# GCE

## Economics

Advanced GCE **A2 H461**

Advanced Subsidiary GCE **AS H061**

# OCR Report to Centres

# June 2013

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## Advanced GCE Economics (H461)

## Advanced Subsidiary GCE Economics (H061)

## OCR REPORT TO CENTRES

# F581 Markets in Action

## General comments

Overall, the candidates performed very well in this paper and both candidates and their teachers are to be congratulated on the hard work in teaching and learning which underlies this performance. Virtually all of the candidates were able to complete the question paper in the time available.

Greater clarity than before was seen in definitions and diagrams and this provided some candidates with a springboard for outstanding analysis. It was clear that many centres had taught regulation effectively with the candidates being able to define regulation, identify examples and make a good start on analysis of its effects on a market of their choice.

The case study addressed changes in the market for holidays and related products and many candidates drew on this material when analysing and commenting on regulation, though other markets were also effectively referred to.

## Comments on individual questions

**Q1** Virtually all of the candidates were able correctly to state two factors of production. The majority then went on to give appropriate examples. Much greater clarity was seen in this paper when candidates were exemplifying land.

**Q2a** Most of the candidates took their cue from the phrase "decrease in the supply of flights" and identified two out of the three causes of a shift of the supply curve. Demand side changes causing a movement along the supply curve were not credited, though only a small minority of candidates took this route. Many candidates offered a brief explanation, often centring on an increase in production costs; two further marks for developing the analysis proved a discriminator.

**Q2b** The majority of the candidates were able to show the shift of both curves to the left and the old and new equilibria, though some gave only one shift. A very small number of candidates drew two diagrams, but the second was not credited since the wording and layout of the question showed that one diagram was expected. There were two comment marks available for this question. Many candidates overlooked this opportunity, writing over-lengthy explanations of the diagram for which no further credit could be given. Centres might reinforce the importance of candidates looking carefully at the wording of the lower tariff questions in order to be absolutely clear about where the comment marks are available.

**Q3a** Definitions of consumer surplus were more accurate than in previous years. However, as in the past, marks were lost unnecessarily by those candidates who understood the concept but tried to express it in their own words, usually without success. Other candidates stated two prices but did not use the phrase "difference between".

**Q3b** This part of the question discriminated between those candidates who specified that there had been a loss in consumer surplus and those who analysed a less specific 'change'. As in previous, recent examination series, diagrams with the demand curve unlabelled were marked as zero since the demand curve is fundamental to the explanation. It would be worth centres encouraging their candidates to check, as a matter of routine, that all axes and curves have been correctly labelled when reviewing their paper before submission at the end of the examination.

**Q4a**   Definitions of income elasticity of demand were generally concise and clear, with far fewer candidates offering over-complicated or modified formulations.

**Q4b**   On this part of the question, the mark scheme was generous and inclusive and most candidates were able to access the three marks for analysis. A common error was the statement that as the YED for 'staycations' at -1.6 showed demand to be income inelastic; a small proportion of the candidates also stated that as income changes, the YED will change. Income elasticity of demand continues to be a difficult concept for some candidates. Most of the comment marks gained were for formulaic statements about the data being estimates and the consequent limitations. Very few candidates went on to reflect on wider aspects of the changing market for holidays or its consequences, such as changes in taste or fashion altering the balance of demand between foreign holidays and 'staycations'.

**Q5a**   The mark scheme for this part of the question offered a number of clear routes to access full marks and the great majority of the candidates were able to do so clearly. Fewer candidates than previously answered wrongly with a definition of productive efficiency.

**Q5b**   Most of the candidates answered that the market *had become* more allocatively efficient and took their cue from the raising of the 'quantity and quality' of 'staycations'. The final mark available was a good discriminator of candidates' ability to provide an analysis of how this made the market more allocatively efficient. The mark scheme recognised a plausible option for candidates to state that the market had *not* become more efficient as it was clearing both before and after developments, but very few used this route. A surprising proportion of the candidates blamed the British weather for frustrating progress to greater allocative efficiency.

