

Economics

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

OCR Report to Centres

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This report on the Examination provides information on the performance of candidates which it is hoped will be useful to teachers in their preparation of candidates for future examinations. It is intended to be constructive and informative and to promote better understanding of the specification content, of the operation of the scheme of assessment and of the application of assessment criteria.

Reports should be read in conjunction with the published question papers and mark schemes for the Examination.

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F581 Markets in Action

General comments

The examination was taken by just over 9000 candidates, slightly more than in June 2011. The format of the paper once again resembled those in previous series, with 36 marks for questions drawn from the first two sections of the specification and 24 marks for questions based on the remaining sections. However, this may not necessarily continue to be the case. If such a change is to be made, then centres will be advised in advance of the examination series in question.

Teachers and candidates are to be congratulated on their hard work over the year which produced many impressive examination performances.

The case study addressed a topic which will have been particularly familiar to most candidates: fast-food. It included a very accessible paragraph on the changes in demand for fast food in the context of falling incomes due to a recession. Candidates may have had direct experience of changes in style brought in by McDonalds and some contact with the debate over the health implications of the growth in fast food consumption. It was pleasing to note that, despite the familiar topic, candidates remained focused on the economics of the questions and were not distracted by excursions into their experiences of fast food outlets.

The topic of regulation appeared to have been studied more thoroughly and answered more confidently by candidates than in previous examination series have suggested. A significant number of candidates offered a completely theoretical answer with no application of knowledge, despite two regulatory approaches being mentioned in the last paragraph of the case study and several other plausible possibilities. Another significant group of candidates wrote formulaic responses on indirect taxes, either with no reference at all to regulation or introduced by the statement 'one form of regulation is an indirect tax'. Such answers could not progress beyond Level 1.

The evaluation marks on Questions 3(b) and 4(c) proved elusive for many candidates who tended to continue their explanation or application rather than making a comment. It might be useful if centres drew to their candidates' attention to the meanings of the command words and discuss with them the "business significance" of elasticity estimates.

Many candidates offered accurate definitions and concise explanations of key concepts. Candidates who offer muddled definitions and inaccurate formulae often continue to produce muddled explanations, inaccurate calculations or irrelevant attempts at comment. By contrast, far from limiting candidates, clarity and precision in expressing key concepts opens the door to appropriate analysis and focused comment, as the candidate can then apply the correct definition or accurate formula and build correct analysis upon it. Definitions in OCR-approved textbooks form the starting point, although other well-known and mainstream definitions will also receive credit.

Advice to candidates:

- ensure that all curves and axes on demand and supply diagrams are appropriately labelled
- learn definitions precisely, preferably from an OCR-approved source
- learn the business relevance of all elasticities on the specification, not just price elasticity of demand
- do not assume that the final question will always centre on externalities; there are other forms of market failure

- be prepared to explain how all forms of government intervention referred to on the specification influence the market forces of demand and/or supply
- do not write at too much length about the causes of market failure on the final question, if the question is about correcting market failure.

Comments on individual questions

- 1** This question required the candidates to state and explain three factors of production 'necessary to the sale of fast food'. To gain the mark for elaborating the factor of production the specific context of the sale of fast food had to be clearly present in the response. General explanations of, for example, capital did not gain marks, whereas reference to chip fryers and tills linked to the concept of capital did. Some candidates confused financial capital with capital in its economic sense. Enterprise was offered more frequently than in previous series, but was rarely effectively applied to fast-food.
- 2 (a)** Many candidates were able to give a standard definition, although a significant minority made no reference to a 'difference between' between two prices in their response; for example, 'it is the market price and the price the consumer is willing to pay' occurred quite often.
- 2 (b)** This part of the question was a good discriminator. Many good answers integrated shaded areas or coordinates (ABC , etc) with the written explanation in order to give accurate and succinct coverage. However, confusion was also evident in some cases. Diagrams lacking axes labels p and q and a demand curve labelled D received no marks, as the use of the diagram was compulsory, and without correct labelling the diagram could not be credited. A minority of the candidates incorrectly stated that the additional consumer surplus was the rectangular area between the two prices.
- 3 (a)** This part of the question required responses which were related to the increase in demand 'at a time of recession' seen through a change in the pattern of demand or supply. Only a minority of the candidates offered two determinants of demand, and only a minority developed their responses into an explanation of why demand would increase. The stem of the question provided a route into the answer for many candidates, who wrote about falling income and/or inferior goods. There were a number of general macro-economic reasons, which typically only accessed the application mark.
- 3 (b)** The great majority of candidates drew two correct and well annotated diagrams for the respective demand shifts. Most gained a mark for referring to the advertising undertaken by McDonalds, but few candidates went further than this.
- 4 (a)** Most candidates gave a standard definition or formula and received full marks. Common errors in the definitions included the use of the phrase 'it is the responsiveness of the percentage change', rather than referring to the responsiveness of demand.
- 4 (b)** This part of the question produced succinct answers from around half of the candidates. Candidates whose answer to part (a) was incorrect or unclear were often unable to achieve marks on this part of the question as their calculations were incorrect or they presented their answer as a percentage figure. The income elasticity of demand of 0 for the USA seemed to be handled well. To gain the explanation marks, there had to be a clear explicit or implicit reference to income elastic or income inelastic demand. Some candidates talked about price elasticity, despite the clear reference to 'income elasticity of demand' in the question. Centres may like to reconsider their strategies for teaching their candidates to be more careful in identifying which elasticity is being asked for in such questions and responding appropriately.

