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

Economics   **ECON2**

(Specification 2140)

Unit 2: The National Economy

Report on the Examination

Unit 2: The National Economy (ECON2)

Section A: Objective Test (ECON2/1)

General

The mean mark for the paper was 16.82 and the standard deviation was 4.55. This overall result is very similar to that for January 2011 and indicates that the majority of students found the test to be relatively easy, as in January 2011. The corresponding mean mark for the January 2011 paper was 16.03 with a standard deviation of 4.35. The level of difficulty was at the upper limit of examiners' expectations but is still acceptable given the difference in entry for this paper compared to ECON1. The statistical outcomes for the test, while generally indicating a high level of facility, do not indicate any unexpected difficulty with individual questions or reasons for regarding the test as unsatisfactory. In particular, the statistics show clearly that the test discriminated effectively between more- and less-able students. All questions performed within acceptable limits and none were rejected from the test.

Students found 15 of the 25 questions in the test easy, compared to 13 in the January 2011 test. However, the figure for the 2012 test is still less than the 16 in the January 2010 test. The individual question test statistics indicate that students found Questions 1, 2, 5, 6, 8, 9, 10,11,14,15, 21, 22, 23, 24 and 25 easy in that 65% or more answered them correctly. Questions 6, 8, 9, 10 and 21 were found to be very easy with more than 80 % answering them correctly. Question 9 with a facility of 92.86% was by far the easiest question in the test. By contrast, two questions, 3 and 16, were found to be very difficult in that they were answered correctly by less than 40%. This is the same number as in January 2011. In addition, another two questions, 12 and 18, were found to be difficult with facilities below of 50 %. Question 16 had a prominent distractor.

Question 3

This was the most demanding question in the test, with only 37.65% selecting the key, A, and a low measure of discrimination between more- and less-able students. The question tested knowledge and understanding of the concept of real national income and its application to the interpretation of relevant data. The weak discrimination, combined with the pattern of responses, indicates a lack of knowledge and understanding of the concept of real income and/or an inability to apply it to a relevant context. The calculation of the change in the level of an economy's real national income over a period of time is straightforward. It requires a comparison of the percentage change in nominal national income with the percentage change in some index of the price level for the same period of time. Real national income necessarily increases if the percentage increase in the level of prices is less than the percentage increase in nominal income. Nearly 62% demonstrated failure to understand this comparison, or a lack of sufficient numeracy capability to calculate the relevant percentage changes in the data provided. All the required data is contained in the question. Despite this, nearly 18% of students selected distractor D, which stated that the change in real national income could not be determined without further information. Using the supplied information, the percentage increase in nominal national income (GDP) is 30% and the associated increase in the price level, as measured by the CPI, is 25%. Comparison of these two changes gives the unambiguous result of an increase in real national income. This response was selected by only 37.65%.

The 36.78% selecting distractor C made the error of comparing absolute unit changes in the measures of nominal national income and the price level without converting them into the required percentage changes. Each index increases by 30 index points and such a direct comparison of the changes in the index values implies no change in real national income. This is incorrect because the index for CPI starts from a higher initial level than the index for

nominal national income and, consequently, the 30 index unit increase is smaller in percentage terms than that for nominal national income.

Question 12

This was the third most demanding question in the test with only, 43.12% selecting the key B. The problem many students experienced with this question is similar to that which affected them in attempting Question 3. The majority of students lacked the required ability to apply relevant knowledge and understanding of concepts in a data context. The question contains data, in bar graph form, showing the annual percentage changes in an economy's national output (GDP) between 2000 and 2010, at 2000 prices. The data thus records changes in real GDP, **not** nominal GDP. The graph shows an increase in the economy's real GDP in each year except for 2001. It follows immediately that response A, real national output increased each year from 2002, is unambiguously correct. Distractors A and D, selected respectively by 9% and 28%, relate to the absolute level of GDP and not the annual percentage change. Students selecting these two responses made the fundamental error of either not reading the data correctly or not understanding that inferences about the absolute level of a data series cannot be derived solely from its rate of change. Given the additional information that inflation was constant at 2% each year, the approximate 1.3% decline in real GDP shown in 2001 implies that money GDP must have increased in 2001, but by less than 2%. This means that response C, selected by 19%, is incorrect.

