



**General Certificate of Education**

**Economics ECON2**

**Unit 2: The National Economy**

**Report on the Examination**

*2009 examination - June series*

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

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## **Unit 2: The National Economy (ECON2)**

### **Section A: Objective Test (ECON2/1)**

#### **General**

The mean mark for the paper was 14.9 and the standard deviation was 4.7. Although not directly comparable, because of significant differences in the entry, the corresponding results for the January 2009 paper were a mean of 15.3 and a standard deviation of 5.3. These statistics indicate that candidates found the test to be demanding, and slightly more so than in January 2009. The level of difficulty was consistent with the level intended by the examiners. The higher mean in the January 2009 paper was consistent with the relatively low number of candidates entered for that 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 test statistics indicate that candidates found questions 1, 2, 3, 4, 10, 14, 15, 16, 17, 23, 24 and 25 easy in that 65% or more of the candidates answered them correctly. Two of these questions, 23 and 25, were found to be very easy with more than 80% of candidates answering them correctly. In contrast, questions 5, 9, 20 and 21 were found to be very difficult in that they were answered correctly by less than 40 per cent of candidates. questions 5 and 20 also had a prominent distractor.

#### **Question 5**

This was the most difficult question on the paper. Only 18.22 per cent of candidates selected the key, D. Distractor C was chosen by nearly 50 per cent of candidates. The majority of candidates failed to recognize that the figure given for the long-run rate of growth of the economy of around 2.5% per annum related to the real rate of growth. It is meaningless to measure the long-run rate of underlying economic growth other than in real terms. From the data given in the question, the predicted real rate of growth of the economy is only 1% per annum (5% growth in money national income less 4% expected inflation) which is 1.5% less than the long-run trend rate of growth of the economy. This implies that the economy will suffer from a deficiency of aggregate demand relative to its productive potential and experience increasing unemployment, and not rising employment as mistakenly selected by 50 per cent of candidates.

#### **Question 9**

The examiners were disappointed, but not entirely surprised, that the majority of candidates were unable to answer correctly such a straightforward question. The key of D was chosen by only 38.15 per cent of candidates. Based on past experience, the areas of the specification which many candidates find the most challenging and/or seem to be less well-prepared, are those relating to exchange rates and the balance of payments. However, candidates cannot analyse and appreciate fully the factors affecting the macroeconomic performance of the economy unless they understand how changes in exchange rates affect aggregate demand and the rate of inflation through the balance of trade on current account. That many candidates lacked such understanding is revealed by the fact that less than 40 per cent selected response D and 33 per cent selected A. Other things remaining equal, a decrease in aggregate demand will lead to a fall in imports and a reduction in the balance of payments deficit on the current account. A decrease in aggregate demand is most likely to lead to an increase in unemployment and, as a consequence, to an increase in government expenditure on welfare benefits, and not a reduction as required for distractor A.

**Question 20**

This was the second most demanding question on the paper. Only 33.45 per cent of candidates chose the key, A, while 42.11 per cent of candidates went for distractor D. The difficulty experienced by candidates on this question resulted from the same weakness in knowledge and understanding of the balance of payments, and the significance of changes in the exchange rate, exhibited in question 9. For a country experiencing a balance of payments deficit and inflation, a reduction in the exchange rate is an inappropriate policy response. All other things being equal, a reduction in the exchange rate (a devaluation or depreciation) will lead to an increase in the domestic currency price of imports and hence a reduction in imports. At the same time, the reduction in the exchange rate will improve the competitiveness of exports. However, the increase in the price of imports, which will work to reduce the trade deficit, will feed directly into an increase in the rate of inflation. The appropriate policy response in terms of the options in the question is for a fall in government expenditure. A fall in aggregate demand will both reduce inflationary pressure in the economy and reduce the demand for imports.

**Question 21**

The examiners were unable to understand the difficulty the majority of candidates had with this straightforward aggregate demand and aggregate supply curve question. Only 39.32 per cent of candidates selected the key, D. The majority of candidates had no similar difficulty with questions 8, 15 and 24, which also involved shifts in the positions of aggregate demand and supply curves in the AD/AS diagram. In these questions more than 60 per cent of candidates demonstrated sound knowledge and understanding of the factors causing shifts in the position of the aggregate demand and supply curves, and of the consequence of such shifts. The weakness on this question would thus appear to reflect inadequate understanding of the meaning and significance of changes in the government's budget deficit, rather than lack of competence in using the aggregate demand and supply curve model. Too few candidates failed to link an increase in the budget deficit with an expansionary fiscal policy.