- 4 (c) This part of the question was generally not well answered. Many candidates gained their mark for a formulaic comment about the income elasticity of demand figures being estimates but went no further. Many of the attempted comments were about price strategy, using the income elasticity of demand figures as if they were price elasticity of demand estimates.
- 5 (a) A significant minority of the answers to this part of the equated a demerit good with a good carrying negative externalities. In this definition question the mark scheme pointed out that 'standard definitions relate only to a gap between actual and perceived **private** benefit'. Costs, private or external, were not rewarded. Overconsumption in a free market is found as a definition in some textbooks and was also credited.
- 5 (b) This part of the question was another good discriminator. Weak answers tended to restate or rework the definition without application or analysis. Most candidates identified a harmful effect arising from the consumption of fast food and many (though not all) went on to link this to information failure or a negative externality. The mark scheme provided examiners with a framework for dealing fairly with a wide variety of approaches. Credit was given to explanations of negative externalities arising from the over-consumption of demerit goods and many candidates gained their explanation marks through this pathway.
- 6 This question asked for a discussion of the extent to which regulations alone can be used to correct the market failure associated with the sale of fast food. As in past examination series, most candidates began by looking at market failure and its correction in general terms, often including well-drawn standard market failure diagrams and generic analysis. However well done, these introductions were of limited use in the context of a question which continued to explore the concept of fast food as a demerit good. The focus should have been on how to limit the consumption of fast food. As with the January 2012 question paper, the preceding question offered candidates a hint of how they should plan their answer to the longer essay question. Candidates who did not provide an example of a method of regulation in the fast food industry were unable to proceed beyond Level 1, as they did not answer the question. There were many full and well written answers at Level 2 – application of knowledge – where candidates looked at the practical aspects of implementing forms of regulation and, for seven or eight marks, compared two or more policies.

Level 3 Band 1 was gained by offering analysis of how an identified form of regulation reduced the consumption of the demerit good, fast food. Leftward shifts of supply or demand were options taken by roughly equal numbers of candidates and most identified the reduction in quantity supplied and demanded resulting from the shift.

Level 3 Band 2 was gained by a continuation of this analysis at a deeper level or by analysis of an alternative policy, such as the imposition of an indirect tax. Most candidates who achieved Level 3 Band 2 – the threshold for progression to Level 4 – then went on to gain good marks for evaluation and often to reach a stated or well supported conclusion. Examiners saw evaluation of a high standard from the candidates who had progressed through Level 3 Band 2 and this is an aspect on which the candidates have improved their performance.

The main challenge for centres and their candidates is ensuring that when a question asks about a specific policy or family of policies, more candidates are confident about the precise focus of the question, stating an example of a policy which they can analyse and then offering analysis appropriate to that policy or family of policies. This provides the key skill of answering the question.

Good examination technique was much in evidence, with many candidates progressing clearly and systematically through the levels of response and writing essays of which they and their teachers should be proud.

F582 The National and International Economy

General comments

Over 13,000 candidates sat this paper this series. There was a wide range of responses, some of which were of a very high standard. These answered the questions directly, picking up on command words and applying relevant economic terms and concepts. Some scripts, however, revealed confusion over certain terms and did not provide sufficient description, explanation, analysis and evaluation.

