



General Certificate of Education

Economics ECON2

Unit 2 The National Economy

Report on the Examination

2010 examination - June series

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Unit 2: The National Economy (ECON2)

Section A: Objective Test (ECON2/1)

General

The mean mark for the paper was 16.71 and the standard deviation was 4.92. The corresponding marks for the June 2009 paper were 14.9 and 4.7. Although not directly comparable because of significant differences in the entry, the corresponding results for the January 2010 paper were a mean of 17.2 and standard deviation of 4.6. These statistics indicate that candidates found the paper to be less demanding than the June 2009 paper but slightly more demanding than in January 2010. The differences in mean mark are within the range of acceptable variations for the paper and the higher value of the standard deviation in June 2010 indicates an improvement in the discriminatory power of the paper. The level of difficulty was consistent with the level intended by Examiners. The detailed statistical results do not indicate any unacceptable performance with individual questions. The individual question test statistics show clearly that the paper discriminated effectively between more- and less-able candidates. All the questions performed within acceptable limits and none were rejected from the paper.

The individual question test statistics indicate that candidates found Questions 1, 2, 5, 8, 9, 11, 13, 17, 18, 20, 22, 24 and 25 easy in that 65% or more of the candidates answered them correctly. Four of these questions, 2, 9, 11 and 20, were found to be very easy with more than 80% of candidates answering them correctly. Only question 15 was found to be very difficult in that it was answered correctly by less than 40 per cent of candidates. Question 7 was the second most difficult question on the paper with a facility of 46.45 per cent. No questions had a prominent distractor.

Question 2

This was the easiest question on the paper. Although structured in a different way to a more direct question on the use of interest rates for monetary policy purposes, nearly 90 per cent of candidates selected the key, D. Examiners were not surprised by this result as it was expected that candidates would have a very sound appreciation of the significance of interest rates for the housing market.

Question 7

Question 7 was the second most demanding question on the paper with a facility of 46.45 per cent, key C. Candidates are required to be able to interpret economic data presented in numerical or diagrammatic form and understand the implications of data presented as an average. The pattern of response to the four choices given for the interpretation of the data presented in bar chart format indicates that too many candidates lacked the required capability. Nearly 30 per cent of candidates selected distractor A. This choice reflects a simple visual interpretation of the length of the bars in the chart without taking into account the fact that two of the sets of bar lines were based on averages. The data presented for the average for advanced economies could include one or more countries with growth rates significantly above the average thus invalidating the inference that the USA had a higher growth rate than any other advanced economy. For the same reason, although Canada's growth rate exceeded the average for member countries of the euro area in both years, it cannot be inferred that its growth rate exceeded that of all the countries included in the average measure. Based on candidates' relatively poor performance on this question, Examiners recommend that students be given more practice in analysing and interpreting economic data presented in a variety of formats.

Question 15

This question was the most demanding question on the paper with only 39 per cent selecting the key, B. The surprisingly poor performance of so many candidates with a straightforward definitional question raises similar concerns to those expressed regarding Question 7. The specification requires candidates to 'be familiar with the various types of statistical and other data which are commonly used by economists' including data in the form of index numbers. This was clearly not the case with this question with 38 per cent of candidates mistakenly believing that the rate of inflation is measured by the level of the RPI rather than by calculating the percentage change in prices between two points in time. A further 16 per cent of candidates selected distractor D, which involved a confusion of changes in relative prices with a change in the level of prices. Examiners recommend that more attention should be given to ensuring that students have a sound knowledge and appreciation of key economic data presented in index number form.

Section B: Data Response (ECON2/2)

General

Just over 40% of the candidates chose Question 26 and nearly 60% chose Question 27. The mean mark achieved for Question 26 was slightly lower than the mean mark achieved by the candidates who chose Question 27. Other evidence suggests that, on average, the more able candidates opted for Question 27. It is encouraging to be able to report that the overwhelming majority of candidates were able to demonstrate some relevant economic understanding and that only a very small proportion of the answers were very poor. There were some excellent responses and, as was the case in June 2009, a number of candidates were awarded full marks.

Only a very small number of candidates wasted their time by providing unnecessarily lengthy answers for parts 01 and 05. As stated in previous reports, just one or two sentences is all that is needed to achieve full marks. However, the inclusion of an example is often useful to help to show that the candidate fully understands the term.

The proportion of candidates adopting an effective approach to answering parts 02 and 06 of the questions has continued to increase since the new specification was first examined in January 2009. However, some candidates persist in trawling through the data despite the instruction to 'identify two main features'. The mark scheme does not provide for marks to be allocated for such an approach. As in previous examinations, a minority of candidates attempted to explain the data and, in consequence, the answer lacked clarity. These candidates also wasted time which could have been better spent on other parts of the question. It is good practice to identify each significant feature of the data in a separate paragraph. To achieve full marks, the point must be supported by using the data, ie quoting relevant figures. Candidates who failed to include the units, eg the % sign, lost marks, as did those who quoted the dates incorrectly. The most common error was made by those candidates who confused levels with rates of change.

