prepared for this final question, the responses were generally very pleasing indeed.

# 2883 The National & International Economy

## General Comments

Every January session has seen an increase in entries. This session has seen the biggest increase to date. The 2,334 candidates who sat the paper found some aspects of the paper relatively straightforward, whilst they found other aspects more challenging. The paper contained a wide range of questions covering a significant proportion of the specification.

Candidates displayed good time management skills and a high proportion of candidates recognised that the command words 'comment on' required them to evaluate. Their interpretation of some of the other command words, most noticeably 'describe' in question (bi) was, however, not so strong.

Very few candidates scored relatively low marks whilst a number performed very well. There were three main factors which differentiated candidates' performance. These were whether they could:

- apply macro rather than microeconomic analysis
- recognise what the questions were asking
- appreciate the need to explain rather than just assert points in some of the questions. A disappointing number of candidates jumped stages in their explanations and some made statements without supporting explanation.

## Comments on questions

- a) This was generally well answered but a few candidates misinterpreted the question and identified three macroeconomic policies.
- b) i) There were some good, lucid and intelligent answers to this part of the question. A relatively high number of candidates, however, explained rather than described the relationships shown. Some even ignored the table and wrote that there is an inverse relationship between the two.
- ii) There was some good analysis included in the answers to this part of the question. Most candidates were able to explain how a rise in the rate of interest would put downward pressure on inflation by discouraging consumption. Stronger candidates were also able to explain that at least one other component of aggregate demand might be affected.
- c) This was the least well answered question part on the paper. Many candidates inappropriately considered the volume rather than the pattern of trade and some wrote about the nature of an economic bloc.
- d) i) This was the best answered question part. It was pleasing that such a high proportion of candidates understand the term 'exchange rate'.
- ii) This part of the question discriminated well. Strong answers identified two relevant factors and then explained the links from the factors to the demand and supply of the currency. Weaker answers leapt stages and some showed confusion between the internal value of money and the exchange rate.

- e) i) Another question part which discriminated between those who explained and those who just asserted points. For example, a relatively high number of candidates wrote that the current account position would improve or that international competitiveness would increase, without establishing why. A worrying number of candidates appeared to be confused about the meaning of productivity.
- ii) A pleasing number of candidates provided both good analysis and evaluation. The most common supply-side policy identified was government spending on education and training. Some candidates mistakenly identified a cut in interest rates and essentially reproduced their answer to (bii) in reverse.
- f) A relatively high number of candidates struggled to interpret this question. They assumed that falling inflation meant falling prices and restricted their answer to discussing the effects of lower prices. Others stated that a fall in inflation would reduce the rate of interest, without explaining why, and then concentrated on the effects of a lower interest rate.

A common way that candidates achieved analysis was by explaining the effect on international competitiveness. There were also some good answers explaining how menu and shoe leather costs would be reduced and inflationary noise would be reduced.

The strongest answers built on the analysis to provide some relevant evaluation. Indeed, there were some excellent answers which recognised that the benefits will depend on a range of factors including the cause of the inflation.

## 2884 Economics of Work and Leisure

### General Comments

The candidate entry was considerably increased on that for 2007, but the overall standard, both at the grade A and at the pass/fail levels, was pretty much unchanged. The paper seemed to be appropriate, with major areas of the specification covered, and, as usual, there was no evidence of any serious time constraint affecting candidates. Hardly any candidates infringed the rubric, and the general quality of written communication seemed to be in line with that in the recent past.

The data for Question 1 did not seem to cause candidates any difficulty, and it was encouraging that there were fewer instances than has sometimes been the case of candidates allocating their time unwisely in answering the different parts of Question 1.

All three essays in Section B were answered by significant numbers of candidates, with Questions 2 and 4 being slightly more popular than Question 3. The most encouraging aspect of the majority of candidates' essays was that they again seemed to have grasped, to a greater extent than used to be the case, what was required of them when they structured an answer to the part (b) questions; it seems that 'discuss' is beginning to be better understood! Unfortunately, this improvement was balanced by a degree of disappointment in the proportion of candidates who scored relatively poorly in part (a) of their essay; as is explained later in this report, there were specific errors made in each part (a) by significant numbers of candidates.

One issue concerning the format of essay questions is perhaps worth raising. All three of the questions in this particular Section B had preambles before the questions. These are meant to be of assistance to candidates, in that they aim to hint at a line of argument which might be used, or at least to provide a context for the questions being asked. However, there is no requirement that they must be used by candidates in their answers.

