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

Economics **ECON3**

(Specification 2140)

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

Report on the Examination

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

General

All questions appeared to be accessible to candidates. The two data-response questions appeared to make similar demands on candidates, although Question 1 was more popular than Question 2.

The analysis and evaluation of basic theory was good but, at times, there were insufficient links to the context of the question to enable candidates to achieve the highest marks in Level 4 or attain Level 5. Many candidates appear to be well practised in discussing little set pieces of theory and they certainly display some theoretical facility. In some cases, the theory is excellent but all too often the models, diagrams and discussions are presented in a self-contained way and ultimately fail to address the specific question set. In some cases, they appear to be more geared to a question from a previous paper.

There was no evidence that candidates struggled with time in the examination and most wrote answers of appropriate length for each question.

Question 1: The Global Context

01

Many candidates did not use the $ sign and some made a comparison within the digital or physical sales, rather than between them.

02

Most candidates had a reasonable knowledge of barriers to entry and tended to focus on recorded music rather than give other examples. A couple of good responses used books and *Kindle* as their examples. Most understood barriers to entry and were able to explain the impact of technology on barriers to entry. Candidates explained how barriers to entry had been lowered by the ability of firms to access the internet (eg *youtube*) without incurring sunk costs. However, barriers had been increased as a result of expensive new technology, facilitating economies of scale for those already in the industry.

03

There were two main approaches to this question. Many answers (often successfully) evaluated the pros and cons of monopolies through abnormal profit, static and dynamic efficiency, economies of scale etc. Some answers showed an understanding of the issues involved such as the impact of illegal downloading on the industry without using too much analysis. The strongest answers were able to combine the two approaches and there were a number of excellent responses to this question.

Question 2: The European Union Context

04

 A minority of candidates wasted some time with this question trying to explain rather than simply identify the significant points of comparison. As with **01**, explanation is not required for full marks.

05

A good proportion of candidates were able to pick up full marks on this question. While initial definitions or explanations of wage differentials tended to be brief, candidates were awarded marks for their analysis of why the differentials occurred. There was good use of wage

differentials diagrams as well as diagrams to show varying perceptions of MRP as a result of discrimination.

06

Most candidates were able to give a reasonable argument about the costs and benefits to the UK of free movement of labour within the EU, utilising sound economic theory and demand and supply diagrams. Some examples also evaluated the extent to which labour migration might occur and also considered the free movement of labour as an opportunity for the UK economy, rather than merely a threat.

Question 3

07

This was the most popular of the essay questions. Most candidates performed well on this question, displaying knowledge of both internal and external growth. A minority spent a long time trying to explain how firms used economies of scale to grow but they were not always careful about cause and effect.

08

Candidates who had no knowledge of the 'divorce of ownership and control' struggled with this question. Most candidates understood that firms might have a range of objectives apart from profit maximisation, eg sales revenue maximisation, growth and the preservation of the environment. Many candidates concentrated on describing the different objectives but the strongest were able to include detailed evaluation. A common error in this question was to ignore the fact that the question required candidates to relate profit maximisation and alternative objectives to the firm as it grew in size.

Question 4

09

Although there were some interesting interpretations of the kinked demand curve, the majority of responses showed enough knowledge of oligopoly to be awarded high marks. Plenty of good diagrammatic analysis was in evidence. Candidates who tried to write all they knew about oligopoly did not do well.

10

Some candidates found it difficult to explain clearly the meaning of contestability and a few simply gave a further explanation of oligopoly alone. Better candidates started off with clear definition of contestability and were able to explore a range of approaches to improving contestability. They recognised that contestability is not only about barriers to entry but also about ease of exit from the market. Also, contestability is not necessarily about minimising all barriers; it is more about existing and new firms facing similar costs. Only a minority discussed the possibility that the supernormal profits earned by oligopolistic firms might generate dynamic efficiency via innovation

Question 5

11

Although most candidates had good knowledge of market failure, merit and demerit goods, they were not so certain about 'imperfect information'. Whilst some candidates confused imperfect information with asymmetric information, most were able to score well with definitions and subsequent explanations of merit and demerit goods, along with diagrammatic analysis of the positive and negative externalities arising from their consumption.

12

There were some very good answers to this question that compared, analysed and evaluated a range of market-based and intervention strategies to tackle pollution etc. Diagrams were used liberally and to good effect, eg negative externality and pollution permit/carbon trading diagrams. There was a wide range of responses, the less strong answers concentrating mainly on methods of government intervention, the stronger ones evaluating market responses to environmental pollution in detail. Too many candidates ignored the wording of the question and appeared to write 'drilled' answers on how to reduce environmental pollution.

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 ECON3 and ECON4 papers from this June 2011 onwards.

In **Section A**, instead of being labelled Question 1 and Question 2, the two optional questions will now be labelled as **Context 1** (parts 01 to 03) and **Context 2** (parts 04 to 06).

Likewise in **Section B**, instead of being labelled Question 3, Question 4 and Question 5, the three optional questions will now be labelled **Essay 1** (parts 07 and 08), **Essay 2** (parts 09 and 10) and **Essay 3** (parts 11 and 12).

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.