The performance on this paper highlights a number of key issues. It is important that candidates explain rather than assert points. In providing analysis, they should not jump stages. They need to provide the necessary analytical links. In answering those questions which require comment and discussion, they should remember that evaluation has to be underpinned by relevant analysis. Candidates must ensure that what they write is directed at answering the specific question. For instance, some of the answers to Question 6(b) mentioned how alternative policy measures to increased government spending on education might promote economic growth. This was acceptable as a valid point if it explained why it might be a more appropriate measure or why it might be used alongside increased government spending on education. It was not sufficient, however, to simply make a brief reference to increased government spending on education and then, in effect, to answer a different question.

As in previous sessions, there were few unanswered questions. The question which had the highest number of no responses was Question 2, but even here it was only a very small minority of candidates that did not attempt the question.

The performance on the data handling question was generally good with most candidates providing at least one or two relevant descriptions of the relationship shown. Most candidates also sought to both analyse and evaluate on the comment questions, although a few provided good analysis but then did not build on it by including evaluation. In addition, a small number of the candidates sought to evaluate without establishing relevant analysis.

The vast majority of the candidates allocated their time appropriately, taking into account the command words and the marks awarded. For instance, most candidates appeared to have devoted sufficient time to the last question, with only a very few running out of time. A number of the candidates made a plan and this helped the structure of their answers. It was pleasing to note that a higher proportion of candidates than in previous years indicated if they had continued their answers and provided a page reference.

Comments on individual questions

- 1 (a) This part of the question was generally well answered, although a number of candidates referred to a rise in the price of a product. A small number of candidates were confused between inflation and economic growth.
- 1 (b) Credit was given for the consequences of inflation which are clearly costs. There was a degree of tautology with a number of candidates stating that inflation would: increase prices, cause a rise in costs and result in a fall in the value of money.
- 2 A relatively high number of candidates gained both available marks on this question. Those who did not were either as a result of to a problem of numeracy or a misunderstanding of what constitutes the labour force.

- 3 (a)** There were some good answers to this part of the question particularly in terms of the impact of low interest rates and low incomes. A few candidates were confused between saving and investment and stated that a low interest rate would cause consumers to invest rather than to save.
- 3 (b)** Some strong evaluation based on good analysis was produced on this part of the question, particularly in terms of firms' confidence and level of capacity. A small proportion of candidates sought to evaluate without providing the necessary analytical underpinning.
- 4 (a)** Candidates found this to be a difficult part of the question. A few gave components of aggregate demand. Others referred to the capital account and the financial account. A number gave incomplete answers including invisible exports and transfer payments.
- 4 (b)** The main factor which distinguished candidates' performance on this part of the question was whether they answered the specific question set. A number described 'benefits to consumers or to the wider economy', whilst 'the advantages that might be gained by firms' was what was required. The two most popular advantages identified were a reduction in costs due to the availability of cheaper raw materials and a wider market for their products.
- 4 (c)** A number of candidates mentioned at the start on their answer to this part of the question that a fall in the inflation rate would cause a change in the exchange rate without providing any reason why. They then went on to discuss how a change in the exchange rate would affect the current account position without having established a relevant link to inflation. A high number of candidates stated that a fall in the inflation rate would result in a fall in the price level. A small number of candidates confused the current account position with the budget position. There were, nevertheless, some strong and lucid answers which explored the likely effect and the factors which would influence the extent of any possible improvement and why such an improvement might not occur.
- 5 (a)** Most candidates recognised a positive relationship but not all went on to provide a brief explanation of the relationship.
- 5 (b)** There were some pedestrian answers to this part of the question which just stated, for example, Kenya experienced a 6% rise in consumer expenditure and a 5.5% rise in real GDP. There was also some confusion shown between changes in consumer expenditure and real GDP, and between actual levels of consumer expenditure and real GDP. A relatively high proportion of the candidates, however, described a positive relationship, consumer expenditure rising more rapidly in all the countries shown except Ghana.
- 6 (a)** This part of the question was quite well answered but not all of the candidates explored the question in sufficient depth. In a number of cases, the candidates asserted points rather than explained them. For example, a number of candidates mentioned that a fall in unemployment would result in a rise in living standards without explaining why. A lack of explanation was less evident in the case of reducing a budget deficit and increasing investment.