### Comments on Individual Questions

- 1a)** A majority of candidates scored the full two marks available, but there were nevertheless some common errors which penalised quite a lot of answers. A few candidates merely regurgitated data, without attempting to identify any trend, but more common were answers which incorporated a statement which was clearly false; for example, that all four main terrestrial channels showed a fall in audience share over the period (C4 did not), or that the three main channels, from 1990, experienced a fall in audience share in each of the next three five-year periods (BBC2 did not). Candidates should be aware that they need to make precise statements in response to such questions.
- 1b)** Whereas most answers were able to gain one mark in (i), relatively few gained two, which was slightly disappointing. The main errors were to make statements about audience viewing patterns in the two countries without there being any explicit comparison, or to make statements about the sizes of audience shares, with no reference to changes in them. The message, as usual, is that candidates should attempt to answer the exact question asked; and the same message was also relevant in part (ii). Here most answers gave at least a reasonable explanation of how two of the named strategies might be expected to operate to the benefit of the 'big three', but quite a number of candidates simply ignored the profitability aspect of the question. There were also some excellent answers, however, on the buying into Hollywood studios option - in particular, in terms of the likely benefits for profitability through backwards vertical integration or diversification.

- 1c)** This part of the question discriminated particularly well between candidates. The weakest either failed to make clear what they understood by the term ‘contestability’, or interpreted it as being interchangeable with ‘competitive’. Most, though, showed an understanding of the relevance of the existence or otherwise of barriers to entry and exit, and also made the simple point that the fact that Setanta had ‘emerged’ suggested that barriers to entry in practice were not absolute. The best answers also then went a little further, by making some relevant ‘comment’; for example, some argued that Setanta’s success might in fact make future entry more rather than less difficult for other firms, so reducing the degree of contestability in the future; others commented on the nature of entry barriers which still exist to make TV broadcasting by no means perfectly contestable; and others made the point that it has been the decisions of competition authorities which have had a major influence.
- 1d)** Disappointingly, part (i) was not generally well answered. Quite a number of candidates were able to suggest one type of economy of scale – for example, bulk-buying, financial – and to explain it at least to some extent in the TV broadcasting context; only a minority, though, made it clear in their answer that the essence of the economy was that the average cost faced by the organisation would be lower as a result of it operating on a larger scale.

There were answers of varied quality to part (ii), though pleasingly most candidates showed an understanding of the requirements of the instruction to ‘discuss’. Thus, such answers showed an awareness that they needed to consider two sides of the case, were ITV and five to merge. However, the main variability between answers related to the way they tackled the issue of ‘economic efficiency’. The weakest demonstrated no realisation that it was a term used with a specific meaning by economists, and so expressed their answer just in general terms of pros and cons. Others, however – and there were many of them – showed an impressive understanding of the term, and a commendable effort to try to apply it to what is not an easy context. For full marks, the Examiners expected an answer to refer to both productive and allocative efficiency.

- 2** Answers in part (a) generally showed some relevant knowledge of the UK labour market, and were able to identify one or more sensible reasons to explain why women’s pay continues to be less than that of men; common examples were discrimination, differences in commitment to the labour market, glass ceiling effects and differences in productivity. However, only the better answers gave explanations which were expressed in terms of the impact on male and female wage differences through supply and demand forces, which was felt to be needed for an answer to reach Level 3.

In (b), there was some excellent understanding shown, as well, as has been said, as a realisation of the need to evaluate in some way. The weaker answers tended just to explain how an improved quality of education and training available to women would be likely to result in the gap between the average pay of men and women being reduced. Better ones, however – and these reached Level 4 – showed some understanding of why such a policy might not in practice be very effective; and they often went further by comparing this policy option with one or more others aimed at the same objective. Given the wording of the question, this was a sensible approach to take.

- 3** Answers to (a) varied significantly. The weakest failed to consider explicitly the concept of opportunity cost, though this was relatively uncommon. More frequent, though, were answers which showed some understanding of the work–leisure choice, but failed to link it to opportunity cost. Many candidates used the concepts of substitution and income effects in their consideration of the decision between work/income and leisure, though only the best used them correctly. Some candidates had some understanding, but confused the two terms; others suggested that the substitution effect operated at lower levels of pay, and the income effect at higher levels; only the best expressed their answer in terms of the

two effects being of different relative sizes for different workers at different levels of hourly pay.

