



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

Economics

ECON2

(Specification 2140)

Unit 2: The National Economy

Report on the Examination

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Unit 2: The National Economy (ECON2)

Section A: Objective Test (ECON2/1)

General

The mean mark for the paper was 16.24 and the standard deviation was 4.87. The corresponding values for the June 2011 paper were 16.21 and 4.73. The differences in the marks are very slight and the overall demand of the paper was directly comparable with that for last June.

The individual question test statistics indicate that students found Questions 1, 2, 3, 8, 9, 10, 11, 16, 19, 21, 22, 23, 24, and 25 easy in that 65% or more of the students answered them correctly. Three of these questions, 9, 11 and 23, were found to be very easy with more than 80% of students answering them correctly. Question 9 was the easiest question on the paper. Two Questions, 4 and 12, were found to be very difficult in that they were answered correctly by less than 40 per cent of students. Question 6 was the third most difficult question on the paper with a facility of 46.27 per cent. Question 4, the most demanding in the paper with a facility of 36.96, also had a prominent distractor. Despite these differences, which are within the normal range of variation, the detailed statistical results did not indicate any unacceptable performance with individual questions. The individual question test statistics showed clearly that the paper discriminated effectively between more and less able students. All the questions performed within acceptable limits and none were rejected from the paper.

Question 4

The pattern of responses to this question demonstrated a weak and confused understanding of the production possibility frontier for an economy. Only 36.99 per cent of students selected the key B, while 45.22 per cent selected distractor C. The production possibility frontier curve is related directly to an economy's long-run aggregate supply curve. The position of both curves reflects the full utilisation of an economy's productive resources. An economy operating on its long-run aggregate supply curve is necessarily operating at a point on its production possibility frontier. Under-utilisation of resources takes an economy away from its production possibility frontier to an interior point within its frontier and to a short-run equilibrium position to the left of its long-run aggregate supply curve. In both cases there is no change in the economy's productive capacity, distractor C, but rather unemployment of resources due to a deficiency of aggregate demand. Such a deficiency of aggregate demand could result from a decrease in investment expenditure, key B.

Question 6

This question proved to be more demanding than expected with a facility of less than 50 per cent. Only 46.27 per cent of students selected the key C, with the distractors A, B and D attracting 11.48, 16.26 and 25.19 per cent respectively. This pattern of responses shows a serious weakness in students' understanding of the difference between nominal and real GDP and the calculation of real GDP. It also revealed a disappointing inability to calculate a simple percentage. Distractor D states that nominal GDP rose by less than 50%. The index number data given for nominal GDP shows an increase from 80 to 130 which by very simple arithmetic is an increase of more than 50%. The change in real GDP is calculated by comparing the percentage increase in nominal GDP with the associated increase in the price level. Nominal GDP, measured by the index of GDP at current prices, increased by 62.5% and the price level by 37.5% which translates into an increase in real GDP of less than 50%.

Question 9

This proved to be the easiest question on the paper with a facility of 88.27 per cent. The question tested application of knowledge and understanding of the determinants of long-run aggregate supply in a diagrammatic context. As such, the question was more demanding than a straightforward knowledge question. Examiners were pleased with the excellent result because students' knowledge and understanding of the determinants of long-run aggregate supply has been an area of weakness in previous examinations.

Question 12

The pattern of responses to this question clearly demonstrated that the majority of students had no understanding of the meaning and consequences of deflation. One of the main UK macroeconomic policy concerns since the onset of the financial crisis in 2007 has been to prevent deflation and avoid the kind of severe debt-deflation problems experienced by the Japanese economy since the 1990s. To this end, monetary policy, especially in the form of QE, has been unambiguously inflationary in nature and intent. While students are not required or expected to be informed on this type of policy response, they should understand the concept of deflation as well as that of inflation, and why both can be problems to be avoided. In a situation of deflation, consumers have an obvious incentive to delay purchases if possible, because prices next month may well be lower than prices today. Deflation increases the real value of money and consequently gives rise to an increase in real incomes over time. Deflation may result from a rise in interest rates but the policy response to deflation is to lower not increase interest rates, response B is incorrect. Deflation means that domestic prices are falling which is likely to lead to a rise in exports and not a rise in imports, response C is incorrect. Deflation increases not decreases the real value of money that has been lent, which is why, it can result in a debt-deflation cycle. Response D is incorrect.

Section B: Data Response (ECON2/2)

General

The mean mark on the paper was just over 28 marks, almost 3 marks lower than was achieved by students sitting the equivalent paper in summer 2011. 17% of students scored fewer than 20 marks and 9% of students scored more than 40 marks. Approximately 30% of the students chose Context 1 and around 70% chose Context 2. The mean mark achieved by the students who attempted Context 2 was significantly higher than the mean mark achieved by those who attempted Context 1. The statistical evidence indicates that, on average, the more able students chose Context 2.

