

**Economics**

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

**OCR Report to Centres**

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**January 2013**

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This report on the examination provides information on the performance of candidates which it is hoped will be useful to teachers in their preparation of candidates for future examinations. It is intended to be constructive and informative and to promote better understanding of the specification content, of the operation of the scheme of assessment and of the application of assessment criteria.

Reports should be read in conjunction with the published question papers and mark schemes for the examination.

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**Advanced Subsidiary GCE Economics (H061)**

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## F581 Markets in Action

### General comments

The format of the paper once again resembled those in previous examinations with 36 marks for questions drawn from the first two sections of the specification and 24 marks for questions based on the remaining sections. This may not necessarily continue to be the case, and if such a change is to be made then centres will be advised in advance of the examination series in question.

Overall, candidates performed very well on this paper and both students and their teachers are to be congratulated on the hard work in teaching and learning which underlies this performance. The great majority of entrants were able to offer concise and clear definitions which then guided them to focused analysis and explanation. There has been a noticeable improvement in the skill of application, with many excellent examples of selection of appropriate information from the case study to illustrate answers.

The case study addressed the market for housing in recent years and included actual figures on percentage changes in average prices and number of houses sold. Many candidates achieved AO4 by showing evaluative skill on the essay question. However, concise comment on the shorter questions where AO4 marks are available to reward this skill remains the weakest aspect of candidate performance.

### Comments on individual questions

- Q1** Pleasingly, most candidates scored two marks for one of several standard definitions of the economic problem. There were two main possible routes for applying the case study; one in terms of the inadequacy of the housing stock and one in terms of the shortage of government resources. The mark scheme required answers which either clearly identified the two ends of the dilemma or which showed the inability of resources to meet wants, and fewer candidates were able effectively to succeed in this aspect of the question.
- Q2 (a)** An overwhelming number of candidates were able to offer a clear, recognisable definition.
- Q2 (b)** Candidates generally answered this part of the question well. Axes for the production possibility curve diagram were almost always correctly labelled, the curve or PPC line well drawn and two alternative combinations identified. For the final diagram mark the candidates had to add coordinates and to show the opportunity cost of a movement along the PPC by some means on the relevant axis. The first explanation mark, citing the opportunity cost, was obtained by most candidates, though fewer gained the final mark for the narrative explanation of the relevant movement. To gain this mark, the candidates needed to write specifically about the opportunity cost in terms of a movement between two points on the axis relating to the type of housing being sacrificed.
- Q3 (a)** Most candidates successfully identified the key elements of a market.
- Q3 (b)** Relatively few candidates were able to access full marks on this part of the question. The majority of the candidates successfully identified determinants of **an increase** in demand. The most popular determinant was an increase in population, but this proved the weakest foundation on which to build additional marks.
- Q3 (c)** The great majority of the diagrams were correctly drawn and explained. There seemed a slight rise in the number of candidates offering some sort of comment, but still disappointingly few candidates could evaluate the effects of this shift in terms of the extent of the relaxation of regulations, the consequent size of the shift in supply or the influence of price elasticity of demand.

- Q4 (a)** The candidates' definitions of price elasticity of supply were largely accurate. A small number of the candidates still, unfortunately, used the phrase “the responsiveness of the change in supply” which is conceptually incorrect.
- Q4 (b)** The majority of PES calculations were correct and elastic and inelastic PES figures were appropriately selected, gaining the candidates half the marks available. The existence of a negative figure for PES in 2010 had little effect on the candidates, most of whom used the negative sign in their calculation. Although the figures were actual, formulaic comments such as “these data are estimates” were credited in line with previous series mark schemes. A minority of the candidates gained credit for commenting that a negative PES figure was unusual and for any valid comment that “other things may not have been equal” followed by a reference to the industry in the context of the case study and why a negative PES resulted. One weakness seen frequently was that candidates spent too much time and space laboriously explaining PES in theory or the detailed meaning of every PES figure calculated. Another weakness was that comments made related to the housing market in general rather than to the PES figures in particular.
- Q5** For both parts of this question almost all of the candidates correctly identified externalities from the case study. For fairness and consistency in marking, the second mark was for the crucial identification of a third party. The third mark was then awarded for explaining how the issue gave rise to a cost which was external or how the third party experienced the externality. Candidates performed slightly more confidently with external costs in part (a) than external benefits in part (b).
- Q6** This question focused on subsidies. Most candidates were able to access AO3 by offering standard diagrammatic analysis of a subsidy shifting the supply curve to the right with a fall in price and a rise in quantity supplied and demanded. This could gain the candidate 11 to 12 marks – as long as there was clear reference in the response to the housing market. A small number of candidates were unable to progress beyond AO1 as they made no reference to housing at all.