Part (b) represented a challenge to all candidates who attempted this question, in that they did not have a standard body of subject material at their disposal in order to answer it. However, many succeeded in answering it impressively, although there were also quite a number of responses which showed few analytical skills. Such answers tended merely to make, but not to attempt even to justify, a series of assertions. In contrast, the best answers identified a number of possible consequences of the stated policy, explained the basis for their suggestions, and then attempted to weigh the overall impact. The Examiners were quite happy to accept a range of possible recipients of the claimed consequences, for the workers involved themselves, for their employers, or for the overall economy, for example. They also applied an 'own figure rule', in the sense that candidates who confused income and substitution effects in part (a) were not penalised for the same mistake if they also tried to use the same concepts in part (b).

NB Alignment below!

- 4 Answers to part (a) generally showed some knowledge of the meanings of both absolute and relative poverty, and to (b) almost always considered policies which aimed to reduce inequality, rather than poverty – both of which represented improvements compared to the last time that a similar question was set on 2884. Some answers showed an excellent grasp of the relevant issues in (a), though sadly by no means all; the common error was a failure to be explicit in explaining the actual measurement which was being proposed. For example, many candidates suggested, quite correctly, that Lorenz curves could be used to measure the extent of relative poverty – but they did not explain how.

In part (b), the general quality of answers was good. Almost all candidates who answered the question considered at least two possible policies aimed at reducing inequality between rich and poor, with the variation in quality being a function often of how precisely they explained how the objective would be achieved by each particular policy. Then, as for other part (b) answers, most candidates also showed an ability to consider possible flaws or undesirable side-effects in their policies; and the best ones also explored explicitly the issue of which might be regarded as the 'best' option.



## **2885 Transport Economics**

### **General Comments**

The question paper was appropriate for candidates for whom it was intended and although of a similar standard to previous 2885 papers, the mean raw mark was lower than on last January's examination, with a wider spread of marks. This was probably the result of two challenging parts to Question 1. At the top end, candidates appear to be confident with the specification and the assessment criteria, with analytical and evaluative skills evident.

Most candidates had been adequately prepared for the examination although as in previous sessions there was disparity in such preparation between Centres.

There were again very few examples of rubric error (mainly answering more than one question in Section B) and time constraint. It appears that the vast majority of candidates divide their time between sections usefully.

There were many excellent responses to Section A with the majority of candidates showing familiarity with the context of national road user charging. The main failing of some candidates was their inability to apply economic concepts, such as opportunity cost, when assigning monetary values to time and, although keen to argue the benefits and costs, there was a reluctance to make an informed judgement on the road user charging scheme outlined.

Roughly equal numbers attempted the structured essay questions. Question 2 was probably most popular, but perhaps the least well answered question. Many candidates were not confident when trying to explain efficiency concerns when there was less competition and also had difficulties trying to link deregulation to oligopoly in the local bus industry. Where candidates included the necessary step of increased contestability and then explained the reasons for horizontal integration they were able to make more informed judgements. Questions 3 and 4 differentiated well, particularly in the second part with clear differences in candidate's ability to judge the effectiveness of government transport policy.

One key comment frequently made by examiners, which was evident again this year, was the need for greater focus on the question set. There was little evidence of planning essays in order to develop a rigorous argument. Some candidates would benefit from writing less and concentrating instead on writing with greater precision.

