Economics

Report on the Components

June 2006

1985/MS/R/06

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General Certificate of Secondary Education

Economics (1985)

REPORT ON THE COMPONENTS

Chief Examiners Report 2006

GCSE ECONOMICS 1985

General Comments

This was the fourth examination session for the 1985 specification. The relatively small entry for this examination was 1305 candidates this session. The general standard is a high one, with nearly 83% of entries being for the Higher tier. The vast majority of candidates were entered for the appropriate tier, although unfortunately there were still some candidates entered for the tier which was not appropriate for them.

Papers 2 and 4 have been reduced to 80 marks while retaining their 50% weighting in the assessment. This had a beneficial effect on candidates, as in previous years there had been too much of a time constraint. There was much less evidence of candidates failing to reach the end of the paper this year.

Papers 1 and 3 have always been in the form of question and answer booklets, and now papers 2 and 4 are also in this format. Additional lined pages are given at the rear of these booklets for candidates to extend any of their answers should they wish to do so. Many take this opportunity. However, in many cases, as in previous years, candidates failed to notify the examiner that their answer is continued at the back of the booklet. Teachers are urged to tell their candidates the importance of this. A simple 'see page 14' or 'cont. at back' will do!

GCSE Economics (1985/1)

Paper 1 – Foundation Tier

General Comments

Examiners felt there were fewer good answers on this paper than in previous years. Quite a few candidates seemed unfamiliar with production possibility curves and there was still a poor level of ability of some candidates to draw demand and supply curves correctly. On the other hand there were good responses to data tables. Understanding of inflation was weak and many misinterpreted the costs of economic growth. Also worrying was the number of weak candidates (by default) who failed to write anything for questions 1(h), 2(e) and 4 (e) which together were worth 26 marks in total. The quality of written communication was assessed within two questions and most candidates achieved at least half marks for this skill.

Comments on individual questions

1 The data was in the form of a production possibility frontier for an economy making public goods and private goods.

(a) Candidates were asked to name two factors of production, and most were able to do so. Examiners accepted raw materials for land and workers for labour.
Rare errors included demand and supply!

(b) Most candidates defined scarcity as 'not enough resources' or 'resources running out' and so on. A minority put it in the context of human wants/needs to gain both marks.

(c) Candidates were asked to interpret the production possibility frontier and most did this successfully, stating (i) 150 million public goods and (ii) zero public goods. Most candidates got this right, although many careless candidates omitted the 'million' in part (i). Where candidates got it wrong was to put 250m as the answer to (ii), i.e. they used the two extremes of the axes.

(d) Most candidates interpreted the opportunity cost as being 100 million private goods, but about a quarter of those failed to write 100 million to get the second mark. Some only put 100, which showed they understood, but they got no marks.

(e) A list of four public and merit goods was given and candidates were asked to identify one of each. While many did this correctly, a large number had their examples the wrong way around, by giving an example of a merit good as a public good and vice versa. A few put either both as merit goods or both as public goods (gaining one mark).

(f) Combination C was not on the production possibility curve and candidates were asked to explain why this was inefficient. A wide range of answers was given, the weakest of them having little relation to the question. However, many candidates recognised that it was inefficient because it was not using all the resources available and made reference to fact that more could be produced.

(g) (i) Candidates were asked to draw a diagram to represent a rightward shift of the production possibility curve. Although there was already a curve presented at the start of the question, many candidates decided to draw a demand curve with axes labelled as price and quantity. Many scored no marks for this question, with only the better candidates giving a correct diagram with axes labelled appropriately.

(ii) This required an explanation of two ways of achieving economic growth. Many suggestions were accepted and, indeed, candidates gave a wide variety of answers. Some gave a correct way, e.g. exports or lower interest rates, but then failed to develop it by saying how it led to economic growth. Weak candidates suggested wrong methods, e.g. increasing taxes or putting interest rates up.

(h) 'Are the benefits of growth greater than the costs?' There were a wide variety of answers. The best referred to benefits such as rising standards of living, employment and revenue for public and merit goods; and costs such as pollution and possible inflation. Weaker candidates identified just the benefits. The weakest candidates just did not understand the costs of growth. A common error was to misinterpret the word 'costs' in the question and some thought it meant money spent to bring about growth. Their argument was that, in short run, there were costs (money spent) but in the long run this was offset by the financial advantages of growth.

