**General Certificate of Education (A-level)
January 2011**

Economics ECON1

(Specification 2140)

Unit 1: Markets and Market Failure

Report on the Examination

Unit 1: Markets and Market Failure (ECON1)

Section A: Objective Test (ECON1/1)

General

The mean mark for the paper was 14.19 and the standard deviation 4.61. These statistics indicated that candidates found the test to be slightly more demanding overall than the previous paper. The corresponding mean mark for the January 2010 paper was 14.3 with a standard deviation of 4.25. The level of difficulty was in line with examiners' expectations when constructing the paper. The statistical analysis of the questions did not indicate any problems which would invalidate individual questions or the test as a whole. The individual question test statistics indicated that the test discriminated very 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 indicated that candidates found questions 1, 2, 3, 8, 15, and 24 fairly easy in that 65% or more of the candidates answered them correctly. None of the questions proved to be especially easy, defined as being answered correctly by 80% or more of candidates. This compared with 9 easy and very easy questions in January 2010. Question 1 was the easiest in the test with a facility of 75.7 per cent. No question proved to be especially difficult, defined as a facility of less than 40 per cent. Question 9 was the most demanding with a facility of 40.5 per cent, it also had a prominent distractor. A further five questions, 5, 14, 16, 22, and 25 had facilities of between 40-49 per cent.

Questions

Question 5

This was the third most difficult question in the test with a facility of only 46.23%, key **B**. The low facility plus the pattern of responses to this question indicated that the majority of candidates had no, or an inadequate, knowledge and understanding of the concept of derived demand. Firms do not demand capital goods for their own sake but as a means for use with other factor inputs to produce goods and services. A firm's demand for factor inputs, such as the services from capital goods, is derived from their expectations of the future level of demand for its output of goods or services.

Question 9

This was the most difficult question in the test with a facility of only 40.52%, key **D**. Distractor **C** was a prominent distractor with a response of 41.62%. This was a disappointing result and indicated the need for significant improvement in candidates' ability to apply knowledge and understanding of the concepts of price and income elasticity of demand. The data given in the stem simply related the percentage change in cigarette consumption to the percentage change in the price of cigarettes in high- and low-income countries. The data did not include any values for the levels of income in high- and low-income countries. Consequently, a sound understanding of the formula for income elasticity would have prevented candidates from making any inference regarding the value of income elasticity. The same knowledge and understanding should have enabled candidates to infer that the only valid inference from the data given was of a negative price elasticity of demand in both high- and low-income countries

Question 14

The facility for this question was 47.59%, key **A**. The question was straightforward and simply tested candidates' knowledge and understanding of the concepts of negative and positive externalities in production and consumption. The relatively low facility plus the

pattern of responses to this question indicated that the majority of candidates had a surprisingly weak understanding of externalities. The stem gave the information that the marginal social cost of the good exceeded its marginal private cost. This meant that the production of the good created negative externalities. Distractor **B** stated the opposite but was nevertheless selected by 32.5% of candidates. The stem also gave the information that the marginal social benefit exceeded the marginal private benefit, which meant that there were positive externalities from its consumption. Distractor **C** stated the opposite but was still selected by 14.4% of candidates. Distractor **C** was unrelated to externalities but was nevertheless selected by 5% of candidates.

Question 16

The facility for this question, 46.65%, was only slightly higher than the facility for Question 5. The question tested candidates' ability to apply their knowledge and understanding of tax/subsidy analysis in the context of official intervention buying in a market designed to maintain a minimum market price. The answer did not require specific knowledge of the Common Agricultural Policy (CAP) other than the meaning of intervention buying. Examiners expect candidates to have a solid understanding of how an indirect tax or subsidy affects market equilibrium and the determinants of its quantitative impact. The relative low facility in this case, as well as the choice of distractors, indicated that too many candidates lacked the necessary ability to undertake the simple calculation required to determine the cost of the intervention buying. The required calculation was the product of the minimum price, OP_2, set by the CAP, multiplied by the excess of market supply over market demand at that price, Q_2Q_3, key **C**.