**Comments on Individual Questions****Q 1)**

- (a) This part of the question was well answered by the vast majority of candidates, although some did not use the information provided and, therefore, did not gain full credit.
- (bi) Most candidates were able to state two costs, other than the value of time, associated with traffic congestion; such as the increase in pollution, the greater amount of money spent on petrol, the wear and tear on vehicles, the higher levels of stress or the fall in the value of house prices in the vicinity.
- (bii) This part of the question discriminated well. The weakest answers were vague, simply referring to the difficulties of assigning monetary values to time, with little explanation. The more able candidates distinguished between the values you would attach to leisure journeys as opposed to those related to work, using concepts such as opportunity cost, willingness to pay and shadow pricing.
- (ci) This part of the question was answered well by the majority of candidates. The standard of the diagrams, showing MPC and MSC, was generally good, although some were expressed in terms of basic supply and demand analysis. The explanations were also generally good, although some candidates did not consider the over-consumption of the road infrastructure and, therefore, the resulting market failure. The road charging scheme was generally well explained in terms of creating a more socially efficient level of road use where MSB would be equal to MSC.
- (cii) Surprisingly, only a minority of candidates reached Level 3 on this part of the question. The main weakness was that candidates did not clearly explain the benefits of this more flexible system or develop their discussion as to how improving public transport could increase PED and XED. Candidates frequently explained how the scheme would work and the problems with the scheme and as a result only scored Level 2. The weakest responses focused simply on describing the problems of installing black boxes and the mechanics of the congestion charge and gained Level 1.
- 2)**
- (a) Most candidates understood the idea of increasing market share and efficiency but relating the two was completed with varying degrees of success. A simple but effective approach was for candidates to use AS efficiency concepts to answer the question clearly and precisely. However, many diagrams were incorrect, e.g. not showing that the marginal cost curve cuts the average total cost curve at its minimum point. Some less strong responses still gained Level 2 by relating to higher prices, less output, less choice and more generally the problems of less competition.
- (b) The majority of candidates demonstrated quite a good knowledge and understanding of developments in the bus industry since deregulation. Other responses argued that there was evidence to suggest that it was an oligopoly structure. However, most candidates did not give reasoned accounts of why this has occurred. Good evaluative answers gave explanations of differences in different regions, e.g. local monopolies or greater contestability. The key to obtaining a good mark was the degree to which candidates discussed the extent to which the industry had become an oligopoly since deregulation.

- 3) (a)** Most candidates were able to explain a number of factors determining the demand for air passenger transport and gained a Level 3 mark. Few, however, made reference to demand elasticities and/or derived demand. The main problem for some candidates was a tendency to be rather descriptive rather than analytical.
- (b)** There were many good answers which analysed how government policy could both increase supply, such as through subsidies, or decrease supply, such as through taxation. There was also consideration of regulation and/or deregulation and a number of candidates discussed the ways in which governments could try to influence the infrastructure, such as the size of airports and the number of runways, and aircraft movements in order to influence the supply of air passenger transport. Some candidates, though, concentrated on the impact on demand rather than on the effectiveness of government policy on the supply of air passenger transport services.
- 4) (a)** Generally candidates understand the factors influencing modal choice of freight transport. Weaker responses resorted to describing the advantages and disadvantages of each mode. The best answers provided more sophisticated responses such as explaining that cost would be the main factor or gave sound reasoning behind a business decision to use an environmentally sound form of transport.
- (b)** The main difficulty with responses to this part of the question was a lack of focus on the sustainability of freight transport. Weaker responses tended to simply give a definition and state that freight should be moved from road to rail, or air to sea, without explaining why each mode was more/less sustainable. The better responses evaluated the role that different government policies could have in influencing a modal switch for freight transport. This often developed into a consideration of an integrated system of transport.

Overall candidates found it much easier to evaluate government policies in Questions 3(b) and 4(b) than whether the local bus industry has become an oligopoly.

# 2886 Economics of Development

## General Comments

The number of entries stabilised after some growth in recent years. The paper proved to be accessible to candidates and there were good performances on both the data response and essay. The handling of numerical data was competent and the majority of candidates successfully structured an argument in the second part of the essay. Encouraging features were the realisation of the need to draw out the 'development' aspect of the answer and the greater ability to retain relevance as arguments were advanced. There seemed to be a smaller proportion of entrants who were not adequately prepared for the examination. There seemed to be somewhat less illustration of points by the use of current examples. There were no rubric infringements and lack of time was not a problem.

## Comments on Individual Questions

**Question 1** concerned the much praised economic performance of Botswana's economy and the less flattering changes in its Human Development Index.

- 1 a (i)** Few candidates had problems identifying the upward and downward trend in the two variables. The stronger answers manipulated rather than described the data. Weaker responses talked about total GDP or aid rather than the indicators given.
- 1 a (ii)** The majority of candidates argued about the effect of rising GDP per capita on falling aid levels but some tackled it in the reverse direction. For some it was seen as a statistical outcome of the values involved. All were valid approaches and the answers were usually competent.
- 1 b** This was done well. The distinction between development and economic success was understood. Good use was made of the data and succinct answers grouped items moving in the same manner rather than treating all items individually. Weaker answers did not give a clear answer to the specific question set and became very descriptive of the data.
- 1 c** Most candidates were able to identify two additional relevant indicators. Access to clean water and some measurement of income inequality were often suggested. The uses of various alternative composite measures to the Human Development Index were known. The question discriminated through the ability shown in justifying the selection. A disappointing number of candidates left the answer as an assertion rather than an explanation. While most selections were valid, some lost sight of the development context. Carelessness caused some candidates to repeat items within the data.
- 1 d** A number of different approaches were used for this part of the question. Some candidates concentrated on the advantages and drawbacks of the different policies, others commented on the possible differing circumstances of different countries, while a third possibility was the use of the data to contrast successful and unsuccessful aspects of Botswana's performance. These were all acceptable but it was disappointing that relatively few candidates were able to blend elements from the different approaches. A common error was to confuse a balanced budget with a balance of trade or balanced growth. Otherwise, there was some good analysis.