Virtually no candidates offered any development of this analysis in terms of a transmission mechanism through lower costs of production. It was disappointing to note that many candidates, in their written explanation, could not clearly sequence the shift of the supply curve to the right leading to a fall in price *and thus* an increase in the quantity of houses traded.

Having accessed AO3, many candidates were able to evaluate the pros and cons of subsidy or to look at the effectiveness of subsidies relative to other methods, gaining an AO4 mark. In terms of alternatives, many candidates referred to information provision even though this was of little, if any, relevance to the market in question.

Most candidates who accessed AO4 also stated a conclusion about subsidies which could gain them 16 marks for extended evaluation. The remaining two available extended evaluation marks were gained by candidates who explained how they reached their conclusion or who developed the conclusion in some way.

Overall, this question proved easier than in recent series and marks were consequently somewhat higher.

**Advice to candidates:**

- Present key definitions and formulae precisely, preferably from an OCR-approved source. Far from limiting you, clear definitions facilitate clear analysis.
- Practice explaining *how* remedies for market failure actually operate – analysis is all about explaining transmission mechanisms.
- Be prepared to explain how all forms of government intervention referred to in the specification influence the market forces of demand and/or supply.
- Focus on the particular aspect required by the question. If the question asks about *correction* of market failure then very few marks can be awarded for extended writing concerning the causes of such failure.
- If running on to the additional answer space, please help the examiner by drawing their attention to this in some appropriate manner.

## F582 The National and International Economy

### General comments

The vast majority of the candidates attempted all of the questions this examination series. The questions which had the highest number of no responses were the two which required numerical calculations, that is Question 2(a) and Question 5(b).

Most of the candidates wrote at an appropriate length on the questions and there was no evidence of timing problems. It was pleasing to note that a high proportion of the candidates recognised the need to provide both analysis and evaluation on the two ‘comment on’ questions. Indeed, Question 4(b) and Question 5(c) were generally well answered. The analytical underpinning, however, was not always present in the answers to Question 6. For instance, a number of candidates wrote that the effects of a decrease in aggregate supply on national economic performance would depend on its size. Many, however, did not establish why this might be the case. A number of other terms including ‘there may be a time lag’ were often unsupported.

Careful attention was not always paid to the wording of the questions. This was particularly the case with Question 2(b)(ii) and Question 4(b). A relatively high number of candidates interpreted Question 2(b)(ii) in terms of why an increase in imports might not cause a current account deficit rather than why it might not increase a deficit. A number of the candidates got into difficulties when answering Question 4(b) by seeking to comment on how a fall in unemployment would not increase economic growth because a fall could not occur.

The use of information in the case study was relatively strong, although rather greater use of it might have been made in answers to Question 2(b)(ii) and rather more accurate use of it in the case of Question 2(a).

Candidates who did well appeared to have thought through their answers carefully before writing them. This enabled them to provide logically written answers. This was particularly the case in terms of Question 6. There were some well-structured and coherent answers but also some which got into difficulties by writing contradictory statements and changing their line of argument part way through the response. As mentioned in previous reports, it is advisable for candidates to write a brief plan for their answer to the last question. This helps to organise thoughts and so improve their ability to present a coherent response.