- 6 (b)** There were some excellent answers to this part of the question which examined both the possible demand-side and supply-side impacts of an increase in government spending on education and what factors would influence the extent to which it might be successful in increasing a country's economic growth rate. A number of candidates, however, wrote descriptive answers which did not establish relevant analysis. Some candidates sought to make evaluative statements but merely asserted points. For instance, a relatively high proportion of the candidates stated that there is a time lag involved before spending on education affects economic growth without examining why or what the consequences are of such a time delay.

As in some previous examination series, some candidates appeared to think that there are a finite number of jobs, suggesting that if certain people gain employment, other people will become unemployed.

There were a relatively high number of answers which considered either only the demand-side or the supply-side impact of increased government spending on education. It was more common for the effect on aggregate demand to be overlooked. Indeed, a number of candidates wrote that whilst the policy measure would increase aggregate supply, another policy measure would have to be introduced in order to raise aggregate demand. Others argued that a government might have to raise taxes and this would reduce aggregate demand. It was valid to consider how the rise in spending might be financed, but the net impact on aggregate demand needed to be considered.

F583 Economics of Work and Leisure

General comments

Over 2,100 candidates sat this unit in this June examination series, and there was continued evidence that centres and candidates are responding appropriately to the standard command words. This is particularly true of the ‘comment’ and ‘discuss’ questions in Section A, and both parts of the Section B questions. Future questions papers will continue to follow this pattern of ‘comment’ and ‘discuss’ questions within Section A.

The refinement of the Level 4 mark scheme continues to allow the better responses reach marks in the 18 to 20 range on part (b) of the essays. This, however, was not the case on Question 2(b) this year, where answers which were limited to the impact of only net immigration or net emigration on labour markets were restricted to the lower end of Level 4(a).

Candidates found Section A accessible and were able to use their knowledge of TV broadcasting, one of the specified leisure industries, to good effect. The numeracy skills element of this paper was relatively low with only addition required on Question 1(a) and the interpretation of data on Question 1(c). Numeracy skills are an integral part of the study of economics and candidates should expect to see questions which test such skills.

Section B continues to provide coverage of a wide range of specification areas, giving candidates sufficient choice on what is their only opportunity to do so across all OCR Economics A Level examinations. It is important that candidates devote time in the examination to choosing and planning their answer. The first part of the essay usually requires the candidates to explain a piece of economic theory – clarity and precision is vital here. The second part requires the candidates to analyse two sides of an argument and they should not embark on an answer unless they are confident of being able to develop a two sided analysis. It is also important to read the questions carefully and respond to the words used in the question. On Question 3, for example, some candidates did not respond to the word ‘change’ in part (a) and ‘reform’ in part (b).

Candidates continue to produce diagrams but do not then relate them to the question. The kinked demand curve was frequently presented in the discussion of the oligopolistic nature of TV broadcasting but was often not related directly to the question.

The paper continued to provide topical areas to analyse and discuss including migration, the reform of tax and benefits, skill shortages and the EU and it was good to see candidates responding by showing knowledge of recent events and providing them in a sophisticated analytical economics context.

Comments on individual questions

- 1 (a) The majority of the candidates achieved full marks on this part of the question. The mark scheme allowed for the two possible interpretations of the three firm concentration ratios.
- 1 (b) The candidates were able to identify and define a fixed cost but a significant discriminator was the ability to relate the concept of output directly to TV broadcasting.
- 1 (c) Many candidates struggled to fully explain two reasons in the detail required to access the second mark. Many answers were left implicit with the examiner expected to fill in the gaps. Candidates must be more prepared to state the obvious.

- 1 (d)** This was the first time that a specific question has been asked on regulation. The candidates were given pointers in the case study material and also drew on their F581 knowledge.
- 1 (e)** The vast majority of candidates picked up on the fact that more channels create more choice but relatively few were able to use economic analysis to expand upon this in terms of allocative efficiency or consumer satisfaction. A variety of arguments were raised against choice and these tended to be better analysed.
- 1 (f)** The candidates were clearly well prepared to respond to this part of the question and many provided long essays which continued onto the additional answer space at the end of the booklet. Answers were very encouraging and good use was made of material from the case study to support arguments. The kinked demand curve made regular appearances but was often dropped in rather than made into an integral part of the answer. The better judgements used the idea of sub-markets within TV broadcasting.
- 2** This was, by far, the most popular question but some of the candidates were held back on both parts (a) and (b). For (a) the vast majority of the candidates were able to define the elasticity of supply of labour and make assertions about the elasticity of different occupations – brain surgeons and waitresses were often used as examples. However a significant number of the candidates did not explicitly analyse how the supply of labour might respond to a changes in wages and, as a result, were limited to Level 2.

