



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

Economics

ECON3

(Specification 2140)

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

Report on the Examination

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

General

The June 2011 ECON3 examination provided comprehensive coverage of major themes from the specification, ie theory of the firm, labour markets and market failures such as environmental market failure, imperfect competition and income differentials. In Section A, the two Context questions were equally popular across the candidature, although within individual centres there was a tendency for a majority of students to opt for one rather than the other. Essay 3 was the most popular question in Section B, but all essays had a good uptake.

There was little, if any, evidence that students struggled with time in the examination, and most wrote answers of appropriate length for each question.

Unfortunately, it appears to be the case that some students are simply remembering pre-prepared answers on certain topic areas and attempting to fit these answers to a new question on a similar topic area. Such answers tend to be directed less towards the current question, but at a question which might have appeared in a previous exam. This approach should be discouraged. Students should be trained to read the question in front of them very carefully, and to construct a response which addresses this question directly as opposed to one the student might have preferred.

Context 1 - The Global Context

Question 01

A few students confused gold and silver and there was some misinterpretation of the bar chart, students thinking that silver might be more expensive than gold. A small number of students still feel the need to explain reasons for changes, which is not required, and a few failed to note the values were expressed in terms of index numbers. However, many students scored full marks.

Question 02

It was good to see that many students were able to give a crisp definition of price taker, present clear, accurate firm and industry diagrams to analyse the effects of an increase in global demand for scrap metals upon an individual dealer, and apply their knowledge of pure theory to the scenario presented in the data. Although most students were clear that this was a question about perfect competition, some used monopoly diagrams to try to illustrate their answer.

Question 03

The best answers analysed and evaluated methods to correct environmental market failure arising from waste disposal. However, some students gave descriptive accounts with limited economic analysis.

Context 2 – The European Union Context

Question 04

Many students scored full marks on this question, clearly comparing significant changes in the indices of flight and passenger numbers over the period shown. A small number of students did not recognise that the data was expressed in index number form.

Question 05

Unfortunately, there were some students who did not understand the phrase 'public ownership' although this is flagged up as a named topic in the specification. Those who wrote about public limited companies placed themselves at a disadvantage. Economic reasons for public ownership tended to be presented in terms of efficiency, public interest, and environmental issues.

Question 06

Most students were able to give a reasonable assessment of the possible impact of mergers upon consumers and producers, making reference to economies of scale, and public interest arguments. Problems of monopoly power and monopoly control were also discussed in a relevant way.

Essay 1

Question 07

The best answers carefully distinguished between the short and long run, and between diminishing returns and returns to scale. The very best were able to explain clearly how costs behave in the short run as output approaches capacity limits. There were some useful diagrams, for example showing economies and diseconomies of scale and minimum efficient scale.

Question 08

The best answers gave a focused response dealing with the implications of both cost minimisation and revenue maximisation. The most perceptive economists realised that maximising revenue and minimising costs is only consistent with profit maximisation under certain market conditions. Those that did this often successfully used the various market structures as a framework. Many students did not consider the actual wording of the question sufficiently, and gave a stock answer on profit maximisation and its possible alternatives.

Essay 2

Question 09

Most students seemed to understand the concept of price discrimination and many illustrated their answers with relevant examples. Many students presented a detailed explanation, with a diagram showing industry and firm, and the increased profit as a result of price discrimination. The relevance of price elasticity of demand among different groups was not mentioned in some cases. This is a key issue in the yield management of train companies, which was the scenario mentioned in the question.

Question 10

It was unclear in some essays under which market conditions price discrimination operated and why it was that firms benefited from operating it. Equally there was a general failure to make clear, except in the better responses, that some consumers gained and others were worse off. Stronger students presented plenty of good diagrammatic analysis, for example contrasting gains and losses of consumer/producer surplus.

Essay 3

Question 11

It was pleasing to see clear definitions of income and wealth, flow and stock concepts well distinguished, and plenty of examples given of reasons for inequalities, eg differences in skills, education, household consumption, patterns of inheritance etc.

Question 12

Quite a few students failed to make anything other than passing reference to market forces and a significant number tended to explain the current forms of intervention without properly analysing their impact. Students were able to give good analyses of a range of intervention methods to make the distribution of income and wealth more equal, though not all hooked onto the market forces aspect of the question. Those that did tended to give a good critique of 'trickle-down' arguments. Many made only a passing reference to supply-side measures. Relatively few picked up on the fact that the essay asked for evaluation of increasing the level of intervention.

Mark Ranges and Award of Grades

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