2   The price of petrol in five countries was compared.

(a) All candidates named the UK as having the most expensive petrol, and the vast majority calculated correctly that Germany had petrol three times more expensive than the USA. Those who did not could not do the maths and guessed at the country.

(b) (i) Most candidates named a tax on petrol, VAT being the most popular answer. A few put excise duties. However, there were a number of incorrect answers, including council tax, petrol tax and income tax.

(ii) 'Should petrol be highly taxed?' There were some very good answers for this, considering both sides of the issue. Arguments frequently presented centred on negative externalities and government revenue, also the non-renewable nature of the resource. Arguments against tended to be weaker but sometimes included the relatively high tax in the UK, unfair nature of the tax and costs to businesses/workers.

(c) A demand and supply diagram was given and candidates were asked to show the effect of a fall in tax on petrol. Many shifted demand instead of supply and some shifted supply in the wrong direction. However, they often stated correctly the effects on price and sales.

(d) For this question, candidates were required to draw their own diagram and explain the effect of a rise in costs. Answers varied a lot, although most managed at least one or two marks. Common errors included not labelling axes, shifting demand and not supply, and shifting both curves. The majority recognised price would rise and sales would fall. A few, however, were confused about oil and petrol thinking they were the same.

(e) Candidates were asked to discuss the factors which affect the demand for petrol. Again, a wide variety of responses were given. Although many recognised the effect of price with some including tax which affects price, a surprising number of candidates failed to identify this. The best answers gave a range of relevant demand factors including the price of cars (complements), the price / availability of substitutes (public transport), incomes, driving population, and so on. A few candidates were muddled on substitute and complementary goods.

3   Two newspaper extracts were presented, one concerning the location of a new branch of Tesco, and the other the location of an LG factory.

    (a)   This asked for two objectives of Tesco. A lot of answers included methods to achieve objectives (e.g. sell a wide variety of products, advertise), rather than the objectives themselves. Standard objectives such as profit and growth or bigger market share were rewarded, although survival did not really apply in this case. There were a few candidates who misunderstood the word objective to mean objections and wrote about petitions.

    (b)   Both parts of this question were generally answered well. Reasons why residents would benefit from the new Tesco store were often given in terms of lower prices, greater variety and choice, as well as jobs. Many candidates reasoned that some other local businesses could suffer losses of revenue and may have to close, while others discussed effects such as pollution, congestion and house price changes.

    (c)   There was a wide range of responses as to why LG set up in the EU. A lot of good answers recognised that, by being made inside the EU, there would be free trade and the goods would not be subject to tariffs or quotas. Some also recognised the high number of potential consumers and lower transport costs.

    (d)   Candidates were asked why LG set up in the UK. Quite a lot of answers referred to the strong currency but this was not justified and would make exporting difficult.
Many possible reasons were given and were acceptable, including available and/or skilled labour, costs of labour and land/premises, availability of government grants, good transport links and a large market within UK.

    (e)   Nearly all candidates correctly identified two countries which use the euro, with those countries reaching the later stages of the World Cup being the most popular – France, Germany and Italy.

    (f)   This concerned the effects on LG of a rise in the value of the £. There were a number of weak answers which gained no marks. In (i), most candidates correctly identified that imports would be cheaper, but quite a few failed to explain that this would reduce costs. For part (ii), unfortunately at least 70% of candidates got this wrong. Very few identified that the strength of the pound meant that the monitors would cost more in euros and that demand would probably fall. Most answers instead, in some way or other, assumed it would mean more profit for LG.

4   The data was in the form of a line graph showing both the base interest rate and the rate of inflation.

    (a)   Nearly all candidates stated the years of lowest and highest interest rates correctly.

    (b)   This asked whether savers would be pleased with the interest rate trend. Both nominal and real rates had fallen, although examiners did not require any reference to the real rate. Most candidates gave correct answers, although some were confused, seeming not to appreciate the meaning of savers; since their answer was that savers would be pleased because it cost less to borrow.

    (c)   Candidates were asked for a function of money other than store of value. Most gained at least one mark with answers along the lines of 'for buying goods'. The best answers used the word 'exchange'.

