General Certificate of Education

Economics ECON1

Unit 1   Markets and Market Failure

Report on the Examination

2009 examination - January series

Unit 1: Markets and Market Failure (ECON1)

Section A: Objective Test

General

The mean mark for the paper was 13.8 and the standard deviation 4.6. These statistics indicate that candidates found the test to be demanding. The level of difficulty was consistent with the examiners' expectations. The statistical analysis of the questions does not indicate any problems that would invalidate individual questions or the test as a whole. The individual question test statistics indicate that the test discriminated effectively between more and less able candidates. All the questions performed within acceptable limits and none were rejected from the test.

The individual question statistics indicate that candidates found questions 1, 2, 5, 10, 11, 17, 22 and 25 fairly easy in that 65% or more of the candidates answered them correctly. No questions were found especially easy, defined as being answered correctly by 80% or more of candidates. Questions 6, 7, 12, and 16 were found difficult with facilities of less than 40 per cent. Questions 7 and 16 were especially difficult, probably because they had prominent distractors.

Question 6

Question 6 was the third most demanding question in the test. Only 36 per cent of candidates selected the key, A. This result, and the pattern of responses to the question, implies that the majority of candidates had no awareness of the meaning and operation of a buffer-stock scheme. The use of a buffer-stock scheme as a form of market intervention is included in the syllabus and candidates are expected to be familiar with how such a scheme would operate. It is recognised that, with the possible exception of the market for diamonds, few such schemes are in operation at present. However, buffer-stock schemes have been important features of market intervention in the past, both within the EU and internationally, and could be used more widely in the future, especially if there is a significant downturn in the global economy that leads to large declines in commodity prices.

Question 7

Question 7 was the second most demanding question in the test. Only 28 per cent of candidates selected the key, A. The question had a prominent distractor, C, selected by 40 per cent of candidates. The question tests basic knowledge of the determinants of demand and the ability to apply this within the context of a market demand curve diagram for apples. Although the form of the question differed from that with which candidates may have been more familiar, the difficulty it caused for the majority of candidates was much greater than expected. From the information given, candidates should have been able to recognise that a supply curve must have intersected the demand curve at the point determining the original equilibrium price of P_1. This being the case, the movement down the demand curve away from the initial equilibrium price to the lower price P_2 could only result from a rightward shift of the supply curve. Such a shift would result from a reduction in the wages of apple pickers, which is A, the correct answer. The very high proportion of candidates choosing distractor C revealed a weak understanding of the determinants of demand as well as poor ability to apply this using a demand and supply curve diagram. A fall in the price of substitutes for apples, distractor C, would be represented by a leftward shift of the entire demand curve and not a move down an unchanged demand curve. This is clearly one aspect of the application of the demand curve diagram that candidates need to improve upon.

Question 12

This question was the fourth most difficult in the test with a facility of 38 per cent. The majority of candidates were unable to combine application of demand and supply with knowledge of the nature of the price mechanism and the implications of its operation for efficiency in the allocation of resources. A reduction of the supply of non-renewable resources implies a shift to the left in the supply curve for the resource. All other things remaining equal, with a normal downward sloping market demand curve such a shift will result in a rise in the equilibrium price for the resource. The high proportion of candidates selecting distractor B for this question, 32 per cent, indicates an area of weakness that teachers should seek to address. Candidates need to understand clearly that efficiency in the allocation of resources is not related in any way to equality in the distribution and use of resources.

Question 16

Question 16 was the most demanding question in the test. Only 16 per cent of candidates selected the key, B. distractor A was a prominent distractor selected by 47 per cent of candidates and distractor C attracted a further 21 per cent of candidates. This pattern of responses indicated that most candidates had no awareness of the concept of a missing market and resorted to guessing the answer. When tested in another context a higher proportion of candidates were able to answer this question correctly. A sub-optimal use of resources results when the production or consumption of a good or service creates additional positive or negative value which is not taken into account by the decisions of producers or consumers because no separate market exists for the externality. The problem is not corrected by the market mechanism because the market in the externality is missing in the economy. The solution involves the creation of the 'missing market' by some form of government intervention to correct the market failure. The topic of market failure, and the associated concept of a missing market, is important and candidates need to be fully prepared on this part of the specification.