**Q6**   The six marks available on this part of the question were split between application, analysis and comment. It proved a good discriminator in that those candidates who were clear in their minds, analytically, about the link between information failure, demerit goods and overconsumption could then see in the case study how this applied to the market in question and achieve four out of the six marks. In this case, negative externalities (e.g. the cost to the NHS) were not rewarded as there was ample material to guide the candidates. Once again, the candidates did not always access the comment marks; the most frequent comment was that even if information were supplied about the dangers of tanning products people might choose to ignore it.

**Q7**   This question did not specify a market so the candidates had the opportunity to illustrate the principles from any market of their choice. It did, however, specify 'the market failure arising from information failure', guiding candidates to develop the theme of the correction of information failure helping to reduce consumption of demerit goods. Many of the candidates chose to remain with problems caused by the products noted in the case study; however, other examples were also developed successfully.

At the top end of the performance range some excellent responses were seen. Responses achieving high marks shared various characteristics: they demonstrated clear **knowledge and understanding** of regulation and **applied this** through use of a specific policy, such as implementing a ban on smoking or the sale of tanning products to the under-18s. Such responses then used diagrammatic **analysis** to show a shift to the left of the supply or demand curve (depending on the regulation argument being developed) and the consequent effect on price and quantity. Then, they went on to **explain how** this reduction in the quantity consumed and produced of the demerit good **solves the problem of over-consumption and thus corrects the market failure**. Then came **evaluation** in terms of the pros and cons or effectiveness of the regulatory tool chosen or a comparison with other measures. Finally, the best responses contained a judgement as

to whether regulation is the most effective solution, often with some development and a conclusion.

The majority of the candidates were aware that evaluation needs to be underpinned by analysis accessed through application. As previously in the marking of this type of question, each level awarded opened access to the next level. Candidates who gave a purely theoretical and non-applied answer, even with market failure diagrams, which were in themselves correct, but with no application to a market were rarely able to progress. It was pleasing that more candidates than has previously been the case in relation to questions about regulation were able to analyse the impact in terms of a shift in the supply or demand curve and this gained Level 3 Band 1. Accessing Level 3 Band 2 (and thus opening up Level 4) required the candidates to give an explanation of how this then solves the market failure and this proved to be a good discriminator.

Those candidates who understood regulation to be a rule or law about **providing information** were able to access the highest marks by developing this line of argument. The candidates could also access full marks through responses which were constructed around the under-provision of a merit good.

Although the number was fewer than last time the essay question focused on regulation, some of the candidates defaulted immediately to more familiar ground by stating "one form of regulation is indirect taxation" and many glossed over regulation only to write much more about an indirect tax and its relative merits. A strategic decision had to be taken at the Standardisation Meeting which would enable those candidates who set out to answer the question as to whether regulation is the most effective solution to the market failure **arising from information failure** to be appropriately rewarded. Indirect tax was, therefore, annotated as 'NAQ' – not answering the question.

One of the skills referred to in the specification for H061 is that of 'thinking as an economist'. This question and the method used for marking it called for a demonstration of this skill and the candidates with the highest marks for the essay question demonstrated this with flair and expertise, rooted in effective teaching and learning on regulation and careful planning of the answer with close reference to the actual question.

**Advice to candidates:**
- Present key definitions and formulae precisely, preferably from an OCR-approved source. Far from limiting you, clear definitions offer a guide for 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.
- With the help of teachers, practice drawing and explaining diagrams of the different solutions to market failure.
- Focus carefully on the question so that you can answer appropriately. This series the essay question asked about correction of market failure **arising from information failure** and candidates who did best were those who kept this in mind while answering.
- If continuing onto the additional answer space, please help the examiner by drawing their attention to this in some explicit way.

# F582 The National and International Economy

**General comments**

The vast majority of the candidates attempted all of the questions and answered them at an appropriate length. There were some excellent scripts which revealed a good understanding of the specification content as well as an ability to apply relevant understanding to analyse and evaluate key macroeconomic issues. There were few very weak scripts.

As in previous series, there was no evidence of timing issues. There were, however, more scripts this series where the handwriting was difficult to read. Candidates should be encouraged to write legibly.

A pleasing proportion of the candidates wrote good and lucid answers and underpinned evaluative comments with relevant analysis. The stronger answers explained, rather than asserted, points and provided appropriate links. There were, unfortunately, a number of the responses which jumped stages and thus lacked logical consistency.