Question 22

This was the second most difficult question in the test with a facility of only 43.72%, key **B**. Candidates should be familiar with the different kinds of data used in economics and be able to interpret such data. The low facility for this question, combined with the fact that nearly 38% of candidates selected distractor **A**, demonstrated clearly that too many candidates lacked the necessary interpretative capability. The data were in the form of percentage shares of disposable income for different income groups. Consequently, the data could only illustrate changes in the shares of income attributable to each of the five groups and hence changes in income equality or inequality. The table contained no data on the absolute value of disposable income within each of the five groups and thus no inference could be made regarding changes in the levels of income over time. Thus responses **A**, **C** and **D** must be false. Response **D** was simply the total of the percentage share of each of the five groups for a year and is always 100%. Surprisingly, nearly 12% of candidates selected **D**.

Question 25

The facility for this question was 49.41%, key **C**. The responses to the final question exhibited the same lack of knowledge and understanding of key terms and concepts as shown in some of the other questions above. The question tested candidates' knowledge and understanding of the concept of a pure public good. The key defining characteristic of such a good is that its consumption by an additional person has no affect on the amount available for others. Candidates should be better prepared when it comes to knowledge of key definitions.

Section B: Data Response (ECON1/2)

General

About 60% chose to answer Question 26 rather than Question 27. Question 26 was generally very-well answered, though when answering the last part of the question some candidates did not explain and illustrate how buffer stock intervention operates. It should always be remembered that when answering the final part of a data-response question, good evaluation first requires sound economic analysis of the issue or problem posed by the question.

Question 27 was much less well answered. Candidates found the question to be more difficult than Question 26, partly because of their carelessness when drawing and explaining marginal cost and benefit diagrams, and partly because of their general lack of knowledge concerning public goods. Candidates failed to appreciate how, when provided free at the point of use, the cost of provision of public goods could be charged to taxpayers in general or to more limited groups of taxpayers such as the people living in areas likely to be flooded or to construction companies building houses in such areas. Such prompts were provided by the data but were not addressed by many of the candidates who answered Question 27.

The standard of written communication was generally good. However, candidates can improve this standard by following a few simple rules. For **02** or **06**, start each point of comparison or identification with a separate paragraph. For parts **04** and **08**, start a new paragraph on each occasion that a new argument or line of reasoning is introduced into the answer. For all the parts of the question, it is a good idea to leave a line between paragraphs. Again, for **04** and **08**, evaluate each argument within the paragraph(s) in which it is being explained, before writing a concluding paragraph in which a final evaluation is provided.

Question 26

01

This question was very-well answered and many candidates earned full marks for writing a concise and accurate definition of 'equilibrium price', which was all that was required. Nevertheless, as is usually the case with definitional questions, a few candidates accumulated full marks via an unnecessarily tortuous route. However, there was little evidence of candidates needing to accumulate marks with incomplete definitions, perhaps because 'equilibrium price' is such a fundamental part of the microeconomic specification.

02

Whilst many candidates earned full marks for this question by making two significant points of comparison supported by two sets of statistics, others did not take note of the word *significant,* and consequently were not rewarded. Candidates should be reminded that the comparisons must be 'significant'; it is not sufficient to select two years randomly, comparing, for example, the price of coffee with the price of sugar in the same years. Most candidates habitually quoted full statistics to support the comparisons, and used $ per kilo, though some omitted one or the other, or used £ per kilo, and did not obtain all of the available marks. Some candidates still try to explain the reasons behind the data. This is simply not necessary, earns no marks and wastes valuable examination time.

03

This question was generally very-well answered and appeared to be accessible to most candidates. Many obtained the maximum of four marks for the diagram, and most opted to shift the supply curve to the left as a result of the poor harvest. For a full explanation,

candidates needed to draw from the prompts in the data to explain why the world price of sugar had changed. Marks were also available for an explanation of the adjustment to the original equilibrium, in terms of the 'elimination of the excess demand' for example. A mere description of the diagram without having previously explained the cause of the shift was not rewarded. A surprisingly small number of candidates appeared to recognise 'speculation' as a determinant of demand for sugar at that time and relatively few marks were awarded for this line of reasoning. Although up to two marks were available for definitions of relevant terms or concepts, very few candidates made use of this opportunity to pick up marks.