In the first part of each context question, students are asked to define a key term that is central to the required knowledge and understanding identified in the specification. Most answers to Parts 01 and 05 were brief and concise but some were inaccurate or incomplete. For example, some students confused structural with cyclical unemployment in Part 01 and some did not attempt to define inflation when answering Part 05. One, or possibly two, sentences are usually all that is required but, to achieve full marks, the definition must be both accurate and complete. Many students quoted one or more examples to show that they understood the term, eg unemployment resulting from the contraction in the coal industry as an example of structural unemployment and a rise in the world market price of oil as a source of cost-push inflation. The use of examples should be encouraged by teachers.

Just over 25% of the students scored full marks for their answers to the second part of the context questions. The significant reason why students failed to score full marks was that many confused levels of real GDP with the rates of growth of GDP in Context 1 and the level of earnings with the rate of growth of earnings in Context 2. Also, students lost marks because the figures and/or the associated dates quoted in support of the comparisons were inaccurate. A small margin of error is always allowed when students are required to read off a chart, but large inaccuracies are penalised.

Whilst many students used a separate paragraph for each point of comparison, a high proportion of the students did not. Students should be advised that the best approach to these questions is to state the point of comparison first, and then quote the figures to support the comparison. For example, a significant point of comparison for Context 1 might have been presented as follows:

- unemployment was lower at the start of the period than at the end of the period whereas the rate of growth of real GDP was higher at the start of the period than at the end of the period. Unemployment rose from 1.7 million to just under 2.5 million but the growth of real GDP fell from 2.5% to 1.7%.

Some of the mistakes that were made could have been avoided if students had read the titles to the charts carefully and understood the meaning of the data. For example, the titles to both charts stated clearly that one of the data series showed rates of growth and, in respect to Context 1, any student who stated that unemployment and the rate of growth of real GDP were equal in the 4th quarter of 2008 had not thought about the data.

Answers to Part 03 were generally much weaker than the answers to Part 07. Many students were well prepared for an answer that required knowledge and understanding of the impact of changes in the exchange rate upon the economy. However, given that the UK economy has been struggling over the past few years, it was disappointing that most students found it hard to explain the links between aggregate demand, the underlying trend rate of growth and unemployment.

Students should be advised to begin their answers to the third part of the context questions by including two relevant definitions in an opening paragraph that creates a good foundation upon which they can build their response to the question. Many students did not attempt to define relevant terms and, even when definitions were attempted, some of them were weak and inaccurate.

Although Part 03 did not require students to draw a diagram, most did so. However, very few of the diagrams provided an accurate reflection of the situation described in the question. Conversely, the majority of diagrams presented in response to Part 07 were relevant, accurate and complete.

The mean mark achieved by students answering Part 04 was lower than the mean mark achieved by students attempting Part 08; the statistical evidence suggests that this was due to differences in the ability of the two sets of students. A common weakness of a minority of students was that part of their answer was not focused on the question asked. In Part 04, too many students did not focus on whether or not it is inevitable that reducing the budget deficit will lead to a rise in unemployment and, in Part 08, some failed to consider whether or not the use of interest rates is the best way to control inflation.

It was good to see that most students included at least one relevant diagram to support their analysis in the fourth part of the context questions, and that most of the diagrams were accurate and used appropriately. It is also encouraging that more students are now including quotes from the extracts in their answers. However, many answers still fail to make much, if any, use of the extracts or their knowledge of recent developments in the UK economy when responding to the questions. Students could use past questions to practise identifying which sections of the data are useful and to consider how the data can be utilised effectively.

Context 1 Unemployment in the UK

Part 01

Approximately 14% of students were awarded the full five marks for providing an acceptable definition of 'structural unemployment' but almost 20% of the students failed to score any marks for their attempt at a definition. The weakest answers confused structural unemployment with other types of unemployment such as cyclical or frictional unemployment. Many students recognised that structural unemployment exists when there is a mismatch between the skills of those who are unemployed and the skills required by employers but failed to recognise that structural unemployment occurs when there is a decline in a particular industry, region or sector of the economy. Many students who provided an incomplete definition were able to gain marks by giving one or more suitable examples.

Part 02

This question was not answered as well as the equivalent part of Context 2. Fewer than 20% of students scored the full 8 marks and nearly 30% of the students scored fewer than 4 marks. Many students were able to provide two significant points of comparison, but, too often, they lost marks because they confused the rate of growth of GDP with the level of GDP. This was a common error amongst students who stated that 'real GDP was at its highest in 2007 Q3'. As is often the case when there are two vertical scales, a significant minority of students made mistakes because they read the figures off the wrong vertical axis. Students would be well advised to read the title carefully and to think about the nature of the data before attempting to identify key comparisons. It should, for example, be obvious that quoting unemployment as a negative percentage is not correct.