For part (b) many answers focused on the impact of net immigration and were limited as per the mark scheme. The quality of the two sided analysis was mainly good, although some candidates did tend to drift away from impacts on the labour market.

- 3** Many candidates used the Lorenz Curve and Gini coefficient to illustrate the degree of income inequality. Again, candidates were held back by ignoring the command to analyse the changes. Some diagrams lacked precision, especially on the axes and wealth was often confused with income and used as if income and wealth were the same concept.

For part (b) most candidates wrote well, analysing how the tax and benefit system could be changed in order to achieve greater income equality and then suggesting alternatives such as a minimum wage or education and training. Weaker answers did not focus on change or alternatives. There was plenty of scope for clear two sided analysis with good judgement.

- 4** This was the least popular question and responses tended to be polarised into either very competent or very weak. Whilst analysis of how skill shortages create market failure was quite well analysed, candidates struggled to provide depth and detail on EU directives, even when a very wide view of EU directives was allowed. Centres are reminded that the whole of the specification will be covered over time on the examination paper and if topics are on the specification then they will be examined.

F584 Transport Economics

General comments

The paper was sat by just over 2400 candidates this year, a very similar number to the June 2011 examination series. Once again, there were few signs of candidates struggling to finish the paper; in fact, many found time to write in considerable detail and to develop their analysis at length on both parts of the essay, especially part (b).

Unfortunately, on the ‘comment’ and ‘discuss’ questions, a number of candidates still produced only one-sided economic analysis and were, therefore, only able to gain just under half of the marks available on each of these questions.

Overall, centres should be congratulated for generating such an interest for Transport Economics amongst their candidates which is evident from the quality of the responses produced to the questions on the paper.

Comments on individual questions

- 1 (a) (i)** This was the first time that a direct, knowledge-based question had been asked and it required the candidates to explain what a concentration ratio means. Whilst the majority of responses did gain the mark, a surprising number of scripts did not provide a response. A common error on this part of the question was to assert that a five firm concentration ratio indicated that five firms dominated the industry or that an oligopoly situation arose which is not the case.
- 1 (a) (ii)** The large majority of responses of the responses to this part of the question gained the mark here for correctly stating that the five firm concentration ratio was 85.9%. Amongst those who did not gain a mark, the most common error was to state that the five firm concentration ratio was 17.2.
- 1 (a) (iii)** Whilst the majority of responses to this part of the question gained a mark for a correct reference to the fact that market concentration would increase, fewer gained the explanation mark. Many answers focused on what the combined market share of the two merging firms would be, rather than looking at the impact on the wider market, perhaps by stating the change which would occur to the five firm concentration ratio.
- 1 (b) (i)** On the whole, this part of the question was answered well, with the majority of the responses able to identify the key difference that fixed costs do not vary with output, whilst variable costs do. Weaker responses, unfortunately, often did not develop beyond simple statements such as ‘fixed costs do not change’, whilst others achieved both marks quickly by producing clear, succinct answers and then developed these with examples which were not needed on this part of the question.
- 1 (b) (ii)** This part of the question was well answered with the large majority of the responses gaining both marks for giving two correct examples.
- 1 (c) (i)** Most responses to this part of the question obtained two marks for a clear identification of different types of economies of scale. When marks were lost it was most often due to not applying the theory within the context of the airline industry, as the question required. This meant that quite often candidates were limited to only two marks out of the four available.

- 1 (c) (ii)** Once again, many impressive answers were produced to this part of the question and it was pleasing to see the increasing numbers of candidates who introduced clear conclusions with judgements at the end of their answers. Indeed, many responses were very well structured with analysis of why diseconomies of scale might arise followed by further paragraphs developing the reasons why diseconomies of scale may not occur. With a clear, concluding paragraph which directly answered the question set, many responses were able to gain full marks on this part of the question.

Common errors relating to diseconomies of scale were to state that these could be shown by a rise in costs (rather than average costs) and, where diagrams were used, sometimes the long run average cost curve was mistakenly labelled as *LRAS*. This meant that some candidates were unable to access marks due to understandable, but simple errors.