04

The buffer stocks question was confidently answered by a good number of candidates who appeared to see this as their opportunity to demonstrate a sound understanding of economic theory, which could be applied to real world contexts. Many engaged in a genuine discussion of the benefits and drawbacks of using buffer stocks and often included some discussion of the merits of alternative methods of intervention or indeed leaving the allocation of such commodities to the market mechanism. However, some candidates launched into a discussion of buffer stock schemes without first explaining how they work. When this happened, evaluation was often very superficial and brief. Having explained how buffer stock intervention operates, the very best answers established the reasons for government intervention by identifying potential causes of market failure before going on to complete their evaluation. These answers made good use of the data and included plenty of theoretical analysis supported by at least one relevant diagram. With such answers, evaluation was often present throughout prior to a final conclusion.

Question 27

05

As with **01**, a concise and accurate definition earned full marks. However, for this question, fewer candidates were able to provide such a definition. There were more prolonged, irrelevant answers, often listing a number of *examples* of market failure, negative externalities being a favourite, and for which only one mark was awarded.

06

Whilst Extract D contained two apparently straightforward pieces of data, many candidates struggled to obtain full marks on this question. Many confused absolute with percentage figures, and wrote for example, that 'more new houses were built …than house conversions completed', which is inaccurate. As with **01**, some candidates did not make *significant* comparisons; and when they did, they often quoted the data inaccurately. Candidates should be encouraged to quote the data in full always. Again, some candidates wasted valuable examination time in attempting to explain the reasons behind the data.

07

Many candidates who attempted this question clearly found it difficult. Initially, there seemed to be some confusion regarding the title and labelling of the diagram. The anticipated diagram related to tree felling, although some related to trees, and these were rewarded. The best answers included a marginal cost and benefit diagram, but occasionally curves were labelled incorrectly, or the external cost and/or welfare loss were misplaced. Marginal cost and benefit diagrams are now an important part of the AS specification and candidates should be trained to draw them. However, it was possible to earn the maximum diagram marks by using an accurately labelled demand and supply diagram instead. Some explanations were very good and provided a logical chain of reasoning to explain why 'the

negative externalities caused by the cutting down of trees may lead to market failure'.
However, others were very general, lacked economic content or merely copied out the data.

08

Many candidates wrote extremely 'general' answers which contained very little, if any, economic analysis and often no discussion whatsoever of the characteristics of public goods, which should have been fundamental to the answer. When economic content was introduced, it often focused on flood defences as a merit good and ignored the main prompt in the data. Previous examination reports have warned against the tendency to classify *all* goods as merit goods (or demerit goods) on the basis that goods are either 'good for you' or 'bad for you'. Those who realised that flood defences may be a public good were off to a sound start but often had problems explaining why the good might be provided by anyone other than the government. It should be remembered that the specification states: *Candidates should understand the difference between a public good and a private good, and consider whether under certain circumstances, a public good may take on some of the characteristics of a private good.* It was disappointing that so few candidates made use of the prompts in the data about alternative methods of provision.

Of those answers without economic content, many could have been written by *any* AS candidate and not just by those studying Economics. At best, such answers were constrained to Level 2 (4 to 9 marks) and many did not rise above Level 1 (0 to 3 marks). In a few cases, often concentrated in particular centres, there were some excellent answers where candidates gave a full assessment of the issues surrounding public goods, the difficulties of market provision and the circumstances under which flood defences perhaps could become 'excludable'. Such answers often drew on the prompts in the data, and included sound theoretical analysis supported by relevant diagrams. Typically in these answers, judgements were made throughout, prior to the final conclusion.

Some ways in which candidates can improve their answers

The standard of answer can be improved by:

(1)   dividing time according to the marks available for each part of the chosen question.

(2)   drawing diagrams clearly and accurately with correctly-labelled axes, curves and coordinates.

(3)   obeying key instruction words such as define, compare, significant, explain and evaluate.

(4)   by first analysing before evaluating, parts 04 and 08.

(5)   reading the extracts carefully and developing the relevant prompts that they contain.

Minor changes to rubric instructions from June 2011 onwards

Finally, we would like to draw your attention to cosmetic changes to the rubric that have been made to the ECON1 and ECON2 papers from this June 2011 onwards. Instead of being labelled Question 26 and Question 27, the two optional questions will now be labelled as **Context 1** (parts 01 to 04) and **Context 2** (parts 05 to 08). Slight modifications have also been made to the front cover of the question paper to help candidates meet the rubric instructions more effectively. **Please be assured that these changes will not affect, in anyway, what candidates are being asked to do.**

Mark Ranges and Award of Grades

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