



General Certificate of Education

Economics ECON1

Unit 1 Markets and Market Failure

Report on the Examination

2009 examination - June series

This Report on the Examination uses the [new numbering system](#)

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Unit 1: Markets and Market Failure (ECON1)**Section A: Objective Test (ECON1/1)****General**

The mean mark for the paper was 15 and the standard deviation 4.7. Although not directly comparable, because of the differences in the entry, the corresponding results for the January 2009 paper were a mean of 13.8 and a standard deviation of 4.6. These statistics indicate that candidates found the test to be demanding, but slightly less so than in January 2009. The level of difficulty was consistent with the examiners' expectations. The statistical analysis of the questions does not indicate any problems which 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 test statistics indicate that candidates found questions 2, 4, 11, 14, 15, 16, 19, 20, 23, 24 and 25 fairly easy in that 65% or more of the candidates answered them correctly. Questions 14 and 15 were found especially easy, defined as being answered correctly by 80% or more of candidates. Questions 6, 8, 18, and 22 were found difficult with facilities of less than 40 per cent. Questions 8 and 22 were found to be especially difficult as indicated by the fact that they had prominent distractors.

Question 6

The examiners were disappointed, but not entirely surprised, that the majority of candidates were unable to answer this question. The key, D, was chosen by only 38.77 per cent of candidates. Based on the evidence of previous examination results, candidates tend to have a much weaker understanding of the determinants of the elasticity of supply compared with their knowledge of the determinants of the price elasticity of demand. This area of weakness has been identified and commented on in previous Examiners' reports. Nearly 30 per cent of candidates selected distractor A. This suggests fundamental confusion between the inclusion of the price of a good in the formula for calculating its elasticity of supply and the determinants of its elasticity of supply. The elasticity of supply of a good or service is generally time dependent as more of a good or service can be supplied in the long run than in the short run if productive capacity is increased. For many goods and services, the elasticity of supply is an increasing function of the degree of spare capacity in the industry producing the good or service. For example, the price elasticity of supply of newly built houses is zero in the short run because of the time it takes to build new houses, but obviously increases in the longer-term as builders increase the rate of house completions. If house-building firms have unused productive capacity, especially in the form of land and specialised equipment, they can increase their output of new houses faster than if they first have to acquire building land, materials, specialised equipment and suitably qualified workers.

Question 8

This was the most difficult question on the paper. The key, B, was selected by only 25 per cent of candidates. Distractors C and D were chosen by 27 per cent and 26 per cent of candidates respectively and distractor A by 22 per cent of candidates. This pattern of response indicates that the majority of candidates resorted to guessing on this question. The examiners were surprised and disappointed that the majority of candidates were unable to deal with a straightforward index number comparison question. Candidates are required to be familiar with the use of index numbers in economics and should know how to make inferences regarding the direction and magnitude of changes in price from price index number data for a good.

The difficulty shown by candidates with this question points to the need for them to gain greater proficiency in interpreting data presented in index number form, as well as the ability to calculate a simple percentage change.

Question 18

Only 36.27 per cent of candidates chose the key, A, with a surprisingly high proportion of 30.39 per cent choosing distractor D. The examiners were also disappointed that the majority of candidates had difficulty with this question. The low facility on this question is the result of a lack of knowledge and understanding of the meaning of government failure as a concept in economics and the defining characteristics of a merit good. Government failure occurs when government intervention in the economy leads to a misallocation of resources. Merit goods are under-produced by the free market and government intervention is required to increase production to the optimal level. However, if government intervention leads to over-production of merit goods, it will imply a misallocation of resources and government failure.

Question 21

The key is D. This was answered correctly by 41 per cent of candidates. The data indicates that the two goods are complements in that a decrease in the price of one leads to an increase in the quantity demanded of the other good. The fact that 45 per cent of candidates selected either distractor A or B, despite the fact that they have positive signs for the response, indicates a disappointingly high lack of knowledge and understanding of the important concept of cross elasticity of demand.

Question 22

This was the second most difficult question on the paper. The key, A, was selected by only 25.92 per cent of candidates, while distractor B was chosen by 37.55 per cent of candidates. This pattern of response indicates confused knowledge and understanding of externalities in production and consumption, and the significance of divergence between private and social costs and benefits. Externalities are an important topic area and candidates need to understand the nature and implications of externalities in production and consumption. They also need to have proficiency in using diagrams to analyse the causes of both positive and negative externalities, and the policies available to governments for correcting resource allocation problems resulting from such externalities.

Section B: Data Response (ECON1/2)

General

This was the second examination paper set for the ECON1 specification, first examined in January 2009. The introduction of a new element to each question (the first) testing knowledge of definitions tilts the balance of the overall available marks slightly more in favour of the lower-order skills of demonstrating and applying knowledge. Nevertheless, a high-scoring script must also display the higher-order skills of analysis (tested in the third and fourth elements) and evaluation (tested in the fourth element of the question). Some over-long answers to the first and second elements of the question were followed by hurried, over-general and superficial responses to the latter parts of the chosen question.

Question 26 was more popular than Question 27. About eighty per cent of candidates answered Question 26, with all the candidates from some centres answering only this question.