Good use of diagrams was made on the last question. Over time, there has been a reduction in the use of micro diagrams and an increase in the proportion of the candidates who explained what the diagrams were showing rather than just 'dropping' them into answers.

**Comments on individual questions**

1(a)    Most candidates were able to identify the three leakages, although a few named investment and exports. A number did not name imports.

1(b)    This part of the question was generally well answered with most candidates recognising that for real GDP to rise, injections would have to be greater than leakages.

2(a)    Most of the candidates performed well on this part of the question, revealing a good awareness of the influences on consumer expenditure. The three most common reasons described were: a high interest rate; low income; and a lack of consumer confidence. Not all responses, however, related the reasons to the ability and willingness to spend on consumer products. A number of the candidates included in their responses that spending on necessities does not count as consumer expenditure. They wrote that if income is low, people would not be able to spend as all of their disposable income would have to go on basic necessities. Confusion was also apparent about the relationship between consumer expenditure and imports.

2(b)    Given the use of billions, millions and thousands in key economic data, for instance ONS data on GDP and the balance of payments, it is important that candidates can make calculations using figures in different denominations. A number of the candidates wrote that they did not have a calculator, and some wrote that the average income in Japan was US$45 million or US$45.

3(a)    Most candidates provided an accurate definition, with only a small proportion providing a micro answer.

3(b)    The key to success on this part of the question was to answer it in terms of writing about what had happened to the price level. Some responses appeared to indicate that prices fell in 2008.

3(c)    Those candidates who paid attention to the words 'mentioned in the case study' generally performed well. A number of candidates, however, wrote about possible causes not specifically mentioned in the case study.

4(a)    Most candidates were able to arrive at a figure of US$2592 but not all recognised it was US$2,592 billion.

4(b)    There were some strong answers to this part of the question which analysed how investment would be affected by a rise in the rate of interest in terms of a rise in the cost of borrowing, higher reward for saving and the impact on consumer expenditure. These answers often then went on to comment. The strongest comments related to confidence, the availability of retained profits and offsetting factors. Some candidates, as in previous series, showed confusion between investment and saving.

5    This part of the question was generally well answered with some good links provided. The most common policy analysed was increased spending on training. A few candidates, however, revealed some confusion about the nature of supply-side policy measures by writing about an increase in the interest rate. A number of other candidates wrote about supply-side policy measures in general, without focusing on a particular measure mentioned in the case study.

6    As with Question 4(b), most of the candidates sought to both analyse and evaluate. There was some good analysis provided with some relevant evaluation, particularly in terms of how a low unemployment rate might conflict with low inflation as an objective. Some answers, however, revealed two common mistakes which have been evident in previous series: the confusion between productivity and production; and a lack of clarity on the effect of a fall in unemployment on productive capacity.

7    Most of the candidates responded well to this question. A relatively high proportion of the answers were logically structured. These defined the terms, analysed the effects and then evaluated. Good evaluation can follow on logically from strong analysis. In this case, not many candidates provided analysis on both the demand and supply-side. Some candidates sought to evaluate without any underpinning analysis. There was, nevertheless, some clear analysis with strong evaluation, particularly in terms of the initial level of economic activity and the price elasticity of demand of exports and imports. A number of responses, however, seemed to imply that inelastic demand means that a change in the price of exports and imports will have no effect on demand.

A relatively high proportion of the candidates sought to evaluate by stating that the effect will depend on the size of the change in the exchange rate. The vast majority did not, however, establish this as evaluation. Just stating that a large rise would have a bigger impact than a small rise was not considered to be sufficient.

Other candidates wrote that a rise would have no effect if all other exchange rates rose in line. Such an approach did not recognise that in such a case there would not have been a rise in the exchange rate. Some strong answers did recognise that an exchange rate can move in different directions and to different extents against different currencies. In such a situation, a rise in the exchange rate against the exchange rates of a country's main trading partners would have more of an impact that a rise against the exchange rates of other countries.