### Comments on individual questions

- Q1(a)** A number of candidates identified effects which would shift the aggregate demand curve. Others referred to a change in aggregate supply which would, of course, lead to a change in the price level. Aggregate demand, however, responds directly to a change in the price level rather than to a change in aggregate supply. There were also a few micro answers which referred to a change in price or the price of a product.
- Q1(b)** This part of the question was generally well answered, although not all of the candidates provided an explanation of the rightward shift and a small number stated that the AD curve would shift left.
- Q2(a)** A pleasing proportion of the candidates provided an accurate calculation by way of their response to this part of the question. Of those who did not, the most common approach was to deduct 6% from 5%. This response, of course, failed to appreciate that 5% of a larger export value was higher than 6% of a smaller import value.

- Q2(b)(i)** There was a range of responses to this part of the question with the most popular answer being that imports might rise by more than exports. Stronger answers referred to import expenditure exceeding export revenue. Not many candidates drew on the information in the case study about the importance of China as a source of Sudan's imports.
- Q2(b)(ii)** A disappointing proportion of the candidates did not pick up on the word 'deficit' in the question. A high number also did not show an appreciation that the current account balance incorporates more than the trade balance. Indeed, many candidates appeared to think that the trade balance and the current account balance are the same thing. There was also some confusion shown between the financial account and the current account.
- Q3(a)** There were some clear and accurate diagrams provided with a relevant written explanation. There were, however, a relatively high number of AD/AS diagrams. A relatively high number of candidates also sought to explain how an exchange rate is determined by just defining the term.
- Q3(b)** Most candidates recognised that the value of the Sudanese pound fell. Some candidates sought to explain this by just quoting the figures, but some interpretation was required. The majority of the candidates did this by explaining the fall in value in terms of a higher value of Sudanese pounds having to be exchanged for a dollar or a dollar purchasing a greater value of Sudanese pounds. A smaller number of the candidates provided a calculation. The most common calculation was 0.06 and this was accepted as supporting evidence of a fall whether in terms of pounds or dollars. A few candidates provided the calculation that the Sudanese pound had fallen in value from \$0.42 to \$0.41.
- Q4(a)** There was a range of answers to this part of the question. Most candidates drew well on the case study and the key distinguishing feature was the depth of their explanation. The most common causes explained were illiteracy, a lack of infrastructure and a fall in aggregate demand. Some of those candidates who selected illiteracy provided really good answers, for instance, explaining how this would reduce the skills of workers and so could cause structural unemployment. There was a range of approaches to explaining how a lack of infrastructure could cause unemployment. Some candidates focused on geographical immobility, while others concentrated on the impact on transport costs for firms and the effect this may have on discouraging domestic firms setting up and deterring foreign direct investment. Those candidates who identified a fall in aggregate demand brought out the nature of derived demand and cyclical unemployment, although not necessarily using the terms.
- Q4(b)** Again there was a range of answers to this part of the question. The vast majority of the candidates recognised the need to provide evaluative comments. Some answers revealed the common confusion between production and productivity and there was, in some cases, a failure to appreciate that the labour force includes the unemployed. A number of the candidates also showed some confusion about the relationship between total and average costs and profits by asserting that a rise in employment would raise firms' costs and so reduce profits.
- Q5(a)** Some candidates provided a good description but others were at a loss and a number of the latter just provided a definition of inflation. Some candidates concentrated more on the uses of the CPI and RPI rather than on how they are constructed.



- Q5(b)** An accurate calculation was provided by a relatively high proportion of the candidates. Some, however, moved towards the correct calculation without actually achieving it. For example, a relatively high number of the candidates calculated the price level by dividing 134.4 by 120 and multiplying by 100. They did not, however, go on to deduct 100 in order to arrive at the inflation rate. A very small proportion of candidates, as with Question 2(a), did not attempt the question.
- Q5(c)** This part of the question was well answered with most candidates providing some relevant analysis and clear comments. Most candidates analysed well, bringing out clear links between an increase in income tax and the inflation rate. A number of the strongest comments explored how while the measure might reduce demand-pull inflation, it might generate cost-push inflation.
- Q6** This was a relatively challenging question as the candidates are probably more used to examining the effects of an increase in aggregate supply. Nevertheless, most candidates were able to identify the effects of a decrease in aggregate supply on the price level and real GDP. There was some good analysis provided, particularly in terms of the impact on international competitiveness and the current account position of the balance of payments and the harmful effects of a rise in unemployment. A number of candidates, however, sought to analyse by asserting that a reduction in aggregate supply must reduce exports and raise imports without establishing why this might be the case.