As stated in previous reports, the mark schemes for parts 03 and 07 allow up to 2 marks to be awarded to candidates who define one or more relevant technical terms correctly. However, marks are not awarded here for defining, for a second time, a term that was asked for in parts 01 or 05. Up to 4 marks were available for relevant diagrams. On the whole, those candidates who chose Question 27 found it easier to gain marks for diagrams than those who chose Question 26. Many candidates adopted a sensible approach to these questions by using a separate paragraph to identify and explain 'each factor'. A significant proportion of those who failed to adopt this approach tended to write answers that lacked clarity and focus or were unnecessarily repetitive.

Just over 30% of the candidates who attempted Question 26 were awarded Level 4 or above for their answers to part 04, whereas over 40% of candidates who attempted Question 27 were awarded Level 4 or above for their responses to Part 08. This is an improvement compared to previous examinations and is very encouraging. To achieve Level 5, the candidate has to demonstrate good analytical ability, making use of relevant economic principles. However, candidates also have to show that they are able to make reasonable judgements and to evaluate arguments. Answers that are analytically sound but include only limited evaluation are restricted to Level 4. The data provided with both questions provided some clues to help candidates evaluate. Many candidates who ignored these clues failed to include any evaluative comments. However, just repeating what is stated in the data without further development does not amount to good evaluation.

To achieve Level 5, the response should also include a conclusion that provides a final judgement that is reasonable and well supported. The conclusion should do more than just repeat previous arguments.

Centres are thanked for preparing so thoroughly their candidates to work with the new numbering system and the new style answer book. The majority of candidates responded well to the changes to the June 2010 exams, but where difficulties were experienced, centres are asked to draw candidates' attention to the comprehensive range of guidance material that is available on this subject in order that they are confident about what is required of them in future examinations. Support available on this issue includes Guides for teachers and students, and specimen question papers and mark schemes showing the changes in action. All documents published in support of the changes to exams can be accessed via notices published on all qualification homepages, all subject notice boards, and on the parent and student area of the web.

More specifically, teachers and their candidates should take note of some extra advice which is relevant for all future ECON2 examinations. The sub-questions within each whole question (either Question 26 or Question 27) are labelled by numbers, rather than by letters. Candidates should write the sub-question number, eg 01, 02 etc (and **not** 26 or 27) in the spaces provided in the left-hand margin of the page on which the answer is written.

Finally, it is also important for centres to familiarise candidates with the 'instructions to candidates' on the first page of the answer book. These include the instructions to write *only* in black ink (although pencil is still permissible for drawing diagrams) and to leave a space of two lines between each question. Whenever an additional loose answer sheet is used, the relevant number for the question should be repeated in the left-hand margin of the sheet.

Question 26

Part 01

Almost 60% of candidates were awarded five marks for their definition. Some of these simply stated that investment is 'the increase in the capital stock'. Most also provided a suitable example, such as the purchase of a piece of machinery. There was some confusion between investment and raising money to fund a business. Many of those who did not achieve full marks provided only examples without a satisfactory definition. Less than 15% of candidates failed to score any marks for their attempt to define investment.

Part 02

Approximately 35% of candidates were awarded full marks for their interpretation of the data in Extract A. The most common error was to confuse the growth of investment with the level of investment, for example some candidates stated that 'the biggest fall in investment was between 1998 and 1999' when they should have stated 'the largest reduction in the rate of growth of investment took place between 1998 and 1999'. Some candidates lost marks because they failed to provide any figures to support the feature of the data identified. Very weak responses either attempted to trawl through the data or tried to make a point that was not significant. The question asked for two 'main' features.

Part 03

The mean mark for this part of the question was just under 9 and around 30% of candidates were awarded full marks. Up to 2 marks were available for relevant definitions, however no marks were awarded for defining 'investment' because the term investment should already have been defined in 01. Whether or not a definition was relevant depended on the factor mentioned as a determinant of investment. For example, a candidate who explained why a rise in interest rates might result in lower investment could gain marks for defining the rate of interest. Marks were also available for relevant diagrams. For example, an MEC diagram showing why a rise in interest rates might lead to lower investment was a relevant diagram. However an AD/AS diagram illustrating the effects of a fall in investment spending was not relevant.

Candidates who used two separate paragraphs to organise their answers tended to do better. In each paragraph they clearly stated the factor that might result in a fall in investment before explaining why it had that effect. Those candidates that read Extract B carefully would have found it very helpful. It appears that some candidates attempt to answer the questions without referring to the extracts; they should recognise that the data is there to assist them. The factors most frequently identified were a fall in aggregate demand, rising interest rates, unfavourable expectations and the credit crunch.

