

**A LEVEL**

**Examiners' report**

# **ECONOMICS**

**H460**

For first teaching in 2019

**H460/02 Summer 2022 series**

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## Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates.

The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. A selection of candidate answers is also provided. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report.

A full copy of the question paper and the mark scheme can be downloaded from OCR.

### Advance Information for Summer 2022 assessments

To support student revision, advance information was published about the focus of exams for Summer 2022 assessments. Advance information was available for most GCSE, AS and A Level subjects, Core Maths, FSMQ, and Cambridge Nationals Information Technologies. You can find more information on our [website](#).

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## Paper 2 series overview

Candidates had been well-prepared for the examination. There was no evidence that candidates were short of time, full responses being made to all questions by the vast majority of candidates.

The features of responses that scored highly are summarised in the table below, along with the common characteristics of responses which scored less well.

Candidates who did well on this paper generally did the following:	Candidates who did less well on this paper generally did the following:
<ul style="list-style-type: none"> <li>• knew key terms precisely</li> <li>• focused on the question set, using economic theory, with good structure, displaying the full range of assessment skills needed</li> <li>• made good use of the stimulus in Section A</li> <li>• used accurately labelled diagrams, which were fully integrated into their response in Section B</li> <li>• developed clear and relevant chains of reasoning which showed cause and consequence.</li> </ul>	<ul style="list-style-type: none"> <li>• showed an awareness of key terms and concepts but were often imprecise</li> <li>• did not always focused on the question set</li> <li>• made very little use of the stimulus material in Section A</li> <li>• produced diagrams in Section B but they were often inaccurate and not referred to.</li> <li>• had an awareness of the concepts and theory needed, but did not develop chains of reasoning or focus on the question set.</li> </ul>

## Section A overview

Section A provided an accessible context of a topical problem for many countries which allowed candidates to use their knowledge and understanding of economic terms, concepts and theories to good effect. Questions 1 (a) and (b) enabled understanding of the key terms to be accessed from the stimulus material and were generally done very well. Questions 1 (c) and (d) involved data handling and interpretation skills, which were not always done as well. Question 1 (e) needed use of the stimulus and an understanding of 'an inflation rate target' which was not always understood well. Question 1 (f) was the main focus of the context, so there was sufficient material to guide candidates to produce a balanced response.

### Question 1 (a)

1 (a) Using information from the stimulus material, identify **two** reasons why crowding out may **not** occur.

1 .....

.....

2 .....

.....

[2]

Responses to this question generally used information from the stimulus, to identify 'low interest rates' and 'an increase in savings'.

### Question 1 (b)

(b) Using **Fig. 1**, explain how savings can promote economic growth.

.....

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.....

.....

[2]

Responses to this question recognised that savings provide finance for investment and higher productivity/efficiency/better capital led to higher output.

### Question 1 (c)

(c) Using Fig. 2, explain the relationship between the Gini coefficient and economic growth rate.

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.....  
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.....  
..... [4]

Responses on this question mainly gained 2 or 3 marks, although there were a variety of ways to gain full marks. There appeared to be some confusion as to what the value of the Gini coefficient meant. This was not required for the answer but was needed to be able to correctly explain the relationship shown between the Gini coefficient and the growth rate, which resulted in responses saying there was a positive relationship. Many responses explained the relationship as being inverse due to a high growth rate leading to a low Gini coefficient. Some were confused by the UK being an outlier. Many responses explained the relationship without reference to the stimulus material. Others used the stimulus material without explaining the relationship.

### Question 1 (d)

(d) Using information from the stimulus material, calculate the UK's 12 month inflation rate in January 2020.

.....  
.....  
.....  
..... [2]

The correct response to this question was 1.8% or 1.79%. and many responses were accurate. Many however, just subtracted the two indices. The direction of change was also confused at times, the inflation rate increased so only 1 mark was given for an answer of -1.79%.

**Key point call out (change this to a relevant heading for your key point)**

Candidates should remember that showing workings is also important; 1 mark could be given for correct workings, even if the final answer was incorrect. Candidates need to review how to calculate a percentage change (also useful for calculating growth rates and elasticity as well as for inflation rates).

### Question 1 (e)

(e) Using information from the stimulus material, evaluate whether setting an inflation rate target is likely to result in low and stable inflation.