Some candidates assumed that a decrease in aggregate supply must be caused by government policies. A number mentioned that a decrease in aggregate supply would reduce a negative output gap, while stronger answers recognised that a more beneficial way of reducing a negative output gap would be to increase aggregate demand. Some candidates went on to make pertinent comments in terms of wasted resources.

There was some strong evaluation provided especially in terms of the initial level of capacity, the causes of the decrease and the effects on the environment. A significant number of the candidates, however, sought to evaluate without providing relevant underpinning analysis. For example, some candidates wrote that a decrease in aggregate supply would raise the price level and illustrated this with an AD/AS diagram. They did not, however, analyse why the price level might rise, nor why such an outcome might be harmful to national economic performance. Such an approach did not provide a foundation on which to evaluate.

Some answers did not appear to be very well thought out and a relatively high proportion of the candidates appeared to confuse a movement along an aggregate demand curve with a shift in the aggregate demand curve.

As in previous sessions, a number of candidates sought to answer a different question. Some briefly mentioned that a decrease in aggregate supply would be harmful and so a government should introduce either supply-side or demand-side policy measures. They then went on to concentrate on how such measures might work and their strengths and short comings.

The best answers tackled the question directly, providing both strong analysis and strong evaluation.

## F583 Economics of Work and Leisure

### General comments

The final January sitting of the unit F583 examination had some very good candidates who demonstrated strong ability in analysis and evaluation but in some respects the standard of the responses was a little disappointing. Particular aspects on which the candidates had difficulty were the mathematical manipulation of statistics; the understanding of the concept of contestability; an unwillingness to respond to command words; and a tendency to assert rather than to explain when asked to analyse.

Section A asked the candidates to respond to material based on one of the specified leisure areas with a particular focus on two sections of the specification. The objectives of firms in leisure markets and the characteristics of contestability alongside the contribution of leisure industries to an economy. The Section B essays gave the candidates a choice spread over three specification sections in the familiar format. It was on the first section of the essays that evidence of analytical skills was disappointing with many candidates able to identify factors and then provide assertion but in many cases they were unable to analyse why their chosen factor was relevant to the question. The second parts of the essays were more encouraging with many candidates aware of the need to analyse both sides of an argument. Candidates who analysed only one side or whose responses were predominantly one sided limited their opportunity to achieve high marks.

### Comments on individual questions

#### Section A

- 1(a)** This part of the question was generally well answered. A pleasing proportion of the candidates were able to make a clear distinction between the two terms. However, the major differentiator between two and three marks was the reference to voluntary work or maintenance.
- 1 (b)(i)** Many candidates achieved two or three marks and demonstrated an ability to read the question carefully and then apply relevant mathematical skills. A significant number of the candidates lost marks by failing to indicate that the number of domestic trips had fallen.
- 1(b)(ii)** The vast majority of candidates were able to use the information provided to analyse the impact on the economy. Better answers were two sided in their analysis and well developed, making good use of Fig. 2 in their commentary. There were still a significant number of candidates who do not adopt a two sided approach in their answers, thus limiting their marks.
- 1(c)** This part of the question proved difficult for some candidates. Reference to barriers to entry/exit was common with good analysis going on to include concepts such as sunk costs and hit and run. Many candidates were generally unaware that a contestable market does not have to have a large number of firms in the industry.
- 1(d)** Candidates were more at ease when discussing the bed and breakfast business using concepts such as profit maximisation, break even and survival. Big Pit was dealt with less successfully. Discussion points often compared the two businesses or drew conclusions about each business.