As in previous series, some responses appeared to imply that every change that occurs in the economy has to be the result of a government policy measure. A number of candidates also assumed that a rise in the exchange rate must mean that the rate of interest had also risen. Indeed, some candidates stated this and then went on to, in

effect, answer another question – whether a rise in the interest rate would reduce inflation.

It was, nevertheless, pleasing to read a number of coherent answers which tackled the question well. These were well thought out and well-focused.

# F583 Economics of Work and Leisure

**General comments**

The overall impression this series was of some mixed performances, especially on the essay questions. Many candidates responded well to the case study and showed an ability to explain, analyse and evaluate at a good level. It was encouraging to see frequent reference to the real world of economics through consideration of the debate over the top rate of tax and the problems of tax avoidance and evasion.

However a significant proportion of the candidates was unable to apply depth and detail to some common A level concepts and, as a result, struggled to achieve the higher levels of analysis and evaluation. A common aspect where this was evident was a lack of diagrams on the monopoly question and, where diagrams were present, a reluctance to refer to such diagrams in order to support the analysis. Similarly, the concept of efficiency was frequently not divided into its different types and this, therefore, created a lot of vague application. Candidates who were able to analyse in terms of productive, allocative and dynamic efficiency were well rewarded. On Section A the concept of progressive taxation was often not clearly defined leading to weak analysis.

The A2 units build on the AS units and it is vital that the knowledge and understanding generated at AS level is carried through to the A2 units.

**Comments on individual questions**

1(a)(i)   This part of the question was generally well answered. Problems arose when the candidates assumed that wages, wealth and income were the same concept. Better responses were able to clearly identify the idea of both differences and groups within the economy.

1(a)(ii)  Many candidates achieved full marks by looking at the changes over the period and variances within the period.

1(b)     The majority of the candidates were able to provide basic analysis on the extent to which low pay causes inequality. Only a small number, therefore, were able to highlight that pay is usually the most important element of income and, therefore, a major cause. Good two sided analysis was common, along with an appropriate judgement.

1(c)     This part of the question was well answered by most of the candidates. Those who did not score well tended not to focus on the regional element of the question. Candidates must be careful to realise that explanation must be clear and directed to the question set.

1(d)     This was another well answered question, although there was a tendency for some of the candidates to duplicate their arguments, especially in relation to supply side factors. Again, the analysis requirement was sometimes lost in vague assertion, rather than through clear, direct analysis.

1(e)     The concept of progressive taxation was often not clearly and precisely stated but candidates were usually still able to construct a two sided analysis on the subject of reducing income inequality. Candidates often both criticised the role of progressive tax and considered alternative methods of reducing income inequality. However, judgement sometimes relied on repeating discussion points and, therefore, achieved little reward. Very few of the candidates used the evidence of the increase in income inequality

identified in part (a)(ii) in order to pass a judgement on the effectiveness of progressive income tax in the UK.

2(a)     Many candidates were able to produce the standard monopoly diagram and then go on to analyse the behaviour of a monopolist with reference to the diagram. Supernormal profits were a common source of analysis, along with the monopolist setting a high price and restricting output. Common errors were a lack of a diagram or an incorrect diagram. Also, correct diagrams were sometimes ignored in the written response. Some candidates used the word 'monopolistic' to describe the actions of a monopolist.

2(b)     To achieve the analysis marks on this part of the question, candidates were required to focus on efficiency considerations and not on the market structure. Candidates who were unable to distinguish between the different types of efficiency placed themselves at a disadvantage and often produced answers which consisted of vague assertion concerning efficiency in general.

3(a)     Many candidates were able to clearly show knowledge and understanding of both discrimination and market failure on this part of the question. The majority of the candidates were able to go on to analyse how various types of discrimination could produce labour market failure. This was a good example of how analysis can be presented in prose, although there were, of course, plenty of well-constructed and referenced diagrams.

3(b)     Candidates were able to produce two sided arguments on various government interventions which would help to encourage the different types of labour market flexibility. There was usually an emphasis on geographical and occupational mobility, the encouragement of transferable skills and changes to labour market legislation. Better responses were able to go on and question the role of government and argue that market forces might be a better approach to encouraging flexibility.