The two other common errors, that demonstrated that students did not understand the nature of the data, were identifying periods when the rate of growth of real GDP was either above or below unemployment and, secondly, identifying a point where the two lines intersected as a significant comparison.

Whilst few students trawled through the data, some mistakenly thought that they should attempt to explain the relationship between the rate of growth of real GDP and unemployment.

Part 03

The responses to this question were on the whole disappointing. The mean mark was 4.7 with only just over 2% of the students scoring the full 12 marks. Around 40% of students achieved 6 or more marks.

Many students sensibly started by attempting to define relevant terms, but in some cases the definitions were weak. For example, a statement such as ‘unemployment is people who are not working’ was not awarded any marks.

Only a minority of the students understood that the underlying trend rate of growth reflects the rate of increase in the productive capacity of the economy whereas, the growth of aggregate demand is likely to determine how much of the extra capacity is utilised. A minority stated that if aggregate demand grows more slowly than the underlying trend rate of growth, then the size of the negative output gap is likely to increase. However, too often, they were unable to explain why.

Some students only explained why an increase in aggregate demand is likely to reduce unemployment, whilst others explained why a fall in aggregate demand is likely to increase unemployment. Such answers often included an AD/AS diagram to support their explanations. Up to 8 marks were awarded for answers that in effect, ignored the growth in productive capacity. Only a small number of students was able to draw an accurate diagram illustrating the situation described in the question. Acceptable diagrams included a production possibility diagram, a diagram showing actual growth and trend growth or an AD/AS diagram. To achieve the maximum 4 marks available for the diagram, the diagram had to illustrate the increase in the size of the negative output gap.

The weakest answers just quoted from the extracts and, in most cases, these quotes did not help to answer the question asked. Many responses included a detailed account of factors that might result in either a rise or fall in aggregate demand. Since this did not help to answer the question, no marks were awarded.

Part 04

The mean mark for this question was just over 10 marks with around 14% of students achieving level 4 or above. This question was not answered as well as the equivalent part of Context 2.

It was very surprising that despite the content of the extracts, a minority of students confused the budget deficit with the balance of payments deficit. This invariably meant that the answer presented was confused and failed to address the question. Other weak responses focused on whether or not the government should attempt to reduce the budget deficit rather than the likely consequences of a reduction in the deficit for unemployment in the UK. Some students spent too much time discussing different types of unemployment and the various policies that might be adopted to reduce each of these forms of unemployment. Some students also asserted that monetary policy is being used by the Government to reduce the size of the budget deficit. This usually resulted in a very muddled response.

The best answers to this question began by stating that in order to cut the budget deficit, the Government is likely to have to reduce government spending and raise taxes. Good answers included an analysis of the reasons why both cuts in government spending and increases in taxation are likely to increase unemployment, at least in the short run. This analysis was normally supported by the use of AD/AS diagrams. The best answers considered both the demand-side and supply-side consequences and made use of the data to support their analysis.

Some answers concluded that it was inevitable that measures to reduce the budget deficit would result in higher unemployment without considering why this might not be the case. Answers of this type rarely got out of level 3 since the evaluation was likely to be weak or non-existent.

Students who questioned the view that a rise in unemployment was an inevitable consequence of cutting the deficit frequently referred to the extracts and considered the possibility that growth in employment in the private sector might outweigh the loss of jobs in the public sector. Some argued that some changes to the tax-benefit system might reduce the replacement ratio and encourage more people to look for work. However, the explanations were sometimes confused and only occasionally showed an awareness of recent policy changes. A small minority of students picked up on the comments in Extract C that related to the fall in the value of the pound and the possibility that this might help to stimulate the private sector of the economy. Some also discussed the impact of low interest rates and quantitative easing upon economic activity in the private sector.

The very best answers also considered the various consequences of cuts in the public sector on the private sector and attempted to assess whether or not it was probable that growth in the private sector employment was likely to be sufficient to compensate for the fall in employment in the public sector. Discussions sometimes reflected on the impact of the Eurozone crisis and whether or not monetary policy was likely to be effective in stimulating employment in the private sector.

Conclusions were often too brief, unsupported and misdirected. It didn't matter much whether the student concluded that cuts in the budget deficit would or would not lead to a rise in unemployment, as long as the final judgement was focused and well supported. The data in the extracts and the student's own knowledge of recent economic events could have been used to help to support the conclusion offered.