## Section B

- 2(a)** This was a popular question. Many candidates were able to define the term elasticity of demand for labour and identify factors, but far too few were then able to analyse them correctly and in detail. The mark scheme required only good explanation of two factors to achieve full marks. The emphasis should be on depth of analysis of a limited number of factors, rather than a brief assertion of several. Weaker answers, unfortunately, confused demand with supply.
- 2(b)** The candidates were able to provide competent responses to this part of the question and were particularly good at recognising and analysing other factors affecting wages. Candidates were less successful in building on part (a) and analysing how elasticity of demand influenced wages, although a significant number of candidates produced original and well analysed diagrams. Candidates who produced essays with a lack of or limited analysis on one side were placed at the lower end of Level 4.
- 3(a)** This was the most popular question with many candidates able to provide a clear analytical understanding of the concept of economies of scale. While the majority of the candidates were able to demonstrate some correct application of appropriate examples of internal economies of scale, they were less secure on the analysis of the impact. A recurring theme was the lack of precision in the use of economic terms, eg costs rather than average costs. Candidates often stated that increasing output reduced costs.
- 3(b)** The candidates were able to tackle this element of the question very well. Many demonstrated a good analytical understanding of the structure of oligopoly and chose a relevant industry. Good candidates then went on to discuss the extent to which the chosen industry may or may not be oligopolistic. As on Question 2(b) some of the candidates limited themselves by providing only a one-sided discussion.
- 4(a)** This was not a popular question and tended to polarise the candidates who chose to answer it. The best responses were able to analyse segmented markets in terms of market failure, while others were very unclear about market failure in particular.
- 4(b)** Candidates who did attempt this question and could clearly identify the market failures identified in the mark scheme were able to apply different types of government intervention and discuss their effectiveness well. This resulted in a small number of excellent responses. Candidates who had no clear grasp of the market failure element struggled to produce analytical discussion.

# F584 Transport Economics

## General comments

There was little evidence of timing problems and the overwhelming majority of the candidates attempted every required question. Overall, the standard was pleasing and while some topics were covered for the first time (for example, infrastructure and the advantages of different modes of transport), there were some excellent responses particularly to the essay questions, with the candidates evidently well versed and practiced in how to write analytical, carefully structured essays.

In general, two points were raised by the examining team:

- Please remind candidates that on the part (a) essay questions that there is no need to introduce discussion. The command word here is simply ‘analyse’ rather than ‘discuss’. A number of candidates wrote at some length on Question 2(a) about diseconomies of scale despite the question asking explicitly for analysis of economies of scale and, likewise, a number of candidates chose to explain what factors could possibly explain a fall in contestability in markets for Question 3(b).
- Please remind candidates to be explicit and clear in their use of terminology. Quite often candidates simply wrote about ‘elasticity’ rather than price elasticity of demand or income elasticity of demand. Likewise, quite often the terms ‘cost’ and ‘price’ were used interchangeably.

## Comments on individual questions

### Section A

- 1(a)(i)** This was the first time that an explanation of infrastructure had been required and while many valiant attempts were made to explain this term, only a minority of the candidates successfully gained the mark available.
- 1(a)(ii)** Once again, this was the first time that a question required the candidates to explain an advantage of a particular mode of transport. Most candidates were able to gain a mark by correctly identifying a relevant advantage for freight operators moving goods by rail but fewer gained the explanation mark. This was perhaps most effectively achieved when considering the possibility of moving goods in greater bulk; for example, “one advantage is that firms can move products in much greater bulk and therefore enjoy lower unit costs of production”. Such an approach gained both marks.
- 1(b)(i)** This part of the question required the candidates to consider the problems of the forecasting process. While many answers correctly identified relevant problems (the most popular being the difficulty of attaching accurate monetary values to certain costs/benefits), too often the explanation sought to develop the consequence of these problems – namely that the forecasts would be wrong. Such an approach did not gain the explanation mark as an explanation of the problem was required.
- 1(b)(ii)** While many candidates correctly recognised that the introduction of HS2 may result in a shift from car and plane travel towards rail travel, hence leading to a loss of excise duty tax revenue, a common error on this part of the question was to confuse government tax revenues with spending. As a result, some candidates chose to write about how the cost/expense of HS2 which, unfortunately, was not relevant.