## Section B: Data Response (ECON2/2)

### General

The two questions were equally popular and it was not noticeable that candidates' performances were affected by their choice of question. There were relatively few very poor answers; most candidates were able to demonstrate at least some economic knowledge and understanding of the topics that were assessed by the questions on this paper.

As stated in the January 2009 report, a clear, concise and accurate definition is all that is required to gain full marks for the first element of the data-response question. It is not necessary to write at length but some candidates wasted valuable time by doing so.

In the second element of the questions, to gain full marks candidates were required to identify two separate points of comparison and use figures to support each point. It is good practice to deal with each point in a separate paragraph. This adds to the clarity of the answer and makes it less likely that the candidate will just trawl through the data in a chronological order. It is also important that the point of comparison represents a significant feature of the data and demonstrates that an overview has been taken. For example, marks will not be awarded for random points, relating to one specific year, that do not have any connection with what is happening throughout the period.

It is pleasing to be able to report that most candidates were well-prepared for drawing accurate AD/AS diagrams in the third element. In general, axes and curves were correctly labelled although a small minority did confuse the AD/AS diagrams with the microeconomic demand and supply diagrams, e.g. using price and quantity for the axes labels as opposed to price level and real national output. Unfortunately, the good practice shown in the third element was not always carried forward when diagrams were drawn in the fourth element of the questions.

Candidates need to be reminded that in the third element there are marks available for explicitly defining relevant technical terms. They should also be made aware that an explanation that just repeats what is shown in the diagram will not achieve full marks. The diagram should be used to support the written explanation and is not a substitute for such an explanation.

In their answers to the fourth element of questions, most candidates were able to include some examples of appropriate economic analysis. Answers that were placed in Level 2 were often limited in scope and showed some confusion. A typical mid-Level 3 answer included more examples of sound analysis, e.g. in question 26 the candidate might have included an explanation of both demand-pull and cost-push inflation. To achieve above Level 3, sound analysis had to be supplemented by some limited evaluation for Level 4, and good evaluation for Level 5, of the propositions contained in the questions. The best candidates evaluated throughout and they also included a substantial conclusion that added to, rather than just repeated, the earlier discussion. Candidates should be reminded that the material in the various extracts usually provides some clues regarding relevant issues and can often be used to support their judgements. Candidates can also make use of their knowledge of recent developments in the economy to help them evaluate economic arguments.

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**Question 26****01**

Some candidates were able to define the term 'negative output gap' correctly but a high proportion of candidates believed that a negative output gap occurs when 'the actual rate of economic growth is below the underlying trend rate of growth'. In this situation, the output gap might still be positive but getting smaller.

Candidates were awarded four out of the five marks for such a statement. Many of these candidates also stated that when there is a negative output gap there is high unemployment and the economy is likely to be in recession. By elaborating on their initial attempt to define a negative output gap, they were able to accumulate the five marks that were available.

A minority of candidates attempted to draw a diagram to illustrate what is meant by a negative output gap. Full marks were awarded for a correctly labelled, accurate diagram. However, many of the diagrams were not labelled correctly, for example some candidates labelled the vertical axis CPI.

A simple statement such as 'a negative output gap is when the actual level of output of the economy is less than the full capacity level of output' was all that was needed to achieve full marks.

**02**

The majority of candidates attempted to compare the changes in Bank Rate with the changes in the CPI inflation rate and it is encouraging that only a small number of candidates described each data series separately without attempting a comparison.

Candidates should be advised that each comparison should relate to a significant feature of the data. For example, it was not sufficient just to take any one year and state the difference between the Bank Rate and CPI inflation. There must be evidence that an overview of the data has been attempted. In addition, the point of comparison should be clearly stated and figures quoted to support the comparison.

It is strongly recommended that candidates are provided with an opportunity to look at mark schemes and that teachers discuss these with their students to ensure they understand how the marks are awarded.

**03**

This year, many candidates produced an accurate, correctly labelled diagram and were awarded full marks for the diagram. However, a minority made some basic errors. Occasionally, axes were labelled price and quantity and the equilibrium points were not always shown. Most recognised that an increase in interest rates will shift the AD curve to the left and that higher interest rates are likely to reduce inflationary pressures.