Question 22

This was the easiest question in the test. The question was answered correctly by 76 per cent of candidates selecting the Key, C. The concepts of the U-shaped average cost curve and economies and diseconomies of scale are central to an understanding of the economics of production and the examiners were pleased that the majority of candidates appeared to be well prepared on this part of the specification. However, the fact that 13 per cent of candidates thought that a move to the right up the average cost curve implied an increase in productive efficiency, distractor D, indicates the need for more attention to this topic

Section B: Data Response

There was considerable evidence that candidates had been well-prepared for the early parts of the questions, probably as a result of schools and colleges focusing on microeconomics during the first term of the course. The standard of answers to parts (a), (b) and (c) of the two questions was at least satisfactory, and for many centres very good. Perhaps the main weakness when answering the early parts of the questions lay in writing too much and wrongly believing that, because the marks available were roughly double than had been the case in the legacy examinations, more needed to be written. This was particularly the case with the answers to part (a) of both questions. A concise accurate definition was all that was required, not an explanation of the reasons why income elasticity of demand might be high, or why a government might introduce a subsidy.

Answers were nevertheless weakest for the final part (d) of both questions. Here, the answers should take the form of a 'mini-essay', though one in which references to the data are made. The best candidates introduce analysis based on economic theory and evaluate the strength of their arguments, as the arguments are made. However, in many cases, a 'shopping list' approach was often adopted, devoid of analysis and evaluation.

Question 26

Part (a)

Many correct definitions were given but often these were included with an abundance of other superfluous material. Candidates should note that an accurate one or two sentence definition is sufficient for full marks. A whole paragraph is not required.

Part (b)

In recent exams set for the legacy 2000 specification, candidates displayed an improved proficiency in this type of question. However, in the first ECON1 exam, and perhaps rather surprisingly, there appeared to be a general regression in the quality of answer for this type of question. Numerous candidates adopted the familiar trawl approach instead of taking an overview and providing broad points of comparison, backed up by some illustrative statistical data. Maybe the fact that 8 marks are now available for this question led many candidates to the view that a lot of writing was necessary. This is not the case.

Part (c)

Most candidates scored 6 marks for the diagram, showing a shift of demand to the right. Explanations were often less successful, with candidates resorting to simple description of the diagram. Against this, there were many candidates who scored full marks, or near full marks, for a relevant and accurate diagram accompanied by appropriate explanation.

Part (d)

Candidates sometimes struggled to answer this part of the question convincingly. There was too much discussion of a very general, non-economic nature. For this part of the question candidates should try to make full use of relevant economic concepts and theories and diagrams. A common mistake was to answer the question in terms of **how** the government could intervene in the pasta market rather than **why and should they?** The former approach was, however, able to earn credit, if done well.

Question 27

Part (a)

The typical definition of a subsidy tended to be less precise than that of income elasticity of demand. The comments made about Question 26 part (a) apply equally to this question.

Part (b)

Again, the comments made with respect to Question 26 part (b) are relevant for this question. In this case, however, there was much inaccurate use of the data, e.g. not accurately describing the units of account.

Part (c)

Most candidates scored 6 marks for the diagram, accurately illustrating a shift of demand to the left. As with Question 26 (c), too many of the answers to this question then veered into description, at the expense of explanation.

Part (d)

The best answers used relevant economic analysis and the data to address the question. The less successful answers mainly reworked the points given in the passage in a purely descriptive manner, adding little or no economic analysis of their own. In a number of cases the question was not answered at all. High scoring scripts explained, analysed and evaluated the case for and against allowing market forces to provide renewable energy. Less successful answers were characterised by an absence of analysis and evaluation and were very general in nature, and could perhaps have been written without ever having studied economics.

Some ways in which candidates can improve their answers

The standard of answer can be improved by:

1   choosing a question on the basis of the accessibility of its part (d) component;

2   focusing on the skills required for answering each of the four parts of the chosen question;

3   defining key terms and concepts as they are introduced into the answer;

4   assessing both sides of the issue or issues posed by the part (d) question.

Mark Ranges and Award of Grades

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