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General Certificate of Education

Economics ECON2

Unit 2 The National Economy

Report on the Examination

2010 examination - January series

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Registered address: AQA, Devas Street, Manchester M15 6EX
Dr Michael Cresswell Director General.

Unit 2: The National Economy (ECON2)

Section A: Objective Test (ECON2/1)

General

The mean mark for the paper was 17.21 and the standard deviation was 4.58. This result indicates that the majority of candidates found the test easy. The corresponding mean mark for the January 2009 paper was 15.31 with a standard deviation of 5.29. The level of difficulty was much lower than expected by the Examiners. The relevant statistical data for each question used in constructing this test was consistent with that used in previous tests and should have resulted in a similar overall performance. However, the proportion of re-sitting candidates for this paper was atypically high at 82% and this fact is probably responsible for the significant increase in the mean mark. The detailed question statistical results for this test, while generally indicating a high level of facility, do not indicate any unacceptable performance with individual questions. The 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.

Candidates found 16 of the 25 questions in the test easy. The test statistics indicate that candidates found Questions 1, 2, 3, 4, 5, 6, 8, 9,12,14,17, 20, 22, 23, 24 and 25 easy in that 65% or more of the candidates answered them correctly. Questions 5, 6, 23 and 24 were found to be very easy, with more than 80% of candidates answering them correctly. None of the questions were found to be very difficult in that they were answered correctly by less than 40 per cent of candidates. No questions had a prominent distractor.

Question 7

Although this was answered correctly by more than half the candidates taking the test, it was still the second most difficult question with a facility of 54.5%, key A. The relatively low facility and the pattern of responses indicate that too many candidates had a weak understanding of how the factors in the distractors affected the level of aggregate demand in the economy. Distractor B was selected by 26% of candidates despite the fact that a fall in the value of the pound implies an increase in the cost of imports and hence would add to inflationary pressure in the economy. Likewise, the emergence of a positive output gap would imply a level of output greater than that which the economy could sustain at its trend rate of growth and hence create inflationary pressure in the economy. A reduction in the rate of interest paid on mortgages would allow households to spend a larger fraction of their disposable income on other goods and services and add to inflationary pressure in the economy rather than reduce it.

Question 21

In the context of a test which most candidates found easy, this was the most difficult question with a facility of 50.5%, key B. All other things remaining equal, for an economy operating on its long-run aggregate supply curve, an increase in its output of capital goods entails a movement along its production possibility frontier without any change in the level of aggregate demand. This implies that its rate of economic growth will also remain constant in the short-term but increase in the future due to the increase in the economy's stock of capital goods. Despite 50% of candidates understanding the implications of the increase in the output of capital goods, the pattern of responses in the choice of distractors indicates that too many candidates have a weak understanding of the determinants and consequences of economic growth in relation to the use of the production possibility frontier diagram. A surprisingly high proportion of candidates, 23.69%, selected distractor A. The composition of output changes as an economy moves along its production possibility frontier while the value of its aggregate demand remains constant. Consequently, an increase in the output of capital goods and a decrease in the output

of consumption goods has no immediate effect on the rate of growth but will make possible an increase in the future. It is most unlikely that an increase in the output of capital goods today will lead directly to a fall in the rate of growth in the future. Taking these two points together rules out response A as a feasible possibility.

Question 23

This was the easiest question in the test, with a facility of 87.46%. The result is not surprising because the question involves a straightforward test of candidates' knowledge and understanding of supply-side policy. Even so, the Examiners were pleased that so many candidates were able to demonstrate that they understood this topic.

Section B: Data Response (ECON 2/2)

General

Approximately a quarter of the candidates chose Question 26 and three quarters chose Question 27. The average mark achieved for each question was almost identical. As was the case in the Summer 2009 examination, 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.

A few candidates wrote unnecessarily lengthy answers for part (a) but most sensibly used just one or two sentences to provide their definition. A clear, concise and accurate definition is all that is required to gain full marks for part (a). It is not necessary to write at length but some candidates wasted valuable time by doing so.

Answers to part (b) of the questions showed an improvement compared to previous examinations. More candidates followed the instructions and identified two significant features of the data, using the statistics to back up the points made. Marks were lost when the candidate did not quote the units, i.e. £ billion in Question 26 and % in Question 27.