4(a)     Those candidates who attempted this question had clearly taken note of the signal in past reports and mark schemes that it is vital to focus on the impact of changes in wages when analysing the degree of elasticity with which any factor might be associated.

4(b)     Those candidates who did attempt this this part of the question were often able to produce lengthy analysis on why MRP theory might not be relevant to wage determination. The question allowed candidates to demonstrate analysis based on the full range of wage determination theories, along with associated diagrammatic analysis. The greatest problem was the initial application of MRP to wage determination. Much attempted analysis was based on wages being determined by the market and MRP being used to determine the level of employment, rather than wages. Good analysis was based on shifting the MRP curve along an upward sloping supply curve of labour to generate different wages.

# F584 Transport Economics

**General comments**

Once again the general standard of the examination scripts produced by the candidates was very encouraging with many scripts showing very clear evidence of accurate analysis and application of theory by candidates who had clearly engaged in the topics covered, as well as gaining a very good understanding of economic theories pertinent to Transport Economics. Teachers of this unit are to be congratulated for generating such interest and enthusiasm amongst their candidates which is evident from reading the examination scripts.

**Comments on individual questions**

1(a)    The large majority of the responses to this part of the question obtained the mark which was available. Unfortunately, some answers simply provided examples of possible barriers to entry which were not credited.

1(b)    This part of the question differentiated extremely well between the candidates with the full range of marks being awarded. The better candidates who had learnt this section of the specification clearly were often able to gain the full six marks with relative ease. In contrast, some responses showed limited knowledge of this part of the specification and, therefore, were not awarded many marks at all on this part of the question.

1(c)(i)    On the whole this part of the question was answered well with many responses stating that both areas had seen a rise in operator grants. In contrast, fewer responses compared the scale of these changes. A number of the responses, unfortunately, did not focus on the word 'change' and instead compared the total level of grants which was not what the question required.

1(c)(ii)    This diagram question proved to be well answered with the large majority of the responses achieving both marks for an accurate diagram. Fewer responses then followed this by explaining that subsidies to producers would have the effect of lowering the costs of production.

1(d)(i)    This part of the question proved to be an extremely good discriminator between candidates. Not only did the question require a clear understanding of the characteristics of oligopoly but, most importantly, it required clear application of these to comment on whether or not local bus markets met these characteristics.
Unfortunately, in a number of cases, responses explained in great depth what the characteristics of oligopoly are but then ,did not apply these to the question.
The best answers to this part of the question were able to focus on how local bus markets would often be dominated by a small number of large firms and that barriers to entry were often very high. Some of these answers then looked at the fact that deregulation in the 1980s reduced these barriers, therefore making the local bus market less oligopolistic as a larger number of firms would be able to enter markets; hence, potentially, leading to a large number of firms in the industry.
Finally, and while this is much less of a problem now than in previous examination series, a number of candidates still did not produce a clear comment/summary judgement at the end of their response which is what is required for the final mark on such 'comment' questions.

1(d)(ii)    On the whole, this part of the question was well answered, although, as with part (d)(i), there were no knowledge marks on this question and, therefore, those responses which simply listed the different types of economic efficiency gained no credit.

The better responses were able to develop why increased competition would raise levels of productive/allocative and dynamic efficiency before analysing why economic efficiency may not rise. The most common route into evaluation was to develop the possible loss of economies of scale from smaller firms in competitive markets which could then be developed in terms of higher average costs and productive inefficiency. Alternatively, some very good responses gained credit for the fact that increased competition may simply lead to service duplication and, therefore, allocative inefficiency developing from the resulting waste of scarce resources.

In contrast to part(d)(i) many very good evaluative judgements were offered, often focusing on the fact that the impact would vary from transport market to transport market or on the fact that the key determinant would be the scale of the increase in competition.

2(a) The very best answers to this part of the question were able to analyse why traffic congestion represented an example of market failure with a clear analysis of overconsumption, allocative inefficiency and the fact that consumers often fail to take into account the full social costs of their actions by ignoring external costs. While there were some very impressive answers produced, some candidates simply listed the different possible negative externalities which might arise, for example, noise and air pollution. Unfortunately, such responses were limited to marks within Level 1

Good use of diagrams was often made, but it was important that candidates clearly developed their analysis of why market failure arose in terms of explaining overconsumption and allocative inefficiency.