Part 04

Most, but not all, candidates were able to explain some reasons why a fall in investment spending affects the economy. The best answers analysed both the short-run demand-side consequences and the long-run supply-side effects of a fall in investment. However, good marks were also awarded to candidates who focused on one of these elements provided that the analysis was sound and there was some reasonable evaluation. Nevertheless, it was much more likely that credible judgements would be made if both the demand-side and supply-side effects were taken into account. Many candidates recognised that a suitable approach involved assessing the impact of a fall in investment upon the main macroeconomic policy objectives. Some of the weakest answers were provided by candidates who confused a fall in investment with a fall in the funds available to businesses and consumers. Candidates who digressed into discussing the policies that a government might adopt to reverse a fall in investment might have done better if they had attempted part 08 of Question 27. Whilst candidates should make use of the data to help them answer the questions, they will not gain much credit if they just copy out what is in the extracts. For example, in an attempt to evaluate, some candidates paraphrased the final sentence in Extract C without attempting to explain why investment spending will affect inflation and the balance of payments.

Question 27

Part 05

Nearly 80% of candidates were awarded the full 5 marks for their definition. A statement such as 'the exchange rate shows the amount of foreign currency that can be purchased with a unit of domestic currency' was all that was required to achieve full marks. However, as with 01, a simple example often helped to confirm their understanding.

Part 06

Around 45% of candidates achieved full marks for their answer to this question. Similarly as in 02, the most common error was to confuse rates of growth with levels of real GDP. Candidates who stated that real GDP was at its highest in the first quarter of 2006 were guilty of this type of error. Many candidates stated that the third quarter of 2008 was the only quarter where there was negative growth or, conversely, that for most of the period the UK economy benefited from an increase in real GDP. Again, marks were sometimes lost because the candidate failed to use figures to support their answer or made an error when quoting the figures.

Part 07

The mean mark on this part of question 27 was just over 9 and almost 40% of candidates were awarded full marks. Many candidates were awarded 2 marks for defining what is meant by a recession and many also gained marks for using an AD/AS diagram to support their explanation of the factors that might cause an economy to go into recession.

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 and marks are awarded for each logical link in the chain of reasoning. For example, a candidate who identified the credit crunch as a possible factor and then explained why such an event might cause the economy to go into recession could achieve up to 8 marks. Marks were awarded for both demand-side and supply-

side shocks that might lead to recession. However, some candidates limited the marks they could achieve by discussing what were, in effect, two identical factors, eg a fall in consumer confidence and a fall in aggregate demand. The weakest candidates failed to identify two distinct causes of recession, providing a generalised, poorly-focused discussion of some of the characteristics of an economy in recession.

Part 08

On the whole, the responses to this part of the question were pleasing and there were few very poor answers (around 85% of candidates achieved Level 3 or above). There were also some excellent answers where both the analysis and evaluation of the policies that might be used to recover from recession were very good.

The vast majority of candidates recognised that monetary, fiscal and supply-side policies can be used to help an economy recover from recession. Most were able to explain how these policies can be used to influence the economy, although the depth of knowledge and the quality of the analysis varied. The better candidates understood that, in most cases, recovery requires that there is an increase in aggregate demand and hence expansionary monetary and fiscal policies are most likely to be adopted.

Many candidates had obviously been taught that fiscal policy can be used to influence both aggregate demand and supply but only the best candidates fully understood the distinction. For example, some candidates stated that income tax cuts can be used to boost aggregate demand and illustrated this by talking about the effect of tax cuts on incentives to work. Only a minority of candidates showed that they fully understood the nature of supply-side policies, although many recognised that they are designed to shift the LRAS curve to the right. The distinction between recovery, closing a negative output gap, and increases in productive capacity was often confused. Many candidates concluded that supply-side policies are the best way of achieving a sustainable recovery but very few candidates understood the role that supply-side policies might play in helping an economy to recover from recession.

The majority of candidates made some use of diagrams to support their analysis and to help them assess the likely consequences of different policies. Diagrams usually showed an upward sloping SRAS curve and many candidates concluded that increasing demand will cause inflation. Only the best candidates recognised that this is not an inevitable consequence if the economy is in recession. In some cases, it was apparent that candidates did not fully understand the principles upon which the diagrams are constructed, eg they incorrectly assumed that if an increase in aggregate demand leads to an increase in output, the SRAS curve will shift to the right.

The data provided the candidates with a number of clues to help them evaluate the various policies. Whilst many candidates made some use of the data, others did not and consequently some answers did not contain any evaluative comments. As stated in a number of previous reports, where there is no evaluation a maximum of 13 marks can be awarded even if the analysis is outstanding. Good evaluation does not just mean that a number of points for and against a policy are briefly mentioned. The best candidates supported their evaluation of the policies by referring to the data, drawing on their knowledge of recent economic events and using relevant principles. It was pleasing to find that plenty of candidates tried to incorporate their knowledge of recent events into their answers to this question.

A distinguishing feature of a Level 5 response is that a clear, final judgement is made. Whilst many candidates attempted a conclusion, the conclusion often did little more than repeat the points that had been made earlier, adding nothing to the discussion. Where candidates make an overall assessment, it is important that this assessment is reasonable and well supported.

Mark Ranges and Award of Grades

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