



**General Certificate of Education (A-level)
January 2012**

Economics

ECON1

(Specification 2140)

Unit 1: Markets and Market Failure

Report on the Examination

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Unit 1: Markets and Market Failure (ECON1)

Section A: Objective Test (ECON1/1)

The mean mark for the paper was 14.83 and the standard deviation 4.64. These statistics indicate that students found the test to be very slightly less demanding overall than the previous paper. The corresponding mean mark for the January 2011 paper was 14.19 with a standard deviation of 4.61. The level of difficulty was consistent with examiners' expectations when constructing the paper. The statistical analysis of the questions does not indicate any problems which would invalidate individual questions or the test as a whole. The individual question test statistics indicate that the test discriminated very effectively between more- and less-able students. All questions performed within acceptable limits and none were rejected from the test.

The individual question test statistics indicate that students found Questions 1, 5 and 17 to be especially easy, answered correctly by 80% or more. In addition, Questions 2, 11, 20 and 22 proved to be fairly easy in that 65% or more answered them correctly. This compares with no very easy questions and 6 easy questions in January 2011. Question 5 was the easiest in the test with a facility of 88.31 per cent. Two questions, 3 and 4, proved to be especially difficult, defined as a facility of less than 40 per cent. A further two questions, 18 and 23, were also demanding with facilities of between 40 to 49 per cent. Question 4 was the most demanding in the test, followed closely by Question 3. The demanding nature of these two questions is reflected by the fact that each had a prominent distractor. However, both questions discriminated well between more- and less-able students.

The four most demanding questions in the test, detailed below, all have in common some aspect of the nature and use of demand and supply curves to analyse market situations. Given the fundamental importance of demand and supply concepts and relationships in understanding how economic forces work, the poor showing in this area by the majority of students is a cause for concern.

Question 3

Examiners were surprised that 67 per cent were unable to answer this question correctly. The question tests students' ability to apply their knowledge and understanding of demand and supply curve analysis to the real world context of OPEC's influence on the world market price for crude oil. 33.11 per cent of students selected the key, response C. A greater proportion, 38.16 per cent, selected response A, which made it a prominent distractor. A decision by major suppliers of a product to restrict the output coming onto the market is intended to maintain or increase its market price. A decision by OPEC to restrict the supply of crude oil would result in a shift to the left of its market supply curve. All other things being equal, this would necessarily give rise to a movement along the demand curve. Students selecting response A (a movement along the supply curve) made the elementary error of confusing a leftward shift in the supply curve with a leftward shift in the demand curve. As such, they demonstrated a deficiency in their knowledge and understanding of the fundamentally important difference between movements along a curve with shifts in the position of the curve.

Question 4

This proved to be the most demanding question in the test with a facility of 30.66 per cent, key B. Based on past experience of questions involving an element of numerical calculation combined with an understanding of how markets work, it was felt that the question might prove demanding. However, response A was an unexpected prominent distractor selected by 31.02 per cent. The figure of £75 million can only be arrived at by taking the minimum price of butter of £15 per unit and multiplying it by 5 million units. This implies that 31.02 per cent failed to understand that, at a minimum price of £15, there would be excess supply of 10

million units (not 5 million). A further 29.04 per cent selected response C, which gives the cost of the scheme to the government as £150 million. This figure is the amount paid to farmers as part of the government's minimum price scheme. However, it is not the cost of the scheme to the government because the excess supply of 10 million units is sold to foreign buyers at £5 per unit. The cost to the government is thus £100 million. Response D, 8.05 per cent, is a distractor based on combining the calculation underlying response A with that underlying response C. The fact that a majority of students selected A or C, each involving some, but not all, of the steps necessary to arrive at the correct answer, points to the need for more practice in applying demand and supply analysis.

Question 18

This was the fourth most difficult question in the test, with a facility of 45.83 per cent. Although demanding, it was very effective in discriminating between more- and less-able students. Once again, the difficulty was not entirely unexpected given that the question involves a numerical calculation as well as knowledge and understanding of the concept of cross elasticity of demand. The ability to apply the different concepts of demand and supply elasticities is an essential requirement for undertaking market analysis. Amongst other things, this requires students to know how to apply the relevant formula to calculate the sign and value of a demand elasticity relationship. The data shows that the price/quantity relationship between goods X and Y is negative, so that the two goods are complementary goods. This means that responses A and B are necessarily incorrect because they show positive values of the cross elasticity. A 10% reduction in the price of good X results in a 40% increase in the demand for good Y so that the numerical value for the cross elasticity of demand is -4, response D.

Question 23

This was the third most difficult question in the test, with a facility of 43.17 per cent, but one which also proved to be effective in discriminating between more- and less-able students. As with Question 3, this question relates to demand and supply curve analysis. However, in contrast to Question 3, which involved application of such knowledge and understanding, this question tested students' basic knowledge of the nature of the demand curve relationship. A typical demand curve is negatively inclined, hence the quantity demanded varies inversely with its price, key D. Nearly 40 per cent of students selected responses A or B, which have the quantity demanded varying directly or proportionally with price. It is disappointing that so many students demonstrated an elementary lack of understanding of the difference between a negatively inclined and a positively inclined demand curve relationship.

Section B: Data Response (ECON1/2)

General

Most, but not all, students are now well prepared for the first part of a data-response question and provide a concise definition. Although the definitions given are not always correct, many students are able to accumulate up to 4 marks by providing partial definitions and/or a diagram and/or an example.

