



General Certificate of Education

Economics ECON3

**Unit 3 Business Economics and the
Distribution of Income**

Report on the Examination

2010 examination - January series

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Set and published by the Assessment and Qualifications Alliance.

Unit 3: Business Economics and the Distribution of Income (ECON3)

General

This was the first examination for ECON3, *Business Economics and the Distribution of Income*. It provided good coverage of the major themes from the specification, i.e. theory of the firm and competition policy; labour markets and market failures such as poverty and income disparity; along with environmental externalities and cost-benefit analysis (CBA).

Candidates appeared to use the time available efficiently. There was little, if any, evidence that candidates struggled with time in the examination, and most wrote answers of appropriate length for each question.

Teachers are requested to instruct candidates to use only black ink or black ball-point pen, not to use correction fluid and to take care with diagrams, which should be labelled in ink and drawn in pencil with, if appropriate, the aid of a ruler.

Question 1 The Global Context

Part (a)

Many candidates were able to secure 5 marks here, by backing up two overall comparisons with statistical data. A large number mentioned the difference of around 1 million between the two data series over the time period, and/ or stated that housing costs added to poverty.

Part (b)

Most candidates seemed able to give fairly crisp, accurate definitions of relative and absolute poverty. Weaker candidates were not able to successfully apply the distinction to the UK and less developed countries, instead presenting more descriptive answers, some of which were copied from the written extract.

Part (c)

Many candidates presented and analysed a few policy options, such as the use of progressive taxation and means-tested/universal benefits. However, only better candidates seemed able to contrast government intervention with a free market approach in any detail. More candidates needed to respond to the invitation in the question to emphasise issues related to child poverty

Question 2 The European Union Context

Part (a)

There was plenty of scope for statistical analysis of Extract D, and many candidates were able to obtain 5 marks with some very concise statements backed up with the data. Some careless errors were made with additions of percentages.

Part (b)

While some candidates were only vaguely acquainted with the concept, a good proportion of candidates were able to give an accurate definition of minimum efficient scale, combined with a reasonably accurate diagrammatic representation. Many were also able to explain why significant economies of scale in motor manufacturing presented a barrier to entry. Only better candidates were able to do all these things well and explain why that led to a concentrated market structure.

Part (c)

Weaker candidates used this question as an opportunity to write all they knew about oligopoly with a little about price collusion. Better candidates moved to the main focus of the question quickly and demonstrated an impressive knowledge of the competition policy framework in the UK and EU. Most candidates were able to write about the problems of collusion between oligopolistic firms. Only the best candidates were able to write and evaluate the ways that governments could control this. The very best candidates concluded that, since collusion and other restrictive practices were expensive to pursue and difficult to prove, the best option was probably to make markets more contestable.

Question 3**Part (a)**

A pleasing number of candidates responded to the steer given in the question and constructed an answer around the forms of market failure flagged up. Most candidates were able to analyse at least one possibility of market failure, especially negative externalities. Negative externality diagrams were well used. Fewer candidates explained the profitability aspect of this question.

Part (b)

Most candidates had a reasonable idea of the purpose of Cost benefit analysis but their analysis and evaluation of the detail was poor. Better candidates were able to define CBA and used the terms private, external and social with precision in relation to the possible costs and benefits arising from the proposal. There were some excellent answers involving a thorough critique of the CBA method and the scope for various types of government failure. Only the more able candidates related CBA to the given scenario and discussed how it could be applied to the choice of a rail line to a short flight. The very best also discussed the way the subsidy would work and linked this to opportunity cost etc.

Question 4**Part (a)**

A good proportion of candidates were able to access the majority of the marks for this theoretical question. There were some very crisp, concise explanations, allied to some accurately drawn short-and long-run analyses of profit maximisation under perfect competition. Some weaker candidates did not draw accurate diagrams, or instead mistook the market structure for monopoly.

Part (b)

There were some excellent answers to this (topical) question, recognising the concept of divorce of ownership and control in large, limited liability companies. As would have been expected, many candidates presented a review of alternative objectives to profit maximisation, but the best answers were able to critique those and also cite recent examples. Some very good candidates were able to conclude that there might not be much of a conflict of interest if good corporate governance is in place.

Question 5**Part (a)**

The better answers responded to the case mentioned in the question, but a few insisted on repeating the standard surgeon / nurse comparison, which was a less impressive treatment. Many candidates were able to refer to a range of supply/demand factors backed up with a supply and demand diagram highlighting these factors. The best answers considered not only the relative strength of demand and supply, but also the likely elasticities. A smaller number of weaker candidates presented very descriptive answers with little or no application to supply and demand factors.

Part (b)

There were some very good answers to this question, with solid understanding shown of the theoretical analysis of the national minimum wage. Better candidates were able to contrast this with other policy options in some detail, or indeed assess the impact of increasing the NMW in a perfect versus imperfectly competitive labour market. Many asserted that it would lead to more unemployment but very few commented that there was little or no evidence of this when a minimum wage was introduced in the UK.

Mark Ranges and Award of Grades

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