



General Certificate of Education

Economics ECON1

Unit 1 Markets and Market Failure

Report on the Examination

2010 examination - January series

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Set and published by the Assessment and Qualifications Alliance.

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

The mean mark for the paper was 14.3 and the standard deviation 4.25. These statistics indicate that candidates found the test to be slightly easier than the previous paper but still demanding overall. The corresponding mean mark for the January 2009 paper was 13.8, with a standard deviation 4.6. The level of difficulty was in line with the examiners' expectations when constructing the paper. 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 questions performed within acceptable limits and none were rejected from the test.

The statistics indicate that candidates found questions 3, 5, 13, 16, 20, 21, 23 and 14 fairly easy in that 65% or more of the candidates answered them correctly. Only one question, 23, was found especially easy, defined as being answered correctly by 80% or more of candidates. Three questions, 4, 7, and 9, were found to be especially difficult, with facilities of less than 40 per cent. These questions also had prominent distractors.

Question 4

This was the second most difficult question in the test, with a facility of only 30.97%, key B. The question had a prominent distractor, response D, which was selected by 37.51% of candidates. The poor pattern of response to this question is due to inadequate understanding of the relationship between price elasticity of demand and sales revenue. The value of price elasticity of demand referred to in the question is -0.75 and therefore inelastic. From the definition of price elasticity, this implies that an increase in price of $x\%$ will result in a fall in sales of less than $x\%$ and hence an increase in total sales revenue for the company. Candidates selecting distractor D demonstrated that they understood that, with a downward sloping demand curve, an increase in price would lead to a fall in demand. They failed to apply the formula for calculating price elasticity to this change and failed to relate the percentage decline in demand with the percentage increase in price.

Question 7

This was the most difficult question in the test, with a facility of only 14.14%, key D. The question also had a prominent distractor, response B, which was selected by 38.41% of candidates. The reason for such a high proportion of candidates failing to select the key for this question, and for more than 38% selecting distractor D, is due to the simple failure to pay sufficient attention to the information in the data and the wording of the responses. The only possible correct response is D based on the information given in the data that recycling and composting has been hampered by a lack of demand for recycled materials from which it can be inferred that the price of recycled materials is low. Based on the information given in the data, nothing can be inferred regarding the determination of the annual rate of growth of waste. The prominent distractor B contains the logically invalid inference that a change in the method of disposal of waste would reduce its rate of growth.

Question 9

This was the third most difficult question in the test, with a facility of only 35.34%, key B. This was the other question with a prominent distractor, response D, which was selected by 51.96% of candidates. The examiners were disappointed that the majority of candidates were unable to answer such a straightforward question. The news report quoted states clearly that betting tax is an indirect tax. Given this information, candidates should have known that a reduction or removal of an indirect tax shifts the supply curve to the right. The resultant decrease in price will lead to an expansion of demand at the new equilibrium. The majority of candidates selecting distractor D confused this expansion in demand for a shift in the demand curve. This basic error shows a disappointing weakness in their understanding of demand and supply curve analysis.

Question 10

This question had a facility of 50.43% meaning that nearly half of candidates taking the test were unable to answer it correctly. Distractor A was selected by 25% of candidates. The difficulty candidates had with this question involves a combination of the weaknesses displayed in the poor results for Questions 4 and 9. To arrive at the correct response, candidates needed to know how a subsidy shifts the supply curve and be able to relate differences in the degree of elasticity of demand and supply to differences in the slopes of the demand and supply curves in a demand and supply diagram. For any given elasticity of supply, a shift to the right in the curve produces a greater increase in sales the greater the price elasticity of demand.

Question 17

This question also proved to be challenging for slightly more than half the candidates taking the test. The key D was selected by only 49.39% of candidates. The low facility demonstrates once again that too many candidates in this test had an inadequate understanding of elasticity concepts and/or poor ability to apply the concepts in the context of demand and supply curve analysis. A zero price elasticity of demand implies that the demand curve is vertical. The imposition of an indirect tax shifts the supply curve upwards by the amount of the tax. If the demand curve is vertical, this upwards shift necessarily raises the price of the product by the same amount.

Question 23

This was the easiest question in the test with a facility of 81.7%. In contrast to the difficulties candidates experienced with demand and supply curve analysis, they demonstrated a good knowledge of the reasons for the U shape of the average cost (AC) curve. The reduction in AC as the firm expands its output can be attributed to the benefits from economies of scale, Key C.

Section B: Data Response (ECON1/2)

General

This was the third occasion when candidates' understanding of the new specification content for Markets and Market Failure was assessed. It is now possible to comment with a degree of confidence on the strengths and weaknesses of the candidates' answers over the course of the three examinations, though focusing in particular on the January 2010 exam.

The main strengths have been:

- Candidates are displaying greater depth and breadth of knowledge.
- In terms of offering a precise definition, candidates have become better at answering part (a) of a data-response question.
- Fewer candidates trawl from the beginning to the end of the data series when answering part (b) of a data response question. Most have grasped the fact that answers should be restricted to two significant points of comparison (or identification), backed up in each case by accurate quotation of statistics drawn from the data.
- Candidates are generally drawing accurate and fully-labelled diagrams, particularly when answering part (c) questions that require a diagram. In particular, they are able to draw accurate and correctly-labelled supply and demand graphs, showing market equilibrium, appropriate shifts of the supply or demand curve.
- Answers to part (d) of data-response questions increasingly contain a good combination of analysis and evaluation.
- More candidates are able to evaluate arguments as they are introduced and developed in answers.