**Question 2** required a contrast of low income and transition economies and consideration of the effectiveness of state planning in promoting development. This was the least popular of the essays.

**2a** While descriptions of the differing features of the two types of economy were within the grasp of most candidates, only the stronger were able to explain the basis of the distinctions. A large number of features were considered and some answers were interesting and wide ranging. While stereo-typing was virtually inevitable, there was also some refreshing reference to the actual economies given as examples in the title. There was some confusion over the meaning of transition economies and even those candidates who clearly understood the classification overlooked the need to define it.

**2b** It was surprising that a number of those candidates who opted to tackle the question did not understand the idea of state planning as a systematic, usually wide-ranging form of government control of an economy. Instead they treated it as any form of government activity or intervention. The common interpretations were to consider dealing with market failures or government expenditure on items which would promote development. All too frequently credit was being gained incidentally rather than for a direct response. More persuasive approaches mentioned the targeted government planning in the Tiger economies as well as the former communist states. Most candidates were clear that state planning had a poor record of economic success.

**Question 3** sought detail of Lewis' explanation of rural to urban migration and an assessment of the impact on developing economies of such migration. It was the most frequently attempted question.

**3a** The key to success here was the degree of precise detail. The best responses dealt not only with the central elements but also the assumptions of the model. These gave rise to impressive answers. Next were competent expositions which understood some technical elements, such as zero rural marginal productivity and the 30% wage premium. Still reasonable were those candidates who understood the process but in general rather than specific terms. Last came those candidates who did not realise that it was a model and attributed any random fact about migration to Lewis. A few confused his analysis with that of Todaro. Time was wasted by those who went on to consider the weaknesses of the thinking or drawbacks of migration. These candidates did not realise that this approach was more relevant to the second part of the question.

**3b** This topic was familiar to candidates who were usually able to marshal arguments in favour and against rural to urban migration, although the latter tended to be stronger. Answers which applied economic concepts, such as external economies and diseconomies and imbalances of supply and demand, and also considered both the rural and urban perspectives, scored very well. However, even the more descriptive approaches usually brought the focus onto development issues and achieved the top level. Some candidates wrote in a rather haphazard way suggesting the need for more planning of the answer to in order to achieve a logical structure. Conclusions were well thought out and often referred to the background against which the migration was occurring.

**Question 4** concentrated on the causes of foreign debt crises and the potential of debt cancellation to solve underdevelopment.

- 4a** Some candidates saw the crisis solely from the effect on the internal development of a developing economy rather than the more generally accepted global perspective. Clear definitions of 'debt crisis' were rare. Another tendency was to explain the position as the result of a series of events rather than appreciating the longer term problems of savings and foreign exchange gaps. Fuller answers clarified why it was a 'crisis', the continuous underlying weaknesses of developing countries and the possible events which might tip the normal debt into an emergency. There was some confusion between debt and aid.
- 4b** The disappointing aspect of most answers was the lack of knowledge of actual debt cancellation policies, either current or in the recent past. Candidates found it easier to argue against the proposition than in support of it. Supporting arguments rarely went beyond the release of funds to give a new start and tended to oversimplify. Stronger cases which questioned its effectiveness considered moral hazard, the inability to use the funds effectively and the scale of the problems which still face developing economies. The majority of candidates were realistic in concluding that the policy would be insufficient on its own to solve the problem of underdevelopment.

# 2887 The UK Economy

## General Comments

Approximately 1150 candidates sat the paper in January and between them they produced a wide variety of answers both in terms of quality and approach. There were in evidence quite a number of candidates who committed the kind of errors which are regularly highlighted in Examiner's reports year on year. The most apparent of these being a complete disregard for the instructions contained within a question, and the perennial failure to observe the directive words contained within the question. Questions 1(c) and 3(a) were the most common examples of the former, and Question 1(c) again was a shining example of the latter. However, the paper, as a whole, did prove to be accessible to the majority of candidates and some Centres entered candidates who were clearly extremely well prepared for the demands of an A2 paper. They provided answers which revealed a combination of both a depth of theoretical knowledge and a breadth of current macro-economic affairs that enabled them to secure very high marks.