Question 16

This was the second most demanding question in the test, with 38.33% selecting the key D. More students selected distractor B (38.66%) than the correct answer. However, in contrast to Question 3, this question discriminated very effectively between more- and less-able students. As with Questions 3 and 12, the low facility and pattern of responses indicate that some students lack an appreciation of the difference between the absolute level of prices and a change in the price level. In this question, the relevant concept is that of the meaning and measurement of the rate of inflation. The question states that inflation in the economy falls from 3% to 1%. The unambiguous implication of this is that the cost of living for the average person in the economy has continued to rise. Nothing can be inferred from the inflation rate information regarding the level of money incomes. The rate of inflation, while lower, is still positive. Therefore, on average, the price of goods and services must have risen and not fallen, distractor B. In the absence of additional information on inflation rates in other countries, nothing can be inferred regarding the implications of the fall in the rate of inflation for the international competitiveness of the economy's exports, distractor C.

Question 18

This was the fourth most demanding question in the test with 45.22% of students selecting the key, D. Despite the relatively low facility, the question discriminated very effectively between more- and less-able students. The question tested students' ability to analyse relationships between the main macroeconomic variables. The question was intended to be more demanding than some of the other questions, but not as challenging as it proved to be. The pattern of responses suggests that the main area of weakness is a limited or inaccurate knowledge and understanding of the factors affecting the balance of payments on current account. This is an area of the specification which continues to cause more difficulty than it should given the importance of international trade for the UK economy and the influence of monetary and fiscal policy on the exchange rate and balance of trade. All other things being equal, rising unemployment combined with a fall in income per head will lead to a decline in aggregate demand and a reduction in imports. All other things being equal, an increase in labour productivity will improve export competitiveness. These two changes combined will result in a decrease in the balance of payments deficit on current account. Consequently, students who selected B or C (34% and 14% respectively) appeared to lack the ability to work out the influences of the specified changes in the economy on the balance of trade.

Section B: Data Response (ECON2/2)

General

Just over 80% chose Context 1 and fewer than 20% chose Context 2. The mean mark
achieved by the students who attempted Context 1 was almost 3 marks higher than that
achieved by those who attempted Context 2. Overall, the mean mark on the paper was
nearly 27 marks. Around 18% of students scored fewer than 20 marks and nearly 5% of
students scored 40 or more marks.

In response to Questions 01 and 05, most students attempted to provide a concise definition
but, despite comments made in previous examination reports, there was still a sizeable
minority of long-winded responses. On the whole, the answers to 05 were better than the
answers to 01. A number of students included a diagram, attempting to illustrate the phases
of the economic cycle, as part of their answer to 05. However, the majority of diagrams were
poor, with labelling often either incorrect and/or incomplete.

Many students sensibly used separate paragraphs to distinguish between the two points of
comparison when answering Questions 02 and 06. However, despite comments in previous
reports, some students wasted time by trying to explain the statistics. For example, when
answering Question 02 some attempted to explain why, for most of the time period, public
expenditure as a percentage of GDP rose when unemployment increased. Although most
students used the figures to support each point of comparison, some did not and others
quoted the figures incorrectly. A small margin of error is allowed but a reasonable degree of
accuracy is expected. Marks were lost by students who failed to include the units of
measurement or who quoted the units incorrectly. A common error, made in response to
both questions, was to identify time periods when one set of data was 'higher' than the other.
Statements such as 'unemployment was higher than public expenditure' or 'imports were
higher than the pound sterling exchange rate index' do not make sense. Some of the weaker
answers identified a significant feature of one of the data series without making an explicit
comparison.

Most students included one, and often two, relevant definitions as part of their answers to
Questions 03 and 07. Many also gained marks by including a suitable diagram. As in
previous examinations, some students failed to achieve all the available marks for diagrams
because they did not label the axes and curves correctly. The mean mark for Question 03
was noticeably higher than for Question 07. One reason was that many of the students who
chose Question 07 did not understand what is meant by labour productivity and,
consequently, how a fall in labour productivity is likely to affect the competitiveness of
domestic products compared to foreign imports.