- 1(c)** This part of the question produced a wide range of responses, from some excellent answers which were able to analyse in detail why negative externalities give rise to market failure to more simplistic answers which simply defined a negative externality and, therefore, gained no marks.
- 1(d)(i)** A very wide variety of policy options were suggested by the candidates, although, unfortunately, a number of them misread the question and wrote about road pricing which was explicitly excluded by the question. Better answers focused on policies such as subsidies or indirect taxes with excellent analysis produced as to how such policies would lead to modal shift and what possible limitations there could be. In a number of cases the candidates failed to include a clear judgement at the end and, therefore, were not able to access the final mark.
- 1(d)(ii)** On the whole, this part of the question was well answered, although a number of the candidates wrote about the limitations of the COBA in terms of ignoring externalities which was not relevant for a more general discussion of CBA. Given that this part of the question specifically asked for a discussion of how effective CBA is as a method of allocating resources, the third analysis mark was reserved for a clear recognition of how the CBA process can allocate scarce resources. Therefore, responses which did not state how CBA could be used (in terms of selecting these projects where net social benefit is the greatest) could not gain this mark.

The most common limitations which were correctly identified included difficulties attaching monetary values and the cost/expense of undertaking what could be a very lengthy process. As is now the routine with this type of question, the final two marks were reserved for explicit judgements as to how effective CBA is as a method of allocating scarce resources.

## Section B

- 2(a)** This part of the question was well answered by the majority of the candidates with some excellent analysis of different types of economies of scale produced. While the best answers were able to select different types of economies of scale and analyse how each particular type of economy of scale led to lower long run average costs, common errors on this question included a failure to link each explanation explicitly to why long run average costs would fall and also referenced “falling costs” rather than “falling *long run* average costs”. The better answers were able to develop clear explanations as to why average costs would fall in the long run thereby accessing up to the full marks available on this question.
- 2(b)** Overall, the responses to this part of the question were pleasing, although not surprisingly a very wide range of answers were produced from the descriptive to much more detailed analytical answers which were able to make full use of economic theory and terminology in order to discuss the impact of deregulation. In a few cases, where assertions were provided which were not backed up with clear use of economic terminology or theory, the candidates were restricted to Level 2 marks, thereby gaining a maximum of only four marks.
- 3(a)** While a clear majority of the responses to this part of the question accurately identified lower barriers to entry and exit as being the key factor resulting in a rise in contestability in markets, a smaller number of candidates chose to write at length about how markets would *not* be contestable and, therefore, missed the focus of the question. This was a great shame as without reference to how contestability *may increase*, candidates could not be given any credit. Better answers were able to analyse how lower barriers to entry, such as reduced legal barriers following deregulation had increased the ease with which firms had been able to enter the bus

and short haul air travel markets, thereby increasing the contestability of these markets.

- 3(b)** Some excellent answers were provided to this part of the question with many responses developing the theme of increased economic efficiency versus reduced dynamic efficiency. In some cases, the candidates simply wrote about whether or not increased competition was beneficial which was not always relevant given that the question focused on increased contestability.
- 4(a)** Question 4 proved to be the most popular essay question overall. In part (a), many relevant factors were offered by the candidates as to why car use may have risen and, in most cases, this was then developed with clear economic theory. In a few cases though, the candidates adopted a more descriptive approach which meant that they could only gain a maximum of eight marks on this part of the question. Better responses used economic terms and concepts, for example, supply and demand, income and cross elasticity of demand and the notion of transport demand being a ‘derived demand’ in order to access Level 3 marks.
- 4(b)** Many superb responses were provided to this part of the question, with the candidates making full use of supply and demand diagrams to illustrate their points. In some cases the candidates could enhance their marks by careful and complete labelling of their diagrams, while in other cases, some candidates would have benefited from the correct use of terminology – for example, referring to higher prices charged to consumers, rather than “increased cost to consumers”. These points aside, many excellent responses analysed how effective road pricing would be in theory before developing the limitations. Clear judgement in terms of the need for road pricing to be used as a part of a wider, more integrated solution to encourage a reduction in car use was rewarded.