(b) The candidates seemed to be well versed as to the impact of indirect taxes on equilibrium and how they could be used effectively to correct market failure. While not the only route into analysis marks, candidates often made very effective use of diagrams; although a few responses simply made use of the negative externality diagram, rather than clearly showing how an indirect tax would shift the supply curve to the left.

In terms of evaluation, the most popular route taken by candidates was to develop the idea of fuel use having inelastic demand. Having said this, it is important to stress to candidates the need to clearly develop such evaluative points in the context of the question set. A basic list of problems of indirect taxation which are not developed and not focused clearly on the question set will not be rewarded analysis marks.

3(a) Many very good answers were produced by candidates to this part of the question. The most popular route into analysis was to develop the impact of increased incomes and increased prices of substitute modes of transport such as car use. When increased incomes was developed in terms of rail use having a 'derived' demand then this factor was awarded 'good' analysis. Other valid responses included possible increased population levels and also possible investment in the rail network in order to provide better quality journeys.

(b) While some very good theoretical answers were developed to this part of the question, some candidates simply described the process of privatisation or identified possible benefits and/or costs without analysing these. Candidates should be reminded of the need to develop each point with clear economic analysis. The better answers were able to focus on the economic efficiency impacts of privatisation, thereby allowing them to demonstrate a clear understanding of economic theory.

4(a) Good answers to this part of the question were able to clearly identify relevant policies and then analyse these in terms of why they would lead to a more sustainable allocation of resources. For example, good answers were often able to analyse why Air Passenger Duty could be seen as sustainable in terms of the fact that it would reduce consumption and, thereby, achieve a more allocatively efficient allocation of resources. Other possible policies such as pollution permits or regulation were also analysed to good effect by some candidates.

(b)     This part of the question provided the candidates with the opportunity to analyse a range of arguments for and against road building. While a popular approach was to include reference to the fact that simply building more roads could actually increase the number of cars using them in the future, some economic analysis of this argument was expected. For example, the application of a simple supply and demand analysing the impact of increased supply in terms of lower price resulting in an extension of demand. A popular line of criticism was to develop the expense of such road building schemes and where this was developed in terms of possible opportunity cost issues then this was also awarded analysis marks.

Overall, candidates would be advised to take on board the following advice:

* On the 'comment' and 'discuss' parts of question 1, avoid producing simple one sided answers. Always analyse both sides of the argument before coming to a clear judgement.

* Answer the essay question <u>directly</u>, avoiding writing more than a short paragraph by way of introduction: get straight into your answer.

* In part (b) of the essay, avoid simply stating arguments for and against a point. Develop each of these using economic terminology or diagrams – where correct, analysis marks can be awarded.

# F585 The Global Economy

## General comments

It remains the case that this paper differentiates well between those candidates who have strong subject knowledge and a well developed ability to analyse and evaluate a range of economic issues raised in the stimulus material, and those candidates who show relevant knowledge and understanding of the issues but whose responses lack structure and links to economic concepts. The best preparation for this examination has always been to focus on the economic concepts which underlie the issues raised in the stimulus material. With so much of the stimulus material focusing on issues related to economic performance, particularly economic growth, it was surprising that AD/AS analysis did not feature in more candidates' responses.

Questions 1(a) and 2(a) provide an opportunity for the candidates to demonstrate their knowledge of key concepts raised in the stimulus material. Given the pre-release nature of the stimulus material, accuracy and precision is expected in responses to such questions. Where there are opportunities to distinguish between concepts raised in the stimulus, centres should encourage their candidates to understand how and why such concepts are different and to be able to articulate these differences explicitly and clearly.