The mark schemes for part (c) of the questions allow up to 2 marks to be awarded to candidates who define one or more relevant technical terms correctly. It is usually good practice to define terms as part of the introduction to the answer. In addition, even when the question does not include an explicit requirement for a diagram, up to 4 marks are available for diagrams that help to support the explanation. Many candidates did not define terms or include a relevant diagram. Had they done so, they would have found it easier to achieve full marks.

Good answers to part (c) of the questions are distinguished by the candidate's ability to construct an explanation that clearly identifies the logical links in the chain of reasoning. Marks are awarded for each connection in the logical sequence that is explicitly stated. For example, in 26 (c), a candidate who stated that 'a recession in the eurozone will reduce United Kingdom exports and lead to a deterioration in the current account' would have been awarded fewer marks than a candidate who explained that 'a recession in the eurozone will reduce people's income and hence spending will fall, leading to a decline in UK exports. A fall in UK exports means that the current account balance will deteriorate as the gap between exports and imports increases'.

Less than 30% of the candidates were awarded level 4 or above for their answers to part (d) of the questions. To achieve level 4, there must be examples of good analysis and some evaluation. In this examination, many candidates were able to demonstrate reasonable analytical skills in their responses to part (d) of the questions but the evaluation was often non-existent, thin or unsupported. The best candidates showed the ability to evaluate economic issues and arguments throughout their answer, combined with a conclusion that added to the earlier discussion and provided an overview. A document entitled 'Evaluation Guidance for Teachers' is available from the Teacher Resource Bank on the AQA website.

Question 26

Part (a)

Nearly 30% of candidates were awarded five marks for their definition. Some of these just simply stated that the balance of trade in goods and services is 'the value of exports of goods and services minus the value of imports of goods and services'. Most candidates were awarded some marks for showing a partial understanding of the term. Around 16% of the candidates failed to score any marks for their attempt to define the balance of trade in goods and services.

Part (b)

It is encouraging to be able to report that most candidates were able to interpret changes in the current account of the balance of payments correctly. In previous years, candidates have often struggled with questions of this type. Almost 60% of candidates were awarded full marks for their response to this part of the question. Most candidates identified the reduced deficit on the balance of trade in goods and the increased surplus on the income balance as reasons for the improvement in the current account balance. Only a small minority of candidates mentioned the reduced deficit on current transfers. The overwhelming majority of candidates used figures to support their answers but some lost marks because they did not quote the units, e.g. the improvement in the balance of trade in goods was £1.4 billion and not 1.4.

Part (c)

Whilst there were some very good answers to this question, a significant number of candidates attempted to analyse the impact of the recession in the eurozone on the overall performance of the UK economy rather than focusing upon the effect on the current account of the UK balance of payments. Most candidates recognised that the recession in the eurozone would reduce UK exports but many did not attempt to explain why.

Too many candidates stated that the recession in the eurozone would cause the pound/euro exchange rate to either appreciate or depreciate without giving any reasons for their assertion. No credit was given to candidates who discussed the impact of exchange rate changes on the UK balance of payments unless the candidate was able to provide a plausible reason why a recession in the eurozone might affect the exchange rate.

Up to 2 marks were available for relevant definitions, e.g. what is meant by 'a recession', but only a minority of candidates attempted to 'set the scene' by defining relevant terms in their introduction. Marks were also available for relevant diagrams, i.e. a diagram that assists the explanation. In this case, an AD/AS diagram showing how, for example, the credit crunch reduced real GDP and inflation in the eurozone area was judged to be relevant. The best candidates then used the diagram to help them explain why a reduction in real GDP and/or inflation would lead to a fall in UK exports.

Part (d)

It was pleasing to find that the majority of candidates understood that the main effects of a fall in the exchange rate result from a reduction in the foreign currency price of exports and a rise in the sterling price of imports. Most stated that this would lead to an improvement in the current account of the balance of payments and many also recognised that it would boost aggregate demand.