## F585 The Global Economy

### General comments

The question paper discriminated well, allowing strong candidates to show their ability to analyse and evaluate a range of economic issues raised in the stimulus material. Strong subject knowledge combined with good technique was demonstrated by the best candidates across all of the questions. Weaker responses were able to access marks for knowledge and understanding which was not as secure but yet still made some attempt to address the question set. The best candidates structured their responses to the higher tariff questions well, supported their arguments with explicit use of economic analysis, developed points of evaluation fully and were then able to make and support judgements effectively. It remains the case that accurate knowledge of the relevant specification content is the key to underpinning a response to the question set. A wide range of economic concepts can be mapped to the stimulus material and the candidates can be expected to be able to define, distinguish between, analyse and evaluate these concepts. Candidate performance can be improved by identification of these concepts prior to the examination and encouraging the candidates to develop analytical frameworks to explain, comment on and discuss the issues raised by the Extracts.

In general, candidate performance is more variable in the lower tariff questions. Good performance on the open-ended, stretch and challenge question (Question 3) needed to be balanced with the following:

- an ability to define accurately and distinguish between key concepts in questions 1(a) and 2(a)
- fully developed analytical chains of reasoning in questions 1(b) and 2(b), making use of three or four linked sentences establishing cause and/or consequence for each disadvantage or reason
- analytical frameworks in questions 1(c) and 2(c) which allow the candidates to underpin and develop comments so that they can access marks in Level 4 of the mark scheme.

### Comments on individual questions

- 1(a)(i)** To achieve full marks on this part of the question, it was necessary for the candidates to make clear what is meant by an exchange rate, as well as what is meant by an exchange rate being fixed. Reference to the price or value of one currency against another was missing from some responses and, therefore, only one mark could be awarded. No credit was available for those responses which described a fixed exchange rate as being an exchange rate which was fixed.
- 1 (a)(ii)** Accurate definitions of purchasing power parity as the exchange rate which equalises the price of an identical basket of goods and services in two countries were awarded full marks. Some credit was available for responses which showed an understanding that PPP measured the true value of a currency or an idea that it measured how much a currency would buy. Weaker responses did not show the accuracy of subject knowledge required at this level.
- 1(b)** Strong responses to this part of the question were able to identify two relevant disadvantages of a fixed exchange rate and provided analysis of the disadvantage through a linked explanation of cause and/or consequence. For example, a response which stated that countries lost control over monetary policy gained one mark. Better responses then went on to explain why this was the case and/or what the consequences might be. For example, an explanation of how changes in interest rates could conflict with a fixed exchange rate through their impact on hot money flows and the demand for the currency gained additional marks for analysis. These responses were well rewarded and were characterised by three or four linked sentences which made clear the nature of the disadvantage or why it arose. Weaker responses often omitted links in the chain of analysis required. Some candidates confused the loss of the automatic adjustment mechanism of a floating exchange rate with the loss of the ability to change the value of the currency. Devaluation of a fixed exchange rate is, of course, possible but it does not happen automatically. Therefore, no credit was available for the argument that economies lost control of their exchange rate.
- 1(c)** The best responses to this part of the question first made clear the nature of an external shock and its consequences for an economy using AD/AS analysis. A good line of analysis was that the global financial and ensuing economic crisis might reduce the demand for exports, shifting AD to the left and causing a fall in real GDP, a reduction in employment and a rise in unemployment. Developed analysis made reference to multiplier effects. Valid alternative lines of analysis drew on the case material and showed how the global financial crisis reduced AD in Greece through higher interest rates, reduced capital inflows and capital flight. Weaker responses made similar points but in a descriptive manner and so were unable to access Level 4 of the mark scheme because the comments which followed were not supported by economic analysis. Good commentary on the consequences made reference to the particular problems faced by an economy in a monetary union in responding to an external shock. Higher marks in Level 4 of the mark scheme required the candidates to develop these points of commentary beyond statements. For example, a comment about the lack of monetary policy flexibility in a monetary union would be developed by an explanation of how interest rates or the exchange rate might lessen the impact of falling AD. There were some excellent responses which developed the idea that consequences depended on the nature of external shocks. For example, some candidates introduced a distinction between demand side and supply side shocks and symmetric and asymmetric shocks. Responses in Level 2 of the mark scheme, in comparison, had much contextual knowledge about the problems in Greece but their relationship to an external shock or the impact on AD or AS were not made explicit.