Unlike the previous two papers sat in 2007, the data question on this occasion did not appear to be measurably less well answered than the essay questions. There appeared to be a better balance of mark distribution across the two sections of the paper. The higher scoring answers to Section A of the paper came from those candidates who took careful notice of all the information contained in the data and then applied it to the questions set, not least of which was a recognition of the importance of the footnotes which were to be found below Fig. 1. These were of particular significance to the interpretation of success or failure alluded to in question 1(d)(ii).

The standard of answer to the essay section was wide ranging, but each essay offered the chance for some candidates to achieve high scores. The popularity of essays appeared to be in line with the numbering of the questions, Question 2 being the one which was attempted most often, with Questions 3 and 4 following in descending order of popularity. Section (a) of the essays perhaps more often provided the opportunity for candidates to secure marks in the highest Level. Section (b) answers were more often handicapped by a lack of sufficient analytical depth to score really high marks, even when candidates provided enough evidence to be awarded a Level 4 mark.

## Comments on individual Questions

- Q1 (a)** Many candidates scored well here but perhaps not as well as might have been expected given what should have been a very straightforward knowledge recall question. Quite a number confused the functions of money with the Keynesian motives for holding money.
- b (i)** There were two main reasons for candidates failing to secure both marks on offer here. Candidates often mechanically regurgitated year by year changes, rather than describing trends of M4 in relation to 'equilibrium rate of growth'. Secondly, candidates too often made reference to the time period before 2000, this being clearly the result of not reading the question properly.
- b (ii)** Too many candidates missed the opportunity here to mention the credit multiplier process, albeit briefly, which was the surest way to secure full marks.

- c** Answers to this question generally fell into three categories, those candidates who:
- failed to make any reference to the Quantity Theory of Money;
  - made such a reference, but offered no more information;
  - offered analysis in the set context, followed by an appropriate qualified statement, responding to the directive word, comment.
- d (i)** This was, for the most part, quite well tackled, though some candidates got themselves tied up with secondary issues, rather than stating and explaining the more immediate costs of inflation.
- d (ii)** This question part worked well in that it successfully discriminated between candidates who could give a one sided answer, those who offered a discussion and those who did so by concluding their arguments with an appropriately evaluated judgement.

## Section B

### Question 2

- a)** The most common problems here were the result of candidates failing to clearly identify what is meant by the term 'productivity' and how it is measured, and linking that clearly to reasons for differences between countries. To begin, candidates needed to show a clear understanding and then develop their answer using appropriate analysis relating to productivity levels in different countries. Productivity can be measured in several ways, including output per worker employed and output per person hour.
- b)** Weaker candidates tended to be those who could offer an explanation of a number of supply side policies, but failed to link these to productivity increases. Instead they tended to talk of gains in total output rather than output per worker. Better answers, on the other hand, provided an account of how supply side policies could achieve productivity gains using, for example, encouraging extra investment in human capital, increased spending on research and development and fixed capital expenditure, more competitive markets, better management and stronger labour market incentives. Finally, such candidates concluded by offering some evaluation of the potential success of such policies.

### Question 3

This question was particularly well answered with many of the candidates scoring quite high marks, and it worked well as a differentiating task.

- a)** A few candidates failed to draw an appropriate diagram and consequently limited themselves to a maximum Level 1 mark. Better candidates offered a clear supply and demand diagram and explained how exchange rates were determined. The best answers were those which gave an explanation of what creates demand and supply for a currency on the foreign exchange markets. The focus of the question was on the free market, so time spent on government intervention was wasted.
- b)** Most candidates successfully explained how a strong currency could affect the performance of the UK economy. The better answers were from those candidates who used their economics toolkit to analyse these impacts, to then judge the extent to which they may be harmful.



**Question 4**

- a)** Most candidates who answered this part of the question were able to secure at least a Level 2 mark on the first part of the question. Those who went on to secure the higher marks did so by explaining how an increasing GDP could increase tax take from both direct and indirect sources. In so doing candidates were able to demonstrate how the structure of the UK tax system is positively related to output and expenditure growth and did so in an analytical manner.
- b)** Perhaps the most disappointing aspect of this part of the question was the failure of candidates to recognise that the 'tax burden' may rise for a number of reasons, not just because the government may choose to raise income tax rates. Better candidates did, at least, recognise the potential for gains as well as the negative consequences of the change, and the best answers provided an evaluation of the extent to which the rising burden may be harmful, rooted in the fundamental reason for the change.