(d)   This asked how the data showed that the cost of living had risen. Most candidates just did not understand this. A lot gave answers which described the trend in the interest rate rather than inflation, many discussed both in a 'hedging their bets' type of answer. A few thought that the cost of living had stayed about the same given the flatness of the RPIX. Only the best answers showed a clear understanding of this concept.

(e)   There were a number of routes to achieve marks on this question, which asked how a rise in interest rates could control inflation. The answers varied greatly in quality, the worse showing little knowledge but the best reflecting a strong understanding. A common wrong argument was that higher interest rates meant people had more money to spend and, in some cases, they went on to explain that this led to inflation. The most frequent correct answers explained effects on saving and borrowing, and hence spending.

GCSE Economics (1985/2)

Case Study Paper – Foundation Tier

General Comments

Candidates were able to show economic understanding and data handling skills to varying degrees. Weaker candidates used very little, if any, economic terminology in their answers. The longer discursive questions threw up, as might be expected, the most difficulties as candidates struggled to construct arguments. Some candidates had gaps in their knowledge and so omitted particular questions. Candidates were generally entered for the correct tier paper. Most candidates were well prepared using the pre-released material.

Comments on individual questions

1   (a)   The key command word here was 'compare' - a large number of candidates lost a mark by not undertaking a comparison.

     (b)   This question was generally well answered with a wide range of responses.

2   (a)   Candidates were able to describe the trend. Some gained marks by using the data in the pre-released case study.

     (b)   There were many candidates who were unable to construct a demand/supply diagram. Candidates also lost marks when they forgot to label axes, demand curves and the new equilibrium. Some candidates did not read the question and drew a diagram for ipods.

     (c)   (i)   Candidates generally answered this part of the question well and demonstrated an understanding of opportunity cost.

     (c)   (ii)   Candidates generally answered this part of the question well, applying their knowledge of opportunity cost.

3   (a)   Errors arose in this part of the question when candidates took £1.75 from £10 instead of adding it.

     (b)   This question asked if VAT should be removed from CDs. A large number of candidates failed to include economic reasoning in their response and so scored low marks.

4   (a)   Candidates generally did not extend their ideas. Most answers alluded to technological developments.

     (b)   Candidates tended to simply state ways in which firms could respond to falling CD sales, therefore the higher level marks eluded them. Some candidates were able to explain why the firm should use a policy and only a few were able to say why a policy might not work.

5   (a)   Most candidates were able to carry out accurate calculations. However, some assumed that using any figures in the table would produce the same result.

     (b)   Most answers were predictable, e.g. cheaper, no need to travel to the retail outlet. Most candidates were able to offer both viewpoints.

6   (a)   Generally this question about earnings was not well answered. Answers on demand side and supply side were not in evidence.

          (b)   Candidates tended to repeat ideas from 6(a). Again, not well answered.

7   (a)   Candidates were rewarded for using data from the pre-released case study, although unfortunately, few candidates took this opportunity.

          (b)   This question about economies of scale was, on the whole, answered poorly; very few marks were awarded here. This appears to be an area of the specification that has not been well covered.

8   (a)   There were some good answers here, although some candidates simply repeated the information from the pre-released case study and therefore scored low marks.

          (b)   This data interpretation question was well answered by most able candidates.

9   Weaker candidates assumed that, where the data showed a numerical increase from 1952 to 2002, that this was always a good thing. There were some convincing arguments for divorce and why rising numbers of prisoners were examples of rising standard of living. More discerning candidates recognised that only some data could be used to indicate that living standards were rising. Interestingly, no candidate defined the standard of living in terms of GDP per capita.

GCSE Economics (1985/3)

Paper 3 – Higher Tier

General Comments

The great majority of candidates were able to demonstrate a sound knowledge and understanding of economic concepts and apply them appropriately in order to achieve a good mark on this examination paper. However, examiners felt that there were a number of candidates whose knowledge and understanding of inflation seemed lacking in certain respects. Question 4 (based on inflation) certainly caused the most problems. On the other hand, candidates performed well on Question 3, particularly the high tariff part on location and stakeholders. There were rare examples of candidates not attempting answers to some questions, but there was no evidence of any time constraint problems. The quality of written communication was assessed within two questions and many achieved full marks for this assessment.

Comments on individual questions

1   (a)   Most candidates defined scarcity as 'not enough resources' or 'resources running out' and so on. A minority put it in the context of human wants/needs to gain both marks.