- 2(a)** The directive word in this part of the question required the candidates to make a *distinction* between a budget deficit and a national debt. Without an explicit distinction full marks could not be awarded. So it was common for candidates to score three marks for accurate definitions of the two terms but not to distinguish between them. Weak responses did not make clear that a budget deficit occurred when government expenditure was greater than tax receipts and did not make clear that debt was the total accumulated amount of government borrowing outstanding. Valid distinctions included the fact that a national debt could be expected to be higher than a budget deficit, that a national debt is accumulated over a number of years whereas a budget deficit is an annual figure or that the budget deficit might represent the increase in the national debt.
- 2(b)** Good responses to this part of the question identified two reasons why fiscal rules might promote economic stability and provided three or four linked sentences which analysed clearly the causes and/or consequences. A wide number of valid reasons were identified, ranging from the impact of fiscal rules on crowding out, investment, confidence, the bond market and the sustainability of government borrowing and debt. Where cause and/or consequence was clearly enumerated the candidates were able to access all three marks for each reason. Weaker responses were characterised by missing links in the chain of analysis or vague and general reasons, such as giving the government a target to aim for.
- 2(c)** Strong candidates recognised that the exchange rate of the peso had fallen and that this impacted on the price of Argentinian exports and imports, leading to a rise in the demand for exports, a fall in the demand for imports, an improvement in net exports and a rise in AD. They were then able to show how this contributed to economic growth in Argentina. This provided analytical support to comments about the nature of Argentina's exports and alternative explanations of the economy's growth, such as an improvement in the terms of trade. Where comments were developed such candidates were able to achieve high marks in Level 4 of the mark scheme. Weaker responses did not make the link to AD and, as a result, marks were capped at the bottom of Level 3 or Level 4 of the mark scheme depending on whether evaluative comments were offered. Some candidates made little headway with the question, either because they focused on the impact of exchange rate devaluation on the current account of the balance of payments and not on growth or because they did not recognise that the question referred to the period after the ending of the currency peg. The latter responses could not gain credit beyond Level 1 of the mark scheme as they focused on the advantages for growth of a fixed exchange rate.
- 3** In the main, the nature of foreign direct investment was well understood by candidates as was the standard list of advantages and disadvantages. What enabled candidates to progress beyond application of understanding (Level 2) to analysis (Level 3) was an ability to analyse how FDI might promote economic development. This was done in a variety of ways by the candidates, but the best responses made clear the link to AD, GDP per capita and the meaning, measurement and objectives of economic development. For example, there were good links to the nature of economic development in raising living standards and the quality of life, promoting change in the structure of the economy, filling the savings gap which constrains development or helping economies to meet the Millennium Development Goals. Sound analysis of the way in which economic development could be promoted by FDI allowed access to Level 4 of the mark scheme. Basic discussion by the candidates recognised a number of conditions under which FDI might not promote development, such as capital intensive production, mergers and acquisitions, resource depletion and the impact on sustainability. Developed discussion set these arguments in the context of alternatives to FDI as a way of promoting economic development. This was most commonly a consideration of how ODA may promote development. However, a number of other

alternatives were credited including import-substituting industrialisation and remittances. The best responses made comparative judgements on FDI and the alternatives in order to support a conclusion about which was the most effective way of promoting economic development. Basic judgements made use of Fig. 5.1 to make the point that FDI was more stable than ODA. More developed judgements argued that some economies may lack the conditions to attract FDI, so FDI may be less effective than ODA in countries in Africa, for example, with a lower level of development or for countries which lack basic infrastructure or productive capacity. These developed judgements were the trigger for the award of marks at the top of Level 4, Band 3 of the mark scheme.

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