General Certificate of Education

Economics ECON2

Unit 2:   The National Economy

Report on the Examination

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Unit 2: The National Economy (ECON2)

Section A: Objective Test

General

The mean mark for the paper was 15.31 and the standard deviation was 5.29. This result indicates that candidates found the test relatively easy. The level of difficulty was towards the lower limit of the range expected by the examiners. The excellent overall result indicates a high level of preparation for the test which was not unexpected given the relatively low number of candidates entered for the paper. The detailed statistical results do not indicate any unacceptable performance with individual questions. The individual question test statistics show clearly 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, 3, 4, 7, 8, 10, 15, 16, 18, 20, and 25 easy in that 65% or more of the candidates answered them correctly. Three of these questions, 10, 18 and 25, were found to be very easy with more than 80% of candidates answering them correctly. In contrast, Questions 12 and 23 were found to be very difficult in that they were only answered correctly by less than 40 per cent of candidates. No questions had a prominent distractor.

Question 12

This was the most difficult question in the test with a facility of only 34 per cent. The low facility and the high proportion of candidates selecting distractors A and D indicates that the majority of candidates had no understanding of the meaning and/or significance of a rise in the exchange rate. All other things remaining equal, a rise in the exchange rate implies that imports become cheaper and exports more expensive, and hence there is a loss in international competitiveness. Although the topic areas of exchange rates and the balance of trade are known to be areas that students find difficult, the examiners remain surprised at the extent of the lack of understanding shown by candidates' choice of responses to this question. All other things remaining equal, a rise in the exchange rate reduces the home currency price of imports and reduces inflationary pressure, so response A is unambiguously incorrect. All other things remaining equal, a rise in the exchange rate increases the foreign currency price of a country's exports and hence reduces, not increases, its international competitiveness. Response D, selected by a surprisingly high proportion of candidates (27 per cent), is also unambiguously incorrect. The examiners reiterate the advice offered previously that they treat all parts of the specification as equally important and that candidates need to understand how changes in exchange rates affect aggregate demand, employment and inflation.

Question 23

This was the second most demanding question in the test. The Key, B, was selected by only 38 per cent of candidates. This low facility surprised the examiners, who had expected the majority of candidates to be have a sound appreciation of monetary policy, especially in view of the current economic recession and the dramatic reduction in interest rates by the Bank of England's MPC. The pattern of responses to the Question, with 26 per cent of candidates selecting distractor A and 22 per cent selecting distractor C, suggests significant inadequacies in candidates' knowledge and understanding of all the main ways in which interest rates affect aggregate demand and supply. The use of the word 'always' in distractor A should have alerted candidates of the need to consider the response with special care. The fact that so many appeared not to have done so suggests a weakness in their examination technique.

Question 25

This was the easiest question in the test. The Key, D, was selected by 87 per cent of candidates. Examiners would have been surprised and disappointed if candidates had not had a good knowledge and appreciation of supply-side policies and expected candidates to do well on the question. The outcome exceeded their expectations and indicates a very good level of preparation on this topic.

Section B: Data Response

General

The majority of candidates used their time well and were able to complete all parts of the question. A small minority of candidates devoted too much time to the first two parts of the question, failing to take into account the mark allocation when deciding how much to write.

Under the legacy specification, questions involving productivity have not been particularly popular with candidates. This time, there was a slightly higher proportion of candidates who attempted Question 26, rather than Question 27.

To achieve full marks for part (a), a short but accurate definition is all that is required. As long as the candidate shows that they understand the term, full marks will be awarded. Similarly, for part (b), the candidate only needed to identify two distinct features of the data and use figures to support their description. Many candidates understood this but some of the answers were far too long.

As might be expected, the variation in the quality of the answers was greatest in part (d) of each question. Only a few candidates managed to produce a response which satisfied the level 5 description. There were a number of candidates who performed well when answering the first three parts of the chosen question who struggled to produce a level 2 response to part (d). Nevertheless, many candidates did produce a level 3 answer.

To gain high marks for part (d) of the chosen question, candidates need to demonstrate sound analytical ability and show that they are able to evaluate. If the underlying economic analysis is weak, it is likely that the evaluation will also be poor because it will be based on an inadequate foundation. Whilst there were some examples of good analysis, too frequently explanations became confused suggesting a misunderstanding of underlying economic principles. Some candidates were obviously inadequately prepared for this paper and it might have been better if their entry had been delayed until the summer.

In part (d) of both questions, examples of good evaluation were relatively few. There are many ways in which candidates can demonstrate their ability to evaluate and it is recommended that students are referred to a document in the Teacher Resource Bank that explains what examiners are looking for in this area.

Question 26

Part (a)

Many candidates were able to define the term 'labour productivity' accurately and were awarded full marks. A simple statement such as 'Labour productivity is a measure of the amount of output produced per person employed' was sufficient to earn the marks. A clear, concise and accurate definition is all that is required to gain full marks for part (a) of the data response question for the new specification. It is not necessary to write at length, but some candidates wasted valuable time by doing so.

A minority of candidates confused production and productivity. Others recognised that productivity had something to do with efficiency but were unable to provide a succinct definition of the term. These answers were given some credit.