For the most part, the written explanations were sound and many candidates identified and explained one or more reasons why higher interest rates are likely to reduce spending. A small number explained the links between interest rates, the exchange rate and inflation. It was rare to find an answer that provided a satisfactory account of the reasons why falling demand often leads to lower inflation. This was disappointing given the current economic environment.

In this part of the question, some marks are awarded for defining relevant technical terms, for example up to two marks were available for an accurate definition of inflation or interest rates. A significant minority attempted to define relevant terms and this often helped these candidates to achieve the 12 marks available.

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**04**

There were some very good answers to this question and the overwhelming majority showed some understanding of the causes of inflation. Most, but not all, candidates recognised that inflation might be caused by rising costs as well as increases in aggregate demand but hardly any discussed the possibility that the increase in costs may result from excess aggregate demand.

AD/AS diagrams were often used to illustrate and to help to distinguish between demand-pull and cost-push inflation. However, many candidates did not attempt to analyse the demand-pull and cost-push inflationary processes. Where explanations were included, the analysis of cost-push inflation was usually better than the analysis of the demand-pull process.

Some candidates were able to provide a good analysis of the causes of inflation but the evaluation was often superficial. The evaluation sometimes consisted of a single sentence that asserted that the statement was incorrect because inflation can be caused by rising costs as well as higher demand. Good answers also discussed circumstances where rising demand might not cause inflation, for example where there is a negative output gap or significant improvements in the supply-side performance of the economy. The best answers made use of the data in the extracts and their own knowledge of recent developments in the UK and world economy to support their conclusions.

**Question 27****05**

Many candidates were awarded five marks for simply stating that either 'economic growth occurs when there is an increase in real national output' or 'when there is an increase in the productive capacity of the economy'. Most of the other candidates were awarded some marks for showing a partial understanding of the term.

**06**

This part of the question was not answered as well as the equivalent part of Question 26. Candidates frequently confused the growth of real household consumption and the growth real GDP with the levels of household consumption and real GDP. For example, a statement such as 'real household consumption expenditure was at its highest in 1999' was incorrect.

The weaker candidates often failed to identify two distinct points of comparison and their answers often consisted of a trawl through the data. Nevertheless there were some good answers. Frequently identified points of comparison included: 'both showed positive rates of growth throughout the period' and 'for most of the period (1996 to 2004) the growth in real household consumption exceeded the growth in real GDP'. The use of data to support each comparison was required to achieve full marks.

**07**

As with Question 03, many candidates drew accurate, correctly labelled diagrams and were awarded the maximum 6 marks. A minority of candidates shifted the SRAS curve rather than the AD curve. The main impact of tighter credit is likely to be upon spending but, provided the candidate's written account included a valid explanation for a leftward shift in SRAS, full marks were awarded for such diagrams.

Only a small number of candidates attempted to define 'tighter availability of credit' and these were awarded 2 marks for an accurate definition. Whilst many candidates achieved the full 12 marks for this part of the question, the attempts to explain why aggregate demand is likely to fall were often superficial, e.g. only the better candidates explored the link between the availability of credit and spending on durable items.

Also, only a minority of candidates provided a satisfactory explanation of the simple connections between falling demand, reduced output and lower employment.

## **08**

Many of the better answers to this question recognised that a reasonable way to assess whether or not rising consumption is beneficial for an economy was to consider the impact of consumer spending on the four main macroeconomic policy objectives.

The weaker answers tended to focus on output and employment and neglected other objectives of policy. Many answers included examples of sound economic analysis which were often supported by the use of diagrams. However, in this part of the question, some of the diagrams were scrappy and poorly labelled.

Whilst sound economic analysis of the effects of rising consumer expenditure was an essential prerequisite to achieving a high mark, the candidates were also required to demonstrate their ability to evaluate the proposition that rising consumer spending is always beneficial for an economy. Good answers included a discussion of issues such as: how the short-run effects might differ from the long-run consequences, why the effects of rising consumption depend on the current state of the economy and other factors that might be more important than consumption, e.g. supply-side performance. The best answers made use of the material in Extracts E and F, and used their knowledge of recent developments in the UK economy to provide evidence to support their judgements.

### ***Mark Ranges and Award of Grades***

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