Context 2 Inflation in the UK

Part 05

Nearly 40% of students were awarded five marks for providing an accurate definition of the term 'cost-push inflation' but nearly 8% of the students failed to score any marks for their attempt to define the term. Some of the weakest answers confused cost-push inflation with demand-pull inflation. However, the majority of students did appreciate that cost-push inflation occurs when firms experience an increase in their costs of production that leads them to raise the prices of their products. However, too many students did not attempt to define inflation and/or did not recognise that cost-push inflation only occurs when increasing costs result in a rise in the price level. Where the definition was incomplete, many students were able to gain some marks by drawing an accurate diagram and providing examples of events that often lead to cost push inflation, for example, a significant increase in commodity prices.

Part 06

Almost 30% of students achieved full marks for their answers to this question but nearly 17% scored fewer than 4 marks. Similar strengths and weaknesses to those shown in Part 02 were apparent in this part. Comparing the highest, the lowest and what happened over the whole time period proved to be the most popular points of comparison.

Once again, failure to read the title led to many students referring to the level of average earnings rather than its growth, losing a mark for each comparison made. As ever, there was some misreading both of dates and values. Some students either quoted insignificant points, eg there was no credit for identifying when the CPI inflation and the rate of growth of average earnings were the same. Others made assertions that were not supported by the data, such as stating that there was an inverse relationship between the two data series.

As has been said in previous reports, students are advised to include two paragraphs, one for each key comparison. Some write about one data series and then the other, when a much more effective comparison involves stating the point of comparison, followed by the figures and dates to support it.

Only a small minority trawled through the data. However, some failed to compare the two data series and merely identified one or more significant features of each data series. Hence, they were restricted to a maximum of 2 marks.

Part 07

Students found this part of Context 2 more straightforward than the equivalent part of Context 1. The mean mark was approximately 9.2. Over 25% of the students achieved full marks and around 88% of the students who attempted this question scored 6 or more marks.

Many students started by defining inflation and the exchange rate. Some defined aggregate demand. Most definitions were accurate and hence 2 marks were awarded. The majority of students focused on the impact of a fall in the exchange rate upon aggregate demand and recognised that a lower exchange rate would make UK products more competitive, switching spending towards home-produced goods and services. This was usually supported by an accurate AD/AS diagram. However, it was disappointing that only a small number of students then went on to explain why a rise in aggregate demand is likely to increase inflation.

A minority of students took a different approach and explained the impact of a fall in the exchange rate on import prices and hence cost-push inflation. Students who adopted this approach were more likely to analyse why a rise in import prices might lead to an increase in the general price level. Again the written explanation was frequently supported by an accurate AD/AS diagram.

Only the very best students considered both transmission mechanisms, ie how a fall in the exchange rate affects inflation through its impact on aggregate demand and how a fall in the exchange rate raises the price of imports, increasing firms' costs and hence inflation.

Part 08

The mean mark for this question was just over 13 marks with almost 29% of students achieving level 4 or above.

Most students recognised that interest rates are a tool of monetary policy that is used to control inflation by influencing aggregate demand. However, the depth and quality of the analysis of the link between interest rates and total spending varied markedly. Many students drew an accurate AD/AS diagram to illustrate why raising interest rates to reduce aggregate demand is likely to damp down inflationary pressures. The weaker answers just explained how interest rates can be used to control inflation without comparing this to other policy options. However, some of these students did attempt to evaluate the use of interest rates as a method of controlling inflation. Time lags and possible conflicts with other policy objectives were often mentioned.

A sizeable minority of students quoted Extract F lines 7 and 8 that stated 'many economists believe that this type of cost-push inflation is difficult to control through the use of interest rates' and concluded that interest rates have no impact on inflation when it results from rising world oil and commodity prices. Many students went on to claim that the best way to control inflation is by adopting supply-side policies or by the government using subsidies to reduce the price of commodities imported into the UK. Very few discussed the weaknesses of these approaches to trying to control inflation. The best students recognised that a rise in interest rates can help to offset the impact of a rise in world commodity prices by strengthening the exchange rate but argued that this is probably undesirable, given the current state of the UK economy.

The better answers compared the use of interest rates with other methods of controlling inflation. Many recognised that fiscal policy, like interest rates, can be used to influence aggregate demand. Some also considered the possibility of cuts in VAT as a means of offsetting rising costs and prices. However, few recognised the overwhelming limitations of such a policy as a long-term approach to controlling inflation. Supply-side policies were frequently discussed and many students concluded that such policies are the best way to control inflation. Given that in most countries around the world monetary policy is assigned to controlling inflation, this conclusion is difficult to accept. Many students had a very limited appreciation of the nature of supply-side policies and only the best students demonstrated that they understood the contribution that supply-side policies can make to controlling inflation. The evaluation of the various policies often appeared to consist of some well-rehearsed points with little appreciation of their importance. For example, it was often stated that the existence of time lags was a limitation of both monetary and supply-side policies but very few students recognised how they differed and the implications for the control of inflation. Many students seem to believe that supply-side policies, especially spending more money on education and training, are the solution to all our economic problems.

Mark Ranges and Award of Grades

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

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