The proportion of students who achieved level 4 or above for their answers to the last parts
of the questions was markedly lower than in recent examinations. Just under 20% were
awarded Level 4 or above for their responses to Question 04, whereas around 15% were
awarded Level 4 or above for their answers to Question 08. Many students were unable to
evaluate effectively. For example, students who answered Question 04 were usually able to
explain how cuts in public expenditure might damage the performance of the UK economy
however, often, they did not attempt to present the arguments in favour of cutting public
expenditure. This is despite the prompts towards the end of Extracts B and C. Students who
appreciated that cutting public expenditure is likely to damp down inflationary pressures often
proved unable to assess the significance of this in relation to the circumstances in which the
UK economy currently finds itself. Many who recognised that reducing public expenditure
might help to reduce the deficit on the current account of the balance of payments were
unable to support their assertion with accurate analysis.

Similarly, students who were able to analyse how trade might benefit an economy were often unable to relate this to the current difficulties facing the UK economy. Also, few students were able to provide a convincing assessment of the pros and cons of relying on external trade to generate recovery.

Context 1

Question 01

Around 34% were awarded five marks for providing an accurate definition of the term 'disposable income'. However, more than 20% failed to score any marks for their attempt to define the term. The weaker students believed that disposable income is the amount of money households have available to spend after 'paying their bills'. Even some of the better students, who recognised that disposable income is the amount of income a household has to spend after income tax is deducted, believed that it is also necessary to deduct mortgage repayments before arriving at disposable income. It was disappointing that very few students attempted to explain what is meant by the term 'income'.

Question 02

Over 20% achieved full marks for their answers to this question and almost 60% scored at least 4 marks. Some students made mistakes when quoting the figures because they confused the two vertical axes, for example, by stating that unemployment was highest in 1992-93 at 58%. Students should be encouraged to consider whether the figures they quote are reasonable since this should help to reduce this type of error. Another common mistake was to say that 'unemployment was higher than public expenditure between 1990-91 and 2003-04 whereas after 2003-04 public expenditure was higher than unemployment'.

Some students identified a significant feature of one of the data series without making a comparison between the two series. Only 1 mark was awarded to this type of point. Many students identified aspects of the data that were not of any particular significance and, as result, did not achieve any marks. To help to ensure that the comparison is significant, students should be encouraged to make comparisons that take into account the whole of the data period. For example, they could have compared the time when the level of unemployment was at its highest with the time when public expenditure as a percentage of GDP was at its highest.

Question 03

This question was answered well by the majority of students, with a mean of over 8 marks. Around 30% achieved full marks and over 90% achieved at least 4 marks. A small minority incorrectly believed that public expenditure was the same as household consumption and hence failed to pick up many marks. Many, but not all, started their answer by defining relevant technical terms such as 'aggregate demand' and 'public expenditure'. The definitions of aggregate demand were generally accompanied by the formula and were usually awarded one mark. However, the definitions of public expenditure were sometimes too vague or imprecise to be worth credit. Most students were awarded 2 marks for simply stating that public expenditure is a component of aggregate demand and thus, if public expenditure is cut, aggregate demand will fall.

Despite the clues in the passage, some failed to demonstrate that they understood the direct connection between public expenditure and aggregate demand. For example, it was not always appreciated that when government cuts its expenditure it is likely to reduce the volume of goods and services that it buys from private companies. Some referred to the data and explained that, if workers in the public sector lose their jobs or if cash welfare

benefits are reduced, incomes will fall and hence consumer spending will also fall. However, there were plenty who failed to make good use of the data to help answer this part of the question.

Question 04

A number of students made good use of the data in the extracts when constructing their responses to this part of the question. The data provided students with a variety of prompts that they could use to help them to present arguments that cutting public expenditure might have both favourable and unfavourable consequences for the performance of the economy. Some of the weaker answers copied out sections of the data without much elaboration, whereas the stronger answers developed the points raised by using economic principles to help them analyse the issues. Some students presented only one side of the argument and ignored any references to issues that were at odds with their own opinion. There is controversy surrounding consequences of cuts to public spending and it is perfectly acceptable that students present a case that supports their point of view. However, they also need to show that they understand the other side of the argument.

