



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

Economics

ECON3

(Specification 2140)

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

Report on the Examination

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General

This examination provided a broad coverage of major themes from the specification. These included, theory of the firm, labour markets and market failures such as, imperfect competition and income differentials, along with cost-benefit analysis and methods of government intervention.

There were no unanticipated problems with this paper. All the questions seemed to be accessible to students. Context 2 was more popular than Context 1. The least popular of the essays was Essay 3, with Essay 1 attracting a slightly larger number of students than Essay 2. Standards of legibility and presentation were generally good, and there were no major breaches of the rubric. Students appeared to use the time available to good effect.

Context 1

Question 01

Very few students failed to score well except for the students who chose a few statistics at random. A good general rule for students would be, to think of ‘significance’ in terms of the highest, lowest, fastest, slowest, greatest change, etc.

Question 02

A significant minority of students did not understand ‘property rights’ very well, with a few using the term interchangeably with ‘pollution permits’. In some cases, they tended to anticipate the next Question 03, and discussed how pollution permits worked, rather than addressing issues around resource depletion and resource degradation or pollution.

Question 03

There were some very good answers where students identified the main policies that could be used by the UK, and analysed the impact that they would have upon British firms. Some good answers addressed the way different policies in different countries impact upon the ability of UK firms to compete in the international market. Many students, however, tended to take an approach which looked almost exclusively at what the available policies are and failed to focus on the impact of policies on UK businesses. For this aspect, a focus on costs, revenues, and profits would be a sensible focal point.

Another area that was not as well developed as it could have been, was why UK firms might prefer one policy, such as permit trading, over another.

Context 2

Question 04

As was the case with Question 01, the vast majority of students scored full marks for the calculation.

Question 05

Most students distinguished very well between absolute and relative poverty. Many presented a relevant diagram, such as a Lorenz Curve or labour market diagram, but often, (especially with Lorenz Curves), these seemed to have been drawn for the sake of it, without any discussion in the text to establish its purpose or relevance to the question. This meant that no marks were given for the diagram. There were some good analyses of two possible causes of poverty.

Question 06

Most students were able to give a reasonable assessment of a range of policies to achieve a 'fair' distribution of income, with many being able to give a thorough analysis and critique of relevant policies designed to reduce supply-side obstacles and other factors causing inequality. Many answers included a discussion of minimum wage legislation, which was usually relevant to the thread of their discussion. In some cases, however, the whole essay became dominated by a pre-learned answer to a different question about minimum wages.

As was also the case in Context 1, disappointingly few students commented on the numerical data in order to boost their marks for 'application'. Such data is included not only as a basis for Questions 01 and 04, but also to be available for comment in connection with Questions 03 and 06.

The best answers paid close attention to the wording of the question and maintained focus on the contrast between policies aimed at 'income at source' and 'income after it has been earned'.

Essay 1

Question 07

There was some imprecision about the law of diminishing returns with some students confusing changes of output with changes of revenue. Attempts to relate output to costs were rewarded as appropriate, but full marks were available without this extra step, and many students who attempted to make the linkages revealed only a vague understanding. The best answers linked diminishing returns with changes in potential productivity. The very best answers made linkages with the idea of optimum use of capacity in the short run.

Question 08

Many students made the assumption that small firms equated to a competitive market and that large firms tended to be monopolies. While a full answer was possible without this assumption, it enabled students to examine static and dynamic efficiency arguments and present relevant diagrams in support. Some students would have preferred to answer a question from a previous paper on profit maximisation as a business objective.

Essay 2

Question 09

'Interdependence' and 'uncertainty' were often not considered as separate issues, but as two aspects of oligopolistic behaviour arising out of the unusual price elasticities of demand that might be observed along a kinked demand curve. This integrated approach was perfectly acceptable. Where students offered a simple game theory matrix to support their discussion, this was treated by examiners as a 'diagram' in order to award marks suitably.

Question 10

Some students wasted time reiterating or introducing material on the nature of oligopoly that would have been more useful in Question 09 when they would have been better advised to deal with policy as required by the question. Most students showed awareness of various strands of UK and EU competition policy, along with the shortcomings of intervention methods and possible sources of government failure, such as regulatory capture, or simple regulatory ineffectiveness. Most students discussed policies for existing monopolies and cases of collusion, and did not comment on policies to prevent potential monopoly arising, for instance, from mergers and take-overs.

Essay 3

Question 11

Although this was the least popular question, it attracted some very good answers from students who understood the main 'principles', for Question 11, and 'advantages and disadvantages', for Question 12. Students who systematically discussed the 'stages' of a Cost Benefit Analysis did very well in answering Question 11.

Question 12

It was pleasing to see students making reasonable assumptions about the specific scenario (possible investment in snow clearing equipment) and applying their knowledge of relevant economic principles to this scenario. Their answers were well focussed and considered cost and benefit issues concerning both product and labour markets. The best answers lacked the irrelevancies and side-issues that can creep into answers to more open-ended questions. Therefore, there were very few pre-learned answers dealing in depth with other CBA scenarios, such as a Severn Barrage or Concorde replacement, as examiners were gratified to note.

Mark Ranges and Award of Grades

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