Questions 1(b) and 2(b) tested the candidates' ability to analyse issues raised in the stimulus material. The best responses were able to do this by using chains of reasoning that clearly link cause and consequence. Where diagrams are asked for, as on Question 2(b), accurate labelling is a prerequisite for marks for knowledge and application to be awarded. The stimulus material provides ample opportunities to practise these chains of reasoning and diagrams, which also underpin questions 1(c), 2(c) and 3. Without a focus on linked chains, weaker responses too often produced descriptive responses which did not allow them to access marks in Levels 3 and 4 of the mark scheme. These descriptive responses have a tendency to focus on contextual knowledge. For example, while it was interesting to read about *Skype* in responses to many of the questions, this contextual knowledge was often not developed analytically; for example, on Question 1(c) either in relation to the benefits (little immediate impact on AD/AS) or the nature of FDI (portfolio investment). It is not the intention to discourage centres from promoting independent research into the context provided by the Extract material, but it is perhaps worthwhile reminding the candidates that the test is predominantly of the higher order skills of analysis (AO3) and evaluation (AO4), rather than of knowledge and understanding (AO1) and application (AO2). The best candidates recognise this and use their contextual understanding to evaluate issues, having first set out the underlying economic analysis.

Finally, a word about the importance of structure. A clear structure is important throughout this paper, not least on Question 3. A weak structure can often make it difficult for some candidates to demonstrate the skills being tested. A clear structure, focused on the requirements of the question, is an aid to many such candidates. For example, on Question 3 clearly structured responses showed:
- accurate knowledge of the terms in the question (economic growth, development and sustainability)
- linked chains of reasoning which explained how future economic growth could lead to development or was capable of being sustained
- developed explanation of why future economic growth might not lead to sustainable development
- an explanation of some other policies which might be needed to ensure that future economic growth resulted in sustainable development.

Where one or more of these elements of the discussion was missing, inevitably candidates' marks were limited.

As ever, the best responses were a joy to read and such candidates were rewarded appropriately.

**Comments on individual questions**

Question 1(a)
Candidates who had a good understanding of the fiscal and monetary indicators which need to be similar in order to gain membership of the eurozone scored well. These indicators included government debt, the annual budget deficit, the rate of inflation, long term interest rates and exchange rate stability. It was not necessary for candidates to show precise knowledge of the Maastricht Convergence Criteria, although many did. Weaker answers did not understand convergence in terms of indicators becoming similar and incorrectly described the adoption of common fiscal and monetary policies rather than conditions.

Question 1(b)
Analysis of the economic benefits expected to be gained from membership of the eurozone was generally weak. Weaker responses correctly identified valid benefits, including higher FDI, increased trade and higher GDP but did not go on to explain why these benefits might be expected to arise. Confusion between membership of the eurozone and of the European Union was evident in many of these weaker responses. Stronger responses were able to link the benefits of eurozone membership to reduced transaction costs, the elimination of exchange rate risk or increased price transparency. The best responses were able to achieve full marks for this part of the question by clearly explaining the impact on AD and/or AS and at least one macroeconomic performance indicator. Without this last link in the chain of analysis, candidates could only achieve two out of the three marks for each of the benefits.

Question 1(c)
Candidates were able to approach this part of the question confidently, with many going beyond an identification and description of the benefits of FDI to include an analysis and commentary. Without analysis, candidates could not be awarded marks beyond Level 2 of the mark scheme. The better responses provided this analysis predominantly within the framework of AD/AS. A common approach was to explain how FDI would raise AD leading to an increase in real GDP, economic growth and employment. More developed analysis recognised that FDI would also have an impact on AS from the increase in productive capacity. Weaker responses identified valid benefits such as increased employment, technology transfers and higher government tax revenue but did not go on to analyse what the economic consequences of these benefits might be. Commentary on the benefits was often developed which allowed candidates to access the higher marks in Level 4 of the mark scheme. Weaker commentary tended to list a number of factors on which the benefits depended, an approach which was limited to a maximum of eight marks. Full marks were awarded to those candidates who provided some developed commentary on two benefits or a well-developed commentary on one benefit. Examples of the kind of developed commentary which were expected for nine or ten marks are provided in the mark scheme.

Question 2(a)
Knowledge of economic growth and economic development was generally good. The definitions of economic development were less accurate than those of economic growth. For example, a definition of economic development which did not include reference to improvements in people's economic well-being or their quality of life tended to be vague. That said, most candidates were able to access the two marks available for knowledge and understanding. To distinguish between the two concepts the candidates were expected to show how they are different. Candidates are advised to make these distinctions clear and explicit in their responses. Weaker responses did not attempt to distinguish and, therefore, could not access the two marks for the application of knowledge. A common distinction made in stronger responses was that economic growth did not guarantee economic development. This statement on its own was awarded one mark and, where candidates elaborated on why this might be the case, a second mark was awarded. Examples of the range of elaborations acceptable are provided in the mark scheme.