## 2888 Economics in a European Context

### General comments

The entry for this sitting of the synoptic unit continues to rise: this January by 12.5% on last year. The main variation in performance was between rather than within Centres. Despite this there was clear evidence that the synoptic challenge is understood by a good number of candidates, who are able to employ the economist's toolkit of theories, concepts and techniques to good effect in their responses.

The theme of the stimulus material clearly embraced the opportunities and challenges created by the most recent enlargement of the European Union and drew upon core macroeconomic concepts introduced at AS. Better candidates recognised this and were able to support their analysis, commentary and discussion to good effect.

It is worth re-emphasising that the stimulus material does 'what it says on the tin'. It stimulates candidates to think of the concepts underlying the issues raised. It is not case study material. There are no marks beyond application and critical understanding for responses that do no more than paraphrase what is contained in the stimulus extracts. Neither does the regurgitation of background information on the EU do much to enhance candidates' responses. The emphasis throughout, with the exception of the first question on the paper, is on the analysis and evaluation of issues and problems set in the context of Europe. The best responses recognise this and the nature of synoptic assessment and bring to bear on the questions clearly focused economic thinking and judgement.

The approach to the assessment of evaluation skills is one that should be familiar to Centres from INSET and published mark schemes, but is also worth re-emphasising. The first point is the difference between evaluation (Level 4, commentary and discussion) and critical understanding (Level 2). Simply, general points which recognise that there are two sides to an argument or that there are costs as well as benefits does not result in a Level 4 mark unless what is written is clearly rooted in economic analysis. The second point relates to the differentiation which examiners seek to make in the assessment of the evaluation shown by candidates. This is most evident in the way in which Level 4 of the mark scheme for Question 4 is divided into two bands. The highest band of marks requires candidates to make explicit judgements on arguments by considering the scale and significance of what they write. For example, a response which shows an awareness that the benefits of membership of the EU depend on a range of economic factors or is able to offer an assessment of 'the extent to which' aspect of the question is likely to gain a mark towards the top of Level 4.

Despite these caveats, the performance in this session was pleasing. Centres and candidates clearly devote much time and thought to their preparation for this challenging assessment.

**Question 1**

- (a) This was an accessible data handling question where candidates were able to score highly by clearly and simply summarising aspects of economic performance for the Bulgarian economy. Candidates still waste valuable examination time by writing at length when bullet point lists of key changes over the period of the data would suffice. On the whole, candidates find quantifying changes difficult and confuse percentage point changes with percentage changes.
- (b) Prescribing the analytical tool to be used in this part of the question produces effective discrimination between candidates. The weakest candidates struggled to draw a basic AD/AS diagram and did not gain much credit as a result. Even better candidates made errors in labelling axes – labels must be clearly macroeconomic and recognise that GDP is expressed in real terms in AD/AS analysis. That said, there was a pleasing recognition that increases in investment and productivity shifted AD and AS right and that this would increase real GDP.

The main discriminator related to the extent to which what candidates wrote addressed the issue of why increasing investment and productivity are necessary for long run economic growth. The best candidates often did this in terms of drawing a distinction between growth in the short run and growth in the long run. They were able to analyse how, in the short run, economic growth would be constrained by the Bulgarian economy's capacity but that increases in investment and productivity would allow a greater rate of economic growth by raising the economy's productive capacity. A lack of focus on the question led some candidates to explain the consequences of rising investment and productivity instead. Some candidates did not achieve any analysis marks, despite an accurate diagram, because of this lack of focus and reasons for the shifts in either AD or AS.

**Question 2**

This question was tackled well by those candidates who used an appropriate analytical framework to support their commentary on the possible economic benefits of foreign direct investment (FDI) for the Bulgarian economy. The most common framework was that of AD/AS and this made commentary on the short and long run consequences a logical extension of the analysis offered. Other approaches, which were equally valid, adopted frameworks which signalled their particular route through the A Level specification and included some good use of development concepts. Either way there was evidence of good synoptic thinking by candidates.

The main weakness exhibited by weaker candidates was the reliance on an assertion of both the benefits and costs of FDI or a description of the consequences. Such candidates need to be aware of the nature of synoptic assessment in economics and to be encouraged to use the economist's toolkit of concepts and theories in their responses.