Quality of Written Communication

There have definitely been improvements in the quality of written communication in recent AS Economics examinations. Teachers are congratulated on the way they have improved candidates' written skills. Hand writing is generally clear, and candidates have for the most part been trained to take heed of key command words and to organise their answers accordingly. But, as mentioned later in this report, candidates need to explain, rather than describe, the diagrams they draw. And in terms of displaying the skill of evaluation, there is still a need to depart from the 'jumping through hoops' approach. Too many candidates still appear to believe that a liberal sprinkling of words such as *however*, *moreover*, and *furthermore* in the fourth element of the question, means that they are assessing the issue or issues posed by the question. As they introduce and then develop each argument, the best candidates discuss its significance, for example by arguing that the strength of the argument depends on the underlying assumptions being made. Change the assumptions, and the significance of the argument also changes.

Question 26

- 01** Many correct definitions were given. Generally, candidates seem to have learned that a few appropriate sentences are sufficient here to gain full marks, although there were still numerous cases of over-writing.
- 02** This question proved to be very accessible, with a majority of candidates earning the full 8 marks. Many candidates are still writing much more than is necessary however.
- 03** A significant number of candidates scored 6 marks for the diagram, showing a shift of the demand curve to the left. However, there were many candidates who shifted the supply curve, often as well as the demand curve. Markers were instructed to reward what was correct in the diagram, and to ignore any shift of the supply curve. There was the usual array of mistakes in labelling the diagrams, including AD/AS, price level, output, demand and supply the wrong way round etc. Explanations were frequently less successful, with candidates resorting to a simple description of the diagram. Few candidates started their answers by defining key terms. For the third element of questions (here 03), marks may be awarded for definitions. Teachers need to train candidates to provide short, accurate definitions of key terms relevant to the question. Because of unnecessary description, candidates wrote too much that was tangential to the question, which restricted the time available for answering the final element (here 04).

- 04** There were a number of very good answers to this question, which evaluated the effectiveness of a range of economic policies to reduce significantly the consumption of alcoholic drinks. This is an area of the specification for which many candidates were well-prepared. However, as is always the case with this type of question, many candidates, who are sometimes very opinionated about such matters, wrote a 'general' answer which contained limited, if any, economic analysis, and were therefore awarded at best a level two mark.

Perhaps indicating the nature of their cultural habits, many candidates asserted that the bars they visit (presumably under-age) are occupied solely by teenagers and people in their early twenties, with never an older person in sight. From this they concluded that 18 to 20-year-olds drink most of the alcohol sold in pubs and bars, so that measures that might successfully reduce teenage drinking would have a devastating effect on the alcoholic drinks industry.

It was not necessary for this particular question to make use of the data, but the best answers were often those which made use of the extracts to support their arguments.

Question 27

- 05** As with **01**, many candidates provided a concise and accurate definition to earn full marks, whilst others accumulated the marks by making a number of statements about the term 'negative externality'. Full marks were also awarded if the term was illustrated in a diagram, although few candidates actually chose to do this.
- 06** This question was well-answered and many candidates achieved full marks, identifying two points of comparison between the data series, and supporting these with accurate statistics. As was the case with **02**, some candidates did not include statistics, and a few went on to explain why recycling is likely to have increased. Candidates should be reminded to do simply what the question asks and not to offer explanations for the identified points of comparison.
- 07** Most candidates were able to earn six marks for the diagram, although a few mistakenly shifted the demand curve instead of the supply curve. With positive marking being applied, this could still earn three marks. Again, maximum marks for the explanation still eluded many candidates, but there were a number of routes to full marks, for example defining a relevant concept, explaining why the tax shifted the supply curve and explaining the adjustment to the equilibrium price – a mere description of the diagram which added nothing, was not sufficient.
- 08** When answering the final element of a question, candidates should try to make full use of relevant economic concepts and theories and diagrams. In this case, candidates often struggled to answer this question convincingly, with too much discussion of a very general, non-economic nature. Candidates generally failed to get to grips with the issue of rubbish disposal. A common mistake was to answer the question in terms of how the government could intervene in the case of rubbish disposal rather than why and should they? The former approach was, however, able to earn credit if done well.

High scoring scripts explained, analysed and evaluated the case for and against allowing market forces to deal with the problem of rubbish disposal, although most candidates found it quite difficult to relate the functioning of the price mechanism to this area. Besides being very general in nature, less successful answers were characterised by an absence of analysis and evaluation. There was often an over-emphasis on plastic bags, although this was not the specific focus of the question.

Problems posed by the disposal of plastic bags were, for obvious reasons, the most-often quoted example of a rubbish disposal problem, but answers that were restricted solely to plastic bags, were too narrow and did not answer the set question.

A number of candidates did not appear to realise that, currently, refuse collection is an example of government intervention. This impacted on their answers, which argued in favour of a free market.

A number of candidates answered the question via evaluation of a number of possible government policies, and providing that these candidates also discussed the benefits / drawbacks of leaving the issue to market forces, then these answers could score highly.

Some ways in which candidates can improve their answers

For similarly-worded questions, the standard of answer can be improved by:

1. thinking carefully before choosing the question to answer, for example by assessing the relative difficulties of the final elements of the two questions;
2. providing a short, sharp, accurate definition, but little or nothing else, in the answer to the first element of a question;
3. resisting the temptation to provide explanations in the answer to the second element of a question;
4. defining key terms and concepts as they are introduced into the answer;
5. avoiding a 'bullet point' approach in the answer to the final element of a question;
6. evaluating arguments and issues as they are made in the answer to the final element of a question, rather than leaving evaluation solely to a concluding paragraph.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results statistics](#) page of the AQA Website.