Question 2(b)
Candidates were expected to use a diagram to analyse a possible reason why in 2008 real GDP in Estonia had fallen and inflation had increased. A significant number of candidates struggled to do this effectively. There were a number of reasons for this, including basic labelling of diagrams which was too often inaccurate. AD/AS diagrams must be labelled with macroeconomic terms in order to gain access to the four marks for knowledge and application. A list of acceptable labels is provided in this and previous mark schemes. Another reason why some candidates did not access many marks was because they shifted the AD curve to the left. While this might explain the fall in real GDP it could not explain the rise in the price level. Better responses recognised that AS must have shifted left. The best responses then went on to give a reason for this shift, the most common of which was capital flight which had reduced the productive capacity of the Estonian economy. Examples of other valid reasons which allowed candidates to access full marks are provided in the mark scheme.

Question 2(c)
As with Question 1(c), commentary which is unsupported by economic analysis resulted in weak responses not being able to progress beyond Level 2 of the mark scheme. These responses were descriptive, repeating material from Extract 3 about EU integration or the openness of the Estonian economy (trade as a percentage of GDP) or providing a general list of the advantages of trade unrelated to economic growth. The better responses to this part of the question clearly showed how international trade might have contributed to a change in AD and/or AS and, hence, to Estonia's economic growth between 2000 and 2010. This did not require the use of a diagram, though it obviously helped many candidates to show analysis in this way. A range of acceptable analytical links between trade and economic growth is provided in the mark scheme. Commentary on the importance of international trade as a cause of Estonia's growth built on the references in Extract 3 to changes in the age structure of the population, the favourable economic environment, Estonia's competitive commercial banking sector and the high levels of FDI. Weaker responses did not recognise these references as influencing economic growth and, therefore, found it difficult to provide relevant evaluation. High marks in Level 4 were available to those candidates who went beyond a list of other factors contributing to economic growth by explaining, for example, the link between age structure and economic growth with reference to the labour force participation rate, the productive capacity of the economy and AS. This provided useful differentiation between candidates within Level 4 of the mark scheme.

Question 3
The best answers to this question were characterised by a logical structure, clear and explicit analysis of the link between economic growth and sustainable development, developed discussion of why economic growth may not lead to sustainable development and a recognition that sustainable development would require more than just economic growth. Weaker responses were lacking in one or more of these requirements. Many of these responses started with an explanation of why future economic growth would not lead to sustainable development. This often resulted in a one-sided answer which, at best, could only be rewarded in Level 3 of the

mark scheme. When the explanation was descriptive or simply focused on Estonia's current ranking on the range of sustainability indicators mentioned in Extract 5, Level 2 marks were awarded. Stronger responses provided some analytical explanation of the link between economic growth and sustainable development. For example, a linked chain of explanation which showed how economic growth would raise real GDP, how higher real GDP could increase GDP per capita or employment or disposable income and how this would raise development was sufficient to underpin the discussion which followed. Other examples of such linked chains of analysis are provided in the mark scheme. Of those candidates who accessed Level 4 of the mark scheme, there was a clear distinction between those who provided a basic discussion and those who provided a well developed discussion. A basic statement that economic growth may create pollution, negative externalities or deplete resources was rewarded in Band 1 of the mark scheme. Better responses progressed into Band 2 by developing these points of discussion. For example, they explained how pollution created a diversion between MSC and MPC which resulted in over-production/consumption or that resource depletion reduced the ability of future generations to benefit from growth because it reduced the productive capacity of the economy. Access to Band 3 of the mark scheme was only possible when such developed discussion was evident in candidates' responses. There were some excellent responses in this Band which recognised that without the introduction of policies to internalise negative externalities, the taxation of non-renewable resources or the introduction of a progressive tax system future economic growth alone was unlikely to enable Estonia to achieve sustainable development. Such responses were rewarded with a minimum of 18 marks.