Some of the best students structured their answers by analysing the likely impact of cuts in public expenditure on each of the four main macroeconomic policy objectives whilst showing that they were aware of the current state of the UK economy. Answers that were purely theoretical and did not take into account the present situation in the UK when making judgements were awarded fewer marks. Application is one of the skills assessed in this part of the question.

Good responses demonstrated an appreciation of both the demand-side and supply-side consequences of cutting public spending, using diagrams to help to analyse the likely impact on the performance of the economy in both the short run and the long run.

Context 2

Question 05

Nearly 50% achieved full marks for providing an accurate definition of the term 'recovery'. Only 5% did not achieve any marks for their response to this part of the question. A simple statement such as 'it is a phase of the economic cycle when the economy starts to grow again after the economy has been in recession' was all that was required to achieve full marks. A minority drew diagrams to illustrate the recovery phase of the economic cycle but most of these diagrams were poor and hence were not awarded any marks. Too often, axes and/or curves were not labelled or were labelled incorrectly, eg 'price level' as the label on the vertical axis of a diagram purporting to show how actual growth fluctuates around the underlying trend rate of growth.

Question 06

The mean mark achieved by students answering this question was marginally lower than the mean mark achieved by students answering its equivalent, 02. Around 14% achieved full marks and around 12% were not awarded any marks. As with Question 02, some students did not interpret the data correctly because they read the figures from the wrong vertical axis. Many students would benefit from more prepartion in answering questions where data is presented in this format.

Some students failed to make a comparison between the two data series and, even when a comparison was made, students did not always support the point by quoting figures from both sets of data. If the question asks for a comparison then figures must be quoted from each data series.

Question 07

In general, students found this part of Context 2 more demanding than the equivalent part of Context 1. The mean mark was just under 6.5 and fewer than 15% achieved full marks and yet almost 75% managed to achieve at least 4 marks.

The weakest answers failed to separate the effects of a fall in the exchange rate on the value of imports from the consequences of a reduction in labour productivity. Other answers lacked clarity because they attempted to explain the effects of a fall in the exchange rate on both the value of exports and the value of imports.

Nevertheless, many students were able to provide a logical explanation of the likely relationship between changes in the exchange rate and the value of imports. However, only a small minority of students was able to explain the likely impact of a reduction in labour productivity on the value of imports. Perhaps it was predictable, but still disappointing, that so many students confused productivity with production. Many asserted that a fall in productivity would necessarily reduce output and failed to understand that it would increase firms' unit costs and hence reduce the competitiveness of domestically produced goods and services.

Question 08

In general, answers to this part of the question were not as strong as the answers its equivalent, Question 04. Many students attempted to assess the effect of trade on each of the macroeconomic policy objectives. The focus of this question was the impact of trade on the recovery of the UK economy and therefore the emphasis should have been on the role of trade in generating growth and reducing unemployment.

It was disappointing that relatively few students recognised the significance of the prompt in Extract F relating to the 'injection of demand from exports' in a situation when 'cuts in spending and higher taxes' are on the horizon. Careful reading of the extracts will always provide clues to help students to respond to questions. However, it was encouraging that a number of well-informed students discussed the importance of an increase in exports in the light of the Government's attempt to 'rebalance the UK economy'.

Many students recognised that the difference between exports and imports, ie net trade, affects aggregate demand. Some students mentioned the idea of export-led growth. However, the analysis of the role of an increase in demand as a means of generating economic recovery was not always adequately developed. The better answers included relevant AD/AS diagrams and discussed the importance of multiplier and accelerator effects in initiating and sustaining a recovery. Some recognised that the relative decline in manufacturing in the UK might mean that relying on an increase in exports to generate recovery might be risky. However, many of these answers went too far by implying that manufacturing in the UK had all but disappeared. It is important that, when judgements are made, they are reasonable. Other relevant issues that were frequently discussed by students included: the role of the exchange rate and the impact of the problems in the eurozone on UK exports. There was also some discussion of the importance of imports for the UK economy and how a high marginal propensity to import might act as a drag on growth when the economy begins to recover.

Mark Ranges and Award of Grades

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

UMS conversion calculator www.aqa.org.uk/umsconversion