The main weaknesses have been:

- Sketchy knowledge of key terms and concepts. Candidates tend to earn either full marks or no marks (in the event of a blind guess) when answering part (a) of a question. To improve these answers, teachers should regularly test their candidates' understanding of most if not all of all the terms and concepts listed in the specification.
- Answers to part (b) too often describe changes taking place over time *along* a particular data series, rather than comparing changes *across* two data series. Evidence drawn from the data is often spoiled through the omission of the units of measurement, for example £ or % signs. Levels are often confused with changes in levels.
- A failure to follow up a correctly-drawn diagram in an answer to a part (c) question with an explanation of what the diagram illustrates. Description rather than explanation is too commonly provided.
- A failure to develop the prompts provided by the data when answering a part (d) question. Candidates either ignore the data, or simply paraphrase it.
- Candidates understanding of elasticity in all its forms continues to be poor, government failure is confused with market failure, and candidates have not yet got the hang of drawing accurate marginalist diagrams to illustrate market failures.

- Too many candidates deem all goods that they come across to be either 'good for you', and so a merit good, or 'bad for you', and so a demerit good. Merit and demerit goods need to be precisely and accurately defined.

Question 26

Part (a)

Many candidates earned full marks for writing a concise and accurate definition of a 'normal good', which is all that is required for this question. Others accumulated the marks by making a number of relevant statements, including providing a comparative example with an alleged inferior good. A significant number of candidates had obviously not been taught about normal and inferior goods. These candidates guessed wildly, stating for example that a normal good is a good that is normally bought, or which a 'normal person' buys.

Part (b)

Most candidates were able to make a least two significant comparisons between the world market shares of orange juice producers over the period shown, and indeed appeared to find the data straightforward, as many obtained full marks for this question. It was pleasing to note that few candidates trawled through the data. However, occasionally, candidates did not make use of the statistics to support their answers, and therefore had their overall mark constrained by the mark scheme. In addition, some candidates went on to explain the reasons for the changes in market share, and this was simply unnecessary.

Part (c)

This question was generally well answered, and appeared to be accessible to most candidates. Many obtained a maximum of six marks for the diagram, showing either a shift in the demand or the supply curve, or on some occasions both; but were less successful with the explanation. For a full explanation candidates needed to draw from the data to explain why the price of orange juice rose, and then explain the adjustment to the equilibrium price in terms of eliminating the excess demand. Marks were not awarded for a mere description of the diagram.

Part (d)

This question was challenging for most candidates, following on as it did after three relatively straightforward questions. A number of candidates were clearly unsure about the workings of the market mechanism, yet this is a fundamental part of the ECON1 specification. Some answers tried to avoid the market mechanism completely and discussed advantages and disadvantages of various methods of government intervention, but in doing so failed to answer the question. However, there were some excellent answers, which made good use of the evidence in the extracts and the candidate's own knowledge. A common example centred on discussion of the CAP, combined with sound theoretical analysis of agricultural markets, market failure in agricultural markets, and buffer stock intervention, to support reasoned conclusions. Those candidates who were able to make the case for market forces in terms of the price mechanism functioning well, or the case against in terms of market failure, were able to score highly.

Question 27**Part (a)**

As with 26(a), a concise and accurate definition such as 'social cost equals private cost plus external cost' was sufficient to earn full marks. However, few candidates wrote such answers. Many candidates stated that a social cost is the same as a negative externality. Others made the circular statement that a social cost is a cost to society. Without relevant elaboration no marks were earned by such statements.

Part (b)

Even though the data was visually more straightforward, fewer candidates earned full marks for this question than for 26(b). Some clearly failed to recognise that the data was in index number form, and others did not earn the full statistics marks as there was no reference to 'units', for example 'index' or 'points'. As with 26(b), an explanation as to why the rail fares index increased more than CPI, for example, was not required.

Part (c)

Seemingly enticed by the apparent straightforward nature of 27(d), some candidates nevertheless struggled with this question. Only a minority of candidates were able to answer this question using the standard MSC/MSB diagram. Given the prompts in the data, most of the best answers did indeed follow the marginalist approach. However, there were a number of alternative economically-valid responses which all provided a route to full marks. However, as was the case with 26(c), the explanations that followed usually lacked sufficient depth, even when the diagrams earned all the available marks. There was also a good deal of paraphrasing from the passage.

Part (d)

The best answers to the essay part to Question 27 were good. Many candidates had been drilled in the preparation of a generic 'subsidy' essay, and this provided a sound base from which to build. However, better answers were those which drew from the data, demonstrated a keen awareness of the issues surrounding rail subsidies, and included sound theoretical analysis, supported by relevant diagrams. Many good answers also offered possible alternative policy options as part of the evaluation.

The best answers were those which included evaluation throughout, and commented on the significance of the arguments as they were presented. The least 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 really answered.

Mark Ranges and Award of Grades

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