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..... [8]

A few candidates did not know what an inflation rate target is and instead, evaluated inflation. Many did not use the stimulus material effectively. Therefore, few achieved full marks on this question. Inflation targeting is an approach to monetary policy in which the central bank is given independence to set interest rates to meet an inflation target. Candidates could then analyse how this may result in low and stable inflation, for example by influencing expectations and investment in a beneficial way which means firms may not raise prices significantly as they will not expect a rise in their costs of production, they may invest more as it will be easier to plan ahead. The stimulus also provided reasons for why setting an inflation target may not lead to low and stable inflation because of ‘demand and supply side shocks’. Many candidates used the pandemic and the oil price crisis to enhance their responses. The context of Brazil also helped evidence points being made, alternatively the UK could be used.

One element of the stimulus material diagram (fig 3) was incorrectly labelled. Our examiners reviewed candidate responses and found there was no impact on candidates’ performance.

#### Assessment for learning



Candidates could be reminded that a judgement is needed for an 8 mark question.

## Question 1 (f)

- (f) Using information from the stimulus material, evaluate whether an increase in national debt will harm an economy. [12]

Responses to this question were often good and moved into the top level. Better responses often made good use of AD/AS analysis, crowding out and the opportunity cost of paying the debt, weaker responses used the stimulus to say how an increased national debt could harm the economy because of the risk of an increase in the inflation rate, without explaining how it would occur, or why it could harm the economy. Evaluation was used well by many candidates to show why national debt may not harm the economy, often explaining it depended on what the government had spent the money on to accumulate the national debt. If it was on infrastructure and education the long run benefits would not harm the economy. Better responses were well structured demonstrating how the national debt may or may not harm the economy. Good use of the stimulus referring to Japan was also frequently used.

Some responses confused the national debt and a budget deficit, others also confused the national debt with a current account deficit on the balance of payments. These are errors that often occur, and centres should prepare candidates to make sure they know the difference between them.

### Key point reminder



National debt is the accumulation of all previous budget deficits.

A budget deficit is when Government spending exceeds government revenue.

A current account deficit occurs when imports exceed exports.



## Exemplar 1

However, an increase in national debt means that there was need for public sector net cash requirement (PSNCR). As a result, the government could crowd out the private sector, as interest rates in the loanable funds market rise. Thus, any rise in government spending can be offset by a fall in private sector spending so AD actually falls.

Also, "the UK's national debt was 72% of GDP"<sup>93</sup>, which means that the government may have to pay high levels of debt interest. This is a leakage from the circular flow of income - in turn harming the economy. Moreover, in the long run this may be a burden on future generations as they may struggle to raise finance for government expenditure in times of crisis. This is because the UK becomes a less trustworthy borrower - which may also have the unintended consequence of deterring inward foreign direct investment.

In the exemplar the candidate started with why the national debt may not harm an economy (due to an increase in government spending) and then went on to say why it would harm the economy. Both routes are valid. The part of the response shown, displays a developed analysis chain arguing why the national debt may harm and economy, bringing in economic theory and concepts and utilising context. The chains of reasoning are built on and focused on the question set. This is an example of how strong analysis can be achieved.

## Section B overview

Questions in Section B require candidates to analyse the issues presented with an appropriate diagram. Responses not using an appropriate diagram could not gain more than Level 2. Candidates who included relevant diagrams were able to access Level 3 and those that integrated the diagram into their response invariably moved into Level 4 or 5. It is important, that candidates write in context – the stem of the question provides one way in which they can do this, but this does not preclude candidates from using their own examples or contexts. Candidates tended to write conclusions which summarised their preceding analysis and evaluation rather than providing a supported judgement.

### Question 2\*

**2\*** Poland's unemployment rate fell from 10.3% in 2013 to 3.3% in 2019 while its inflation rate rose from 0.9% to 2.3% over this period.

Evaluate, with the use of an appropriate diagram(s), whether the Phillips curve is useful for economic policy makers.