It is vital to remind candidates that, on the ‘comment’ and ‘discuss’ questions, a two sided analysis is always going to be required, *followed by a clear conclusion being used, which includes a judgement.*

- 1 (d)** Many of the candidates demonstrated considerable knowledge and understanding of deregulation in their answers, although, on balance, the arguments in favour of deregulation were often explored more successfully. The better answers were able to analyse how deregulation had been beneficial before analysing why this was not the case and then presenting a clear conclusion which contained a developed judgement. Some of the best answers were able to conclude that, in fact, the impact of deregulation varied from industry to industry and, therefore, depended on exactly which industry was being addressed. Overall, the responses given to this part of the question were pleasing.

- 2 (a)** High marks were awarded when the candidates answered the question directly. The best answers were able to focus on how monetary values could be established through shadow pricing techniques. For example, identifying the value of wages which would have been earned before looking at how monetary values could be attached to noise pollution through a consideration of the cost of fitting double glazing to different properties.

Unfortunately, some candidates opted to write about road pricing which was not relevant for this question and whilst some credit was given to those responses which focused on cost-benefit analysis, such answers were not able to achieve Level 3.

- 2 (b)** Some excellent answers were produced to this question, with many candidates clearly very well versed on this topic. Generally, the responses followed the recommended structure of analysing how the policy works before analysing its limitations and then coming to a conclusion which contained a clear judgement.

Whilst a popular route into analysis of subsidies was to use a supply and demand diagram showing the supply curve shifting to the right, the candidates were expected to develop this within the context of the question by then looking at how subsidies could, therefore, attract people out of their cars on to buses or trains – hence achieving modal switch which would help to solve market failure.

The best answers incorporated judgement, such as the need for a wider policy response, as part of an integrated transport policy, aimed at encouraging people to move from cars onto public transport and that, therefore, public transport subsidies were only one part of this solution.

- 3** This proved to be the most popular essay question.
- 3 (a)** The most favoured route into analysis taken by the candidates was to analyse the change in profits from short run to long run in monopolistic competition. This was most easily achieved with the use of a diagram showing long run equilibrium. The better answers were able to analyse other characteristics such as profit maximisation, low barriers to entry and economic inefficiency. Unfortunately, in some cases, inaccurate diagrams let the response down and in a small number of cases, the candidates analysed monopoly rather than monopolistic competition.
- 3 (b)** This question provided a very wide range of responses with some outstanding answers which analysed the benefits and costs of monopoly provision. In some cases, the candidates identified a large number of arguments but were then unable to develop these into relevant economic analysis. Without analysis such answers were limited to a maximum of four marks. The very best answers incorporated judgement into their responses; for example, developing the idea that the degree of contestability was the most important factor in such markets or, alternatively, stating how beneficial monopoly provision would be determined by the degree of regulation undertaken by government in transport markets.
- 4 (a)** Whilst this was the least popular essay question, many of the responses to it were pleasing with the candidates able to analyse the reasons why both passenger and freight transport could be classed as having derived demand. The better answers developed their points clearly; for example, stating that passenger transport was a derived demand and with more people in employment, more people would demand transport in order to get them to work through commuter journeys.
- 4 (b)** Most answers tended to focus mainly on the problems of forecasting. Once again, candidates would benefit from developing their points as far as possible. For example, answers which stated that there could be issues with the accuracy of the estimated data needed to develop this statement by referring to what the consequences of this problem would be – namely that the forecasts would be inaccurate.

Fewer answers analysed how such forecasts would be obtained. The better responses were able to identify the key factors which the government would need to take into account (such as GDP or population data) before analysing how these would be used – for example, by reference to the fact that higher GDP figures would indicate greater levels of growth and, as such, more demand for goods and services which would need to be transported around the country.

F585 The Global Economy

General comments

This was a challenging question paper which tested the candidates' knowledge and understanding of economic concepts and their ability to analyse and evaluate policy debates and conflicts. The best candidates rose to these challenges and provided responses which were focused on the question set and sufficiently developed to provide evidence of the higher order assessment objectives. A lack of focus on the question set was most apparent in the responses to Question 3 which elicited rote learnt material on the impact of export quotas, rather than an export ban. Where knowledge and understanding of concepts raised in the stimulus material (for example, inflation targeting, the distinction between nominal and real exchange rates, the relationship between the interest rate and the exchange rate and the ISEW) was not secure, progress through the levels of the mark scheme was less successful and overall marks lower. The key skill underpinning the best responses was the ability to analyse economic relationships, policy debates and conflicts. Without this skill, responses to the questions set tended to be descriptive and marks in the higher levels of the mark scheme could not be accessed.

