



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

**Economics**

**ECON3**

**(Specification 2140)**

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

***Report on the Examination***

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## **General**

The examination provided broad coverage of the major themes from the specification, i.e. modern and traditional theory of the firm, labour markets and market failures such as imperfect competition and income/wealth differentials, along with methods of government intervention.

Students appeared to find the context questions meaningful and accessible, and there were some interesting answers in response. There was little, if any, evidence that students struggled with time in the examination, and most wrote answers of appropriate length for each question.

## **Context 1**

### **Question 01**

Most students were able to secure good marks here, correctly calculating the index of gas production and identifying a significant feature of the data, backed up with statistics. A small number of students still felt the need to explain reasons for changes in the data, which is not required, and a few failed to supply the units in which the data were expressed/measured.

### **Question 02**

Many students were able to give a crisp definition or clear explanation of a concentrated market and its features. Consequences discussed included higher prices and less choice. A small number of students confused concentrated markets with contestable/competitive markets.

### **Question 03**

Most students were able to secure some marks in this question by analysing a range of 'standard' arguments for and against privatisation, such as government revenue, increased/reduced efficiency and choice. Better answers made use of the source data, showed an understanding of a range of privatisation methods and were able to argue the case for and against 'strategic' industries such as the *Milford Haven Port Authority* being privatised.

## **Context 2**

### **Question 04**

A good number of students were able to correctly calculate the index of 80 and identify a significant feature of the data. A small number of students did not make reference to the units.

### **Question 05**

Most students could define economies of scale and present a relevant diagram. Most could identify two different types of economy of scale, but not all could explain the economy of scale in the context of the fishing industry. Some suggestions were more plausible than others, the best ones being those that made connections with the 'pointers' situated in the text.

### **Question 06**

Most students were able to give a reasonable assessment of government intervention in the fishing industry and the scope for government failure in both product and labour markets.

### **Essay 1**

#### **Question 07**

This was the most popular essay. Better answers were able to score very effectively with clear understanding of the differences between the short and long run, and normal versus supernormal profits. There were some useful diagrams, for example short- and long-run profit maximisation under perfect competition.

#### **Question 08**

Many students gave a decent overview of profit-maximisation and alternative corporate objectives and were able to evaluate whether the former was always the most important. Very good students were able to reflect upon the key factors determining the key objectives of firms, such as stakeholder power, legal status, size and market share. Narrower answers compared profit maximisation under perfect competition and monopoly. There were some useful diagrams comparing the implications of some key objectives.

### **Essay 2**

#### **Question 09**

Most students understood the concepts of productive and allocative efficiency and were able to identify these in perfect competition diagrams.

#### **Question 10**

While this was a less popular question, students showed a reasonable awareness of contestable market theory and the need, or otherwise, for government intervention. The best answers considered not only the absence of entry barriers but also the influence of exit barriers. Some also mentioned the significance of set-up costs for new entrants and sunk costs for existing producers.

### **Essay 3**

#### **Question 11**

Students attempting this question were generally able to give a clear explanation of Marginal Revenue Product and how the concept underpins demand for labour and, in conjunction with some supply theory, how the equilibrium wage and employment level is set. Some students were clearer than others on the nature of the market demand curve for labour vis-a-vis the demand curve of the individual firm.

#### **Question 12**

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 gave a thorough critique of the progressive tax aspect of the question. Many students included good supply-side analysis, including income/substitution effects, and the possibility of a backward-bending supply curve.

The best answers distinguished between income as a flow and wealth as a stock, and gave a clear critique of possible connections between income tax and wealth distribution.

### **Mark Ranges and Award of Grades**

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