**[25]**

This question was not attempted by many candidates. Those who did demonstrated good knowledge and understanding of the Phillips curve and its usefulness to policy makers, and went on to analyse both the SRPC and LRPC. The more successful responses were able to go into detail on NAIRU and the Long Run Phillips curve as well as the short run trade off. The most successful responses used Poland as an example, using the figures from the stem on their diagrams. This allowed them to then provide a response that was fully developed on why this was of use to policy makers and then why not; using the distinction between the Keynesian school of thought and the neo-classical. Responses that used diagrams that were not fully labelled or explained, were unable to develop analysis and many responses did not fully address the question as to whether or not it is useful for policy makers.

### Question 3\*

3\* In 2020, several governments were considering cutting taxes to get their countries out of recession.

Evaluate, with the use of an appropriate diagram(s), whether a cut in tax rates will end a recession.

[25]

This was the most frequently answered question in section B. Most candidates knew what a recession was and the potential impact of a reduction in taxes. Stronger responses analysed using an AD/AS diagram, demonstrating how a reduction in income tax and corporation tax could lead to an increase in consumption and investment which would lead to a shift out of the AD curve. This would then lead to a positive increase in economic growth and therefore would end the recession. However, some analysed the impact of reducing taxes, without then linking it to how it could end a recession. Candidates could be reminded that referring to the question set is crucial to achieve the top level.

Weaker responses often demonstrated a lack of understanding of a recession or of the impact of reducing taxes. Others confused the question and answered trying to explain how a cut in taxes would lead to/cause a recession.

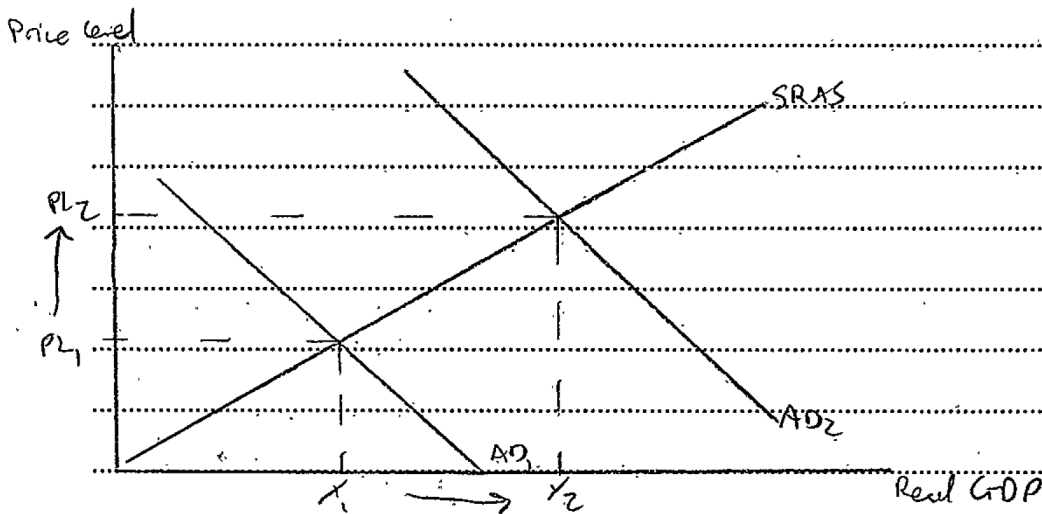
There was confusion shown about the impact a reduction in corporation tax would have on a firm. Many candidates incorrectly argued that it would lead to a fall in the costs of production of the firm and based their analysis around that point, which in most cases made their point invalid.

See the misconception below.

A few candidates spent far too long discussing the risks or costs of inflation, which was not appropriate given that the economy was starting with a recession. Some also spent a long time on the Laffer curve, which was also not always made relevant, they were overly concerned as to whether tax revenues would rise or fall rather than it ending a recession.

Exemplar 2

A recession is two or more consecutive quarters of negative economic growth.



A cut in tax rates may lead to the end of a recession as there may be an increase in aggregate demand. This is because the government may choose the cut direct taxes, such as income tax, or national insurance (which the UK gov did cut during the pandemic). This would lead to higher disposable incomes for consumers, likely leading to higher levels of consumer expenditure. This would lead to an increase in aggregate demand as  $AD = C + I + G + X - M$ . This means there would be a shift in AD from  $AD_1$  to  $AD_2$ , leading to an increase in price level from  $P_1$  to  $P_2$ . This leads to an extension in SRAS, leading to higher levels of real GDP, from  $X_1$  to  $X_2$ . This means that an economic growth has increased. The increase in national income would likely incentivise firms to <sup>invest</sup> invest, accelerating further increases in national income. As well as this, increased AD would lead to reduced unemployment or demand for labour, resp as it is derived demand. This would lead to further increased incomes for households (as wages are higher than benefits) leading to further increases in AD and real GDP. Therefore the initial recession has been multiplied. This may end a recession by increasing economic growth.