**Question 3**

This question, on the economic consequences for the EU15 of labour migration from new member states, elicited some excellent responses at the top end. These candidates analysed the consequences at both the microeconomic level of the labour market and at the level of the macroeconomy. Rather than be drawn into populist 'fears' of labour migration they conducted a mature and analytical commentary which propelled them to the top of Level 4 of the mark scheme. It was pleasing to see such candidates recognise that labour markets might not be in equilibrium in the EU15, that there was a distinction to be made between nominal and real wage rates and that the consequences of migration depended on a number of economic factors.

Such economic reasoning was not apparent in the weaker responses which relied heavily on the coverage of migration in the populist press and paraphrasing of the extract material. There was much in these responses which was ill-informed and stereotypical of workers from central and Eastern Europe or of the attractiveness of the welfare and benefit systems in the EU15. The synoptic challenge is to critically assess issues and problems in the European context using economic concepts rather than relying on generalisations and anecdote. Preparation which emphasises 'concept linking' from the AS and core A2 specification is much more likely to be beneficial to candidates in the examination room as a result.

#### Question 4

This question was broad in its scope and examiners accepted a range of different emphases in candidates' responses as a result. There were some very narrow approaches which focused on single issues which tended to limit candidates' marks in Level 4 of the mark scheme. There were also many responses which contained a great deal of unnecessary background material which displayed little more than knowledge of the European Union or of the transition to the market economy. That said, many responses were able to get into Level 4 through a recognition that there were both benefits and costs of EU membership for Bulgaria and where this was supported by analytical explanations of both sides of the issue.

The development of these economic concepts allowed better candidates to differentiate themselves in Band 1 of Level 4. This ranged up to 16 marks for an analytical consideration of the benefits and costs of membership. The best candidates were awarded marks in Band 2 of Level 4 by explicit consideration of the extent of the benefits or costs or by a recognition that they depended on certain economic factors. It is not, however, sufficient to recognise the determinants of the gains or losses. These must be developed, exemplified and reasoned to justify the highest marks in the mark scheme. Judgements must be supported and argued, rather than just asserted.

Whilst it is encouraging that candidates were able to make reference to the welfare gains from trade, trade creation and trade diversion, examiners felt that too often these concepts were not accurately understood or were 'dumped' into responses with little explanation. This was typical of trade creation and diversion diagrams which appeared by the lack of textual explanation to have been rote learnt.

Nevertheless, as ever, this heavily weighted final question on the synoptic paper produced responses which were coherent, confident and assured in their mastery of the economic issues involved. In no small measure, this is the result of some excellent teaching and genuine interest in economics on the part of candidates.

# Grade Thresholds

Advanced GCE Economics (3812/7812)  
January 2008 Examination Series

## Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
2881	Raw	45	32	28	24	21	18	0
	UMS	90	72	63	54	45	36	0
2882	Raw	45	34	30	26	22	19	0
	UMS	90	72	63	54	45	36	0
2883	Raw	45	32	29	26	23	20	0
	UMS	120	96	84	72	60	48	0
2884	Raw	45	33	30	27	24	22	0
	UMS	90	72	63	54	45	36	0
2885	Raw	45	33	30	27	25	23	0
	UMS	90	72	63	54	45	36	0
2886	Raw	45	33	30	27	24	21	0
	UMS	90	72	63	54	45	36	0
2887	Raw	45	29	25	22	19	16	0
	UMS	90	72	63	54	45	36	0
2888	Raw	60	49	43	38	33	28	0
	UMS	120	96	84	72	60	48	0

## Specification Aggregation Results

Overall threshold marks in UMS (i.e. after conversion of raw marks to uniform marks)

	Maximum Mark	A	B	C	D	E	U
3812	300	240	210	180	150	120	0
7812	600	480	420	360	300	240	0

The cumulative percentage of candidates awarded each grade was as follows:

	A	B	C	D	E	U	Total Number of Candidates
3812	9.6	35.7	57.0	79.4	95.6	100	288
7812	13.2	43.4	75.5	96.2	100	100	56

## 344 candidates aggregated this series

For a description of how UMS marks are calculated see:

[http://www.ocr.org.uk/learners/ums\\_results.html](http://www.ocr.org.uk/learners/ums_results.html)

Statistics are correct at the time of publication.

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**1 Hills Road**  
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**CB1 2EU**

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