With some answers, the verbal explanation was not entirely clear but the use of a numerical example demonstrated that the candidate understood the concept. Where this was the case, full marks were awarded.

Part (b)

The majority of candidates were able to identify two distinct features of the data and many, but not all, supported their answer by quoting relevant figures. Common features identified included: the maximum rate of growth, the minimum rate of growth, the volatility in the data and the general upward trend between 2002 and 2007.

On the whole, candidates were well-prepared for this type of question but there were a few centres where it appeared that candidates did not understand how to tackle such questions. For example, candidates did not appear to realise that figures must be quoted.

Also, despite the instruction to 'identify two **main** features', there were a few candidates who just provided a chronological description of the chart in words.

Part (c)

Despite the instruction to explain **two** determinants of labour productivity, some candidates identified more than two possible determinants without adequate explanation. This type of scatter-gun approach did not gain many marks.

A suitable approach to a question of this type, which was adopted by a number of candidates, is to use two separate paragraphs. In the first paragraph, the first determinant should be stated in the first sentence and the rest of the paragraph should be used to develop the explanation. This process should then be repeated for the second determinant.

Very sensibly, the better candidates often used the data to help them. The most commonly quoted determinants of labour productivity were: training (or skills), incentives, job insecurity, investment in capital goods and improvements in technology.

It is also worth noting that, in this part of the question, some marks are available for relevant definitions but not for repeating the definition that was required in part (a).

Part (d)

Many, but not all, candidates recognised that the performance of an economy can be assessed by looking at the main macroeconomic policy objectives. However, even when candidates clearly identified the main objectives of policy, they didn't always attempt to analyse the contribution that higher labour productivity can make towards achieving these objectives.

The weakest answers were produced by those candidates who did not understand the meaning of labour productivity. However, it was encouraging that many candidates included at least one AD/AS diagram in their answers, often using diagrams as the basis for their analysis. For example, some used a diagram to explain how an increase in labour productivity can contribute to non-inflationary growth.

As instructed, most candidates made use of the data although this was sometimes implicit rather than being achieved by quoting directly from the extracts. As usual, there were plenty of clues in the data to help candidates to identify relevant content.

Those candidates who attempted to assess the importance of labour productivity generally did so by looking at the advantages and disadvantages of improvements in productivity in relation to the main objectives of macroeconomic policy. There was only a small minority of candidates who attempted to consider the significance of improvements in labour productivity compared to

other factors that affect the performance of an economy. In present circumstances, it was disappointing that only a few discussed the importance of managing demand.

Question 27

Part (a)

Candidates could achieve full marks by defining either the flow of saving or savings as a stock. However, it was not acceptable to use the word saving as part of the definition e.g. 'money that is saved in a bank account'. Candidates who were unable to provide an acceptable definition were usually able to provide an example and were awarded two out of the five marks.

Part (b)

This part of the question was answered well by the majority of candidates. Many identified two features of the data and used the figures. For example, stating that 'the highest value for the savings ratio was 6.3%, which occurred in the last quarter of 2005 and the first quarter of 2006'. A margin of error was allowed but the figures had to be reasonably accurate.

Some of the weaker candidates did not follow the instruction in the question and just attempted to describe what was shown in the chart, without providing any overview.

Part (c)

Whilst many candidates clearly identified two distinct determinants of saving, others provided a more muddled answer, leaving it to the examiner to determine their best two explanations. When a candidate provides a response of this nature, the explanations often lack clarity and detail.

The most frequently mentioned determinant of household savings was interest rates and most candidates were able to provide a clear explanation of the link between interest rates and savings. Other factors that were often mentioned included: disposable income, age and the life cycle hypothesis, taxation and expectations of the future state of the economy. The explanations for these other determinants were not universally sound. As in previous years, many candidates incorrectly believed that mortgage repayments and 'other bills' have to be deducted from gross income to determine a household's disposable income.

The mark scheme included marks for relevant definitions other than savings, but only a few candidates attempted to define any technical terms.

Part (d)

Most candidates recognised that a fall in the savings ratio is usually accompanied by an increase in aggregate demand. However, there was a significant proportion that did not. Only a minority of candidates who recognised this relationship also discussed the possible link between savings and investment. Those who did so were often unable to provide a satisfactory analysis and assessment of both relationships and their likely impact on macroeconomic performance.

Diagrams were sometimes used to support explanations and it is strongly recommended that teachers encourage their students to use them whenever it is appropriate.

A number of candidates used the data to help them construct an answer and the better candidates were able to refer to current economic events to help them assess the significance of household savings for macroeconomic performance. Despite the hints in Extract F, only a few candidates discussed the importance of savings compared to other influences on the macroeconomy.

Concluding comments

Candidates are advised to:

- become more knowledgeable of economic terminology and more confident with the use of economic terms;
- consider whether responses might be enhanced by use of accurate and relevant diagrams and consider whether these should be microeconomic (supply and demand) or macroeconomic (AD/AS);
- use the media to gain a greater awareness of recent and current economic events. In the case of question 27, for example, the adverse impact of the cuts in interest rates on savers should not be lost on candidates.

Mark Ranges and Award of Grades

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