This is a good example of how a diagram can be fully integrated into a response and used to achieve strong analysis. The diagram is correctly labelled and clear. Each step is explained, showing cause and consequence: 'this would lead to...' 'this means that...'. Economic concepts are made clear and utilised throughout the paragraph, which is focused, and the multiplier is also explained. Context is used and the final point links back to the question set, confirming that they are answering the question.

Too many candidates fell short of developing their points to show how it could end a recession.

### Misconception



A reduction in corporation tax **does not** lead to a fall in the costs of production

A reduction in corporation tax will lead to a firm having more after-tax profits, if a firm then chooses to use the extra profits and invest them in for example new more productive technology that improves the efficiency of production, which may reduce their costs of production.

## Section C overview

As for Section B, the key to success in Section C questions is a well-structured response which uses the economists' toolkit of terms, concepts and theories to analyse and evaluate the issues presented. While there is no requirement for the use of diagrams, many candidates do make use of them to frame their response, and this often signals a strong analytical response. A focus on the specific requirements of the question is essential. For example, the focus of Question 4 was 'high' economic growth and 'sustainable' development. For Question 5 it was 'always reduces unemployment'. The stem on all the essays provide context, which should be used and helps candidates to develop their responses and access the top level.

### Question 4\*

**4\*** In some recent years, Mongolia has experienced high rates of economic growth. In 2019, its government adopted a long term development strategy known as Mongolia's Sustainable Development Vision 2030.

Evaluate whether a country with a high economic growth rate can achieve sustainable development.

**[25]**

There were varying degrees of knowledge and understanding. The more successful responses had a clear understanding of the meaning of sustainable development and how high economic growth would help firms and the government to invest in green technology, reduce pollution and hence be sustainable for future generations. Many defined sustainable development, but then only analysed development, others analysed how growth could be sustained and turned the question into one about inflation. This was only relevant if it could be developed to show the impact it may have on future generations.

Many candidates considered the HDI and how it measures development and how high economic growth can lead to development by improving literacy rates, however, unless this was developed to show how it could lead to sustainable development, it would only be seen as reasonable analysis of how a high economic growth rate can affect sustainable development, which is a Level 2 answer.

### Question 5\*

**5\*** In recent years there has been a rise in protectionism. For example, the US Trump administration argued that higher tariffs on Chinese imports would reduce US unemployment.

Evaluate whether protectionism always reduces unemployment.

**[25]**

Often answered very well. The candidates who understood the tariff diagram mostly used it effectively and could identify the increase in domestic production and the consequences of that in reducing unemployment, many using America and China within their diagrams. Concepts such as infant industries and declining industries were also often well-integrated into the response. Retaliation was often used very well for evaluation. The less successful responses lost sight of the need to consider the effects on unemployment. Therefore, for example, they might introduce the idea of the risk of a trade war but did not consider how that would affect unemployment; many responses did not supply any context, which was provided in the stem.

## Exemplar 3

Overall, it is likely for protectionist policies to lead to increased domestic employment, however the extent to which will depend upon how the government uses the revenue gained from the tariff. Showing B in fig. 1. If the US government uses the money to invest in training schemes for workers unemployed due to likely protectionist counter-policies from China, then structural unemployment will decrease. This is because workers will be more occupationally mobile. This means the protectionist policies will see a larger net decrease in unemployment.

This is a good example of how evaluation reaches a judgement with a justification. The response had shown strong analysis using good context and theory. The tariff diagram was fully integrated into the response to show how a tariff could reduce unemployment. Evaluation considered the extent of the reduction in unemployment and the reasons why it may not reduce unemployment through retaliation.

This final paragraph is not a summary/conclusion of what has already been said. It is an additional point referring back to the diagram and explaining how the extent to which depends on how the government use the tax revenue and then offers a justification for this showing why it is important.



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