Likewise, with the second part of questions students have become better prepared at identifying two significant features of the data or two significant points of comparison. Significant points of comparison include comparing the beginning and the end of the two data series; comparing peaks in the two data series; comparing troughs in the two data series; noting the values in one of the two data series are always above (or below) those of the second data series, where applicable; identifying positive or negative correlations between the two data series; identifying volatility or stability in a particular data series. Students should be aware that a good answer provides overview, backed up by evidence from the data. They must also remember to quote the units of measurement in their answers.

For the third part of the question, students should look for appropriate prompts in the relevant Extract. A prompt is there to help the student to answer the question, and provides a starting point from which a chain of reasoning can be developed and a prompt from which a diagram can be drawn. Marks are not rewarded for simply describing what the diagram shows, although marks are available for explaining the adjustment to the initial equilibrium. Students can also earn up to two marks for including relevant definitions.

Finally, for the last question students should remember that, before they evaluate, they **must** first analyse, i.e. provide some relevant economic theory on which to build their evaluation. Students should also ensure that their theory is applied appropriately to the context in the question, and that the answer includes explicit reference to the data. It is good practice to evaluate each argument as it is introduced into the answer.

Context 1

Part 01

This question was a good discriminator: although many students were able to earn 5 marks for a concise definition of composite demand, many earned zero as they perhaps confused the term with other demand relationships such as derived demand or complementary demand, or even with joint supply. Very few students earned between 1 and 4 marks and it would appear in this case that they either knew the term or they did not, and found it difficult to accumulate marks.

Part 02

Generally this was a very well answered question and many students were able to achieve full marks by identifying two significant points of comparison fully supported by accurate statistics. For those who did not, this was often because they had trawled through the data failing to identify significant points of comparison, they had failed to make a comparison between the data series or they did not quote '\$ per bushel' or 'millions of tonnes'. A small number read from the wrong axis or misread the key, and therefore completely misinterpreted the data.

Part 03

This question appeared to be extremely accessible to most students with the majority achieving full marks. The data contained an abundance of factors which contributed to the change in the price of wheat in 2010, and by identifying one or more and developing the chain of reasoning students easily achieved maximum marks for the explanation. The answer required a basic demand and supply diagram and as students were clearly well-prepared many earned all of the marks available for the diagram too. Where students failed to achieve full marks for this question, it appeared to be because they did not develop the links in their chain of reasoning sufficiently, often because they merely described the diagram or simply did not make use of the data.

Part 04

There were some very good answers to this question which thoroughly analysed and evaluated two or three different ways in which a government might try to stabilise the price of wheat. The best answers which achieved a high Level 5 mark, demonstrated a strong awareness of the context of the question and the consequent implications for a wheat-importing country, and successfully drew from the prompts. Indeed those answers which did not demonstrate an awareness that the question related to a wheat-importing country were constrained to 21 marks (top of level 4), so students should be encouraged to read the questions carefully. With such questions, students should avoid the temptation to list as many ideas as possible because this limits the potential for economic analysis. Neither should they just focus on just one issue (buffer stocks was a favourite in this question) because, besides not answering the question, this limits the potential for evaluation.

Context 2

Part 05

As with **01**, students were able to earn 5 marks with a concise definition. Many did so, and more earned between 1 and 4 marks than for **01**, as they appeared to find it easier to accumulate the marks. However, as is often the case, some students confused external cost with social cost.

Part 06

The majority of students coped well with this question. Some manipulated the figures successfully and were very imaginative in terms of 'significant points of comparison'. However, this was not necessary to earn full marks. It was more common for students to earn fewer statistical marks on this question than on **02** for failing to refer to the units correctly (£000s), or simply because the figures were too vague.

Part 07

Whilst this area of the specification is frequently tested and entirely valid, many students clearly find this type of question difficult, and this was no exception. As with last summer's question about demerit goods, there was a considerable spread of marks. Some scored the maximum yet a similar number struggled to score as many as 2. As with **03**, some students earned up to 2 marks for including relevant definitions, and others provided an example of a merit good (other than speed cameras), or a positive externality. However, not all students were able to include the standard MSC/MSB diagram (regardless of whether or not they chose to refer to positive externalities in consumption or production) and, consequently, many of the explanations lacked the necessary direction for their explanations, which were sometimes inaccurate and contained little use of correct economic vocabulary. Some students used a demand and supply diagram inappropriately and the accompanying

explanations failed to focus upon resource misallocation. Such diagrams received just one mark for the initial set up.

Part 08

Whilst in the minority, there were some extremely good answers to this question, which properly identified the issue of government failure and used sound theoretical analysis, well supported by the many prompts in the data, to provide genuine and convincing arguments to thoroughly evaluate the view posed. However, for a number of reasons other answers were less successful. In some, students marginalised the issue of government failure and perhaps provided an initial definition but failed to develop it, whilst others ignored the issue completely and, for example, provided the arguments for and against speed cameras. Many answers were purely data-inspired, demonstrated little knowledge of economic concepts and contained limited economic analysis. Finally, a small number of students merely ranted about speed cameras. Students should be reminded that, in particular, questions **04** and **08** provide them with the opportunity to demonstrate their understanding of economics and their ability to think like economists and they should make the most of it. It would appear, in this case, that too many selected the question on the basis of what they know about the context, rather than their ability to apply economics to it. With this in mind, students should be encouraged to give careful consideration to their choice of question.

Mark Ranges and Award of Grades

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