Comments on individual questions

- 1 (a)** This part of the question was handled confidently by most candidates. A range of benefits of inflation targeting were credited beyond the standard ones of greater transparency and accountability, lower inflationary expectations and the flexibility of symmetric targets. The better responses gave a clear description of the benefit identified.
- 1 (b)** The correct labelling of the axes was necessary to achieve marks for an AD-AS diagram which represented a rise in the price level at a time of significant spare capacity in the economy. The weaker responses considered inflation to be caused by a rise in AD, but lacked accurate labelling of the axes or they used microeconomic diagrams. Most candidates were able to correctly identify the causes of inflation from the stimulus material and develop an appropriate analysis based on the AD-AS framework.
- 1 (c)** This part of the question was handled confidently by most of the candidates. The benefits of higher inflation for China were analysed in terms of a re-balancing of the economy. This was most commonly explained by the impact on external demand and the balance between savings and consumption. The costs of inflation were generally well known, with the better responses providing a developed explanation of these costs. Weaker responses did not always go beyond assertion and did not, therefore, establish analysis in order to access the marks for evaluation in Level 4 of the mark scheme.
- 2 (a)** The distinction between the nominal and real exchange rate was the key to answering this part of the question successfully. This was not well known by most candidates. Nevertheless, credit was given to those responses which recognised that the divergence between the nominal and real exchange rate was partly explained by China's fixed exchange rate policy. The best responses recognised that the growing divergence was caused by a change in relative price levels, so credit was given to those responses which correctly identified rising inflation in China as the cause of the appreciation in the real exchange rate of the Yuan.
- 2 (b)** The best responses to this part of the question were able to analyse clearly how an increase in the rate of interest in order to control inflation would undermine a fixed exchange rate. They correctly explained the impact of higher interest rates on 'hot money' flows, the demand for the currency and the exchange rate. However, the need for intervention in the FOREX markets to maintain a fixed exchange rate was not always recognised. The weaker responses made general points about the policy conflicts

involved but did not provide sufficient depth in establishing reasons why this might be the case. Some candidates did not appear to have the necessary knowledge of the relationship between the interest rate and the exchange rate to make much headway with this question.

- 2 (c)** Knowledge of the ISEW was a necessary precondition to access Level 3 of the mark scheme. The better candidates made this knowledge clear in their responses by enumerating the additions and subtractions to total personal consumption. Candidates were not penalised when they took GDP as the basis of the ISEW. However, without knowledge of the ISEW analysis and commentary on the case for its use was often too general for the higher marks to be awarded. The best answers were able to explain why adjustments to total personal consumption are useful in assessing progress in sustainable development or to explain why sustainable development might not be achieved when economic growth results in, for example, environmental degradation, resource depletion or greater income inequality. The weaker responses jumped from the composition of the ISEW to the problems of measurement, without including analytical reasoning to justify its usefulness. Such responses could not go beyond Level 2 of the mark scheme. Commentary needed to be developed in order for the highest marks in Level 4 to be awarded, so those candidates who explained why monetary valuations of environmental degradation were difficult scored more highly than those who simply stated this as a problem.
- 3** Good responses to this question not only stated the justifications for the ban on exports of raw materials such as rare earths, but were also able to provide analytical explanations to support their responses. For example, when candidates explained the impact of a ban on exports on the world price of rare earths they were also able to provide an analytical explanation of how the ban might be justified in terms of sustainable development. In comparison, the weaker responses did not progress beyond an application of the principle of sustainability. Such responses, therefore, did not display the economic analysis which was necessary for Level 3 and 4 marks to be awarded. There were a range of justifications for the ban provided by the candidates, including the impact on China's development of structural change and the benefits of FDI. These were rewarded with Level 3 marks when the candidates provided analytical support. Discussion of the case for the ban on exports was descriptive and undeveloped at the lower end of Level 4. Developed points of discussion were awarded marks in Band 2 and this was a precondition for the award of 'judgement' marks in Band 3. The better candidates provided a developed discussion by considering the impact on costs of production, employment and growth in other economies or the impact on global economic growth of 'trade wars' brought about by retaliation. The best candidates were able to go beyond a summary of the arguments which they had presented and make judgements about the balance of arguments or the conditions under which a ban on exports would be justified.

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