However, it was surprising that only a minority of candidates clearly stated that, when assessing the effect of a fall in the exchange rate on the performance of an economy, it is necessary to consider the impact on the four main macroeconomic policy objectives. Nevertheless, many candidates did analyse, to a greater or lesser extent, the impact on unemployment and inflation. This was often linked to an AD/AS diagram showing a rightward shift in the AD curve. Some of the weaker candidates did little more than state that the diagram showed that inflation would rise and unemployment would fall. However, the better candidates were able to provide a more detailed analysis of the likely impact on both unemployment and inflation, e.g. when considering the effect on inflation, they discussed the importance of both rising demand and higher costs.

Whilst many candidates showed that they could analyse the impact of a fall in the exchange rate on one or more aspects of economic performance, their ability to evaluate the consequences was far less impressive. Mid-level 4 or above was achieved by fewer than 20% of the candidates. For example, only a small proportion of candidates discussed the circumstances when the effects on inflation were likely to be most significant or related the likely outcomes to the context provided by the data or the current economic situation.

Question 27

Part (a)

A candidate who simply stated that real GDP is 'a measure of national income with the effects of inflation removed' or that it is 'a measure of the total output of the economy' was awarded full marks. Over 40% of the candidates were awarded the full 5 marks for their definition. Candidates were awarded part marks because either it was not clear from their answer that they recognised that 'real' means that the measure of national income has been adjusted to remove the effects of inflation or they did not attempt to explain what is meant by GDP. About 7% of candidates did not gain any marks for their definition.

Part (b)

This part of the question was not answered as well as the equivalent part of Question 26. Just below 30% of the candidates achieved full marks. Some candidates identified one significant point of comparison and others failed to quote relevant statistics to support either one or both of their comparisons. Marks were also lost when candidates failed to include the percentage sign or read the figures off the wrong axis.

Most candidates approached the question in the right way and only a small minority attempted to 'trawl through the data' rather than trying to identify significant features of the data. Nevertheless, candidates would benefit from using two separate paragraphs to structure their answer; one paragraph for each significant point of comparison.

Part (c)

The mean mark on this part of Question 27 was slightly higher than the mean mark on the corresponding part of Question 26. A larger proportion of the candidates included a relevant diagram but, as with 26 (c), some candidates would have gained more marks if they had defined the technical terms that were used to support their explanations, e.g. aggregate demand. The main skills tested in this part of the question are application and analysis. Candidates need to demonstrate that they can construct a logical argument to help them explain aspects of the data. Some candidates alleged that a fall in aggregate demand would lead to unemployment but failed to explain why this is likely to be true. The best candidates stated that, when aggregate demand falls, firms will accumulate stocks of unsold goods, manufacturers will cut production to reduce their stocks, and, as a result, they will need fewer workers, employment will fall and unemployment is likely to rise. Other good answers explained

the impact on revenue and profits, emphasising the need to cut costs by laying off workers. Marks were awarded for each logical link in the chain of reasoning.

Part (d)

The average performance of candidates on this part of the question was similar to part (d) of Question 26 but the proportion of both very good and very poor answers was smaller. The overwhelming majority of candidates were able to identify one or more policies that might be adopted to reduce unemployment and most of these were able to provide a coherent analysis of the likely impact of the policy. The better candidates considered both demand-side and supply-side policies. Some candidates used diagrams to support their analysis but it was disappointing that a significant number of candidates took insufficient care to ensure that their diagrams were accurate and correctly labelled. Poor diagrams are not credited and detract from the overall quality of the response.

Whilst much of the analysis was sound, the assessment of the policies was often disappointing. Some candidates provided a very clear explanation of the way in which various policies might contribute to reducing unemployment but made no attempt whatsoever to evaluate the policies. Where there is no evaluation, a maximum of 13 marks can be awarded, even if the analysis is outstanding. Weaker candidates displayed poor judgement in their choice of policies, for example some only considered policies that were either impractical or likely to have little impact on unemployment.

The best candidates showed an awareness of recent events and were able to use their knowledge to help them review the pros and cons of various policy options in the light of current circumstances. Judgements were often made based on the short-run and long-run impact of the policy and possible time lags. Some discussed the impact of fiscal measures on the budget balance and government debt. The difficulty of boosting demand when confidence is low and the rest of the world is in recession was also considered by a small number of candidates. The impact of policies on other macroeconomic objectives was sometimes a feature of the assessment but this was not always done well. Too many candidates did not include a conclusion and, where a conclusion was included, it often added little to the previous discussion.

Mark Ranges and Award of Grades

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