     (b)   Candidates were asked to calculate the opportunity cost of producing an extra 50 million private goods. Most were able to do this correctly. Careless candidates omitted the 'millions'. Weak candidates incorrectly stated 100 million public goods, while some stated private goods.

     (c)   This asked whether three combinations of goods were equally efficient. Many achieved full marks for recognising A and B used all resources by producing on the PPC, while C was inefficient, being inside the PPC, more being able to be produced. However, there were a number of confused answers of varying types. Some candidates tried to add up the total amount of goods and compare. Others reckoned A was more efficient than B because there were more private goods.

     (d)   Candidates were asked to explain public and merit goods with an example of each. This is traditionally a difficult area, but the overall quality of answers seemed better this year. Nevertheless, there were still many problems. Simply stating that each is provided by the government does not help to distinguish between them. There were some very weak answers which confused these with private goods and demerit goods. Candidates from some centres used technical terms such as non-rival and non-excludable for public goods, but this is not necessary to gain the marks. For merit goods, many said they would be underprovided by the free market but failed to explain why (e.g. that there are external benefits).

     (e)   This required an explanation of two ways of achieving economic growth. Many suggestions were accepted and, indeed, candidates gave a wide variety of answers. Some gave a correct way, e.g. exports or lower interest rates, but then failed to develop it by saying how it led to economic growth. Weak candidates suggested wrong methods, e.g. increasing taxes or putting up interest rates. Popular suggestions included making more use of natural resources, investment in capital, and improved education and training.

(f)   'Are the benefits of growth greater than the costs?' There were a wide variety of answers.   The best referred to benefits such as rising standards of living, employment and revenue for public and merit goods; and costs such as pollution and possible inflation.   Weaker candidates identified just the benefits.   The weakest candidates just did not understand costs.   A common error was to misinterpret the word 'costs' in the question and some thought it meant money spent to bring about growth.   Their argument was that, in the short run, there were costs (money spent) but in the long run this was offset by the financial advantages of growth.   However, most candidates on this tier did perform well on this question.

2   The price of petrol in five countries was compared.

(a)   'Should petrol be highly taxed?' Candidates were very strong on the case for high taxation, especially the argument to deter use because of the negative externalities and the non–renewable nature of the resource.   Many also explained the inelastic nature of demand and, therefore, the effect on government revenue.
Arguments against tended to be weaker but sometimes included the relatively high tax in the UK, unfair nature of the tax and costs to businesses/workers.   An evaluative answer which considered both sides often achieved all the marks.

(b)   Candidates were asked to explain inelastic demand and give a reason why it is inelastic for petrol.   A large number of candidates seem to believe that inelastic means no change at all, so demand stays the same was a popular answer. Relatively few candidates gave a technically correct definition of inelastic demand, although many basically knew what it meant.   However, the great majority could explain why petrol has an inelastic demand, most relying on the necessity argument (for vehicle owners), while some expanded with lack of substitutes or vital for the complementary good (cars).

(c)   As usual, the demand and supply analysis question brought a huge variety of responses. Weak answers confused demand and supply factors, for example stating that a tax on petrol would shift the demand curve.   There were also candidates who reversed the curves on diagrams.   Others failed to put both curves on a diagram, so could not possibly analyse what would happen to price and sales.
Some candidates presented rehearsed kinds of answers which had poor application to the product in the question, such as advertising campaigns for petrol or subsidies on petrol (not likely in the UK anyway!).   The best answers had accurate diagrams, clear written analysis and strong application.   These, for example, discussed the price and availability of substitutes (public transport for cars, various other fuels for petrol), the price of complements (cars), fashion, e.g. for driving gas guzzlers, war in Iraq, hurricanes/explosions disrupting supply, etc.   There were plenty of excellent answers.

3   Two newspaper extracts were presented, one concerning the location of a new branch of Tesco, and the other the location of an LG factory.

(a)   This asked for two objectives of Tesco.   A lot of answers included methods to achieve objectives (e.g. sell a wide variety of products, advertise) rather than the objectives themselves.   Standard objectives such as profit and growth or bigger market share were rewarded, although survival did not really apply in this case. Examiners were surprised that many able candidates scored badly on this question.

(b)   The quality of answers to this question concerning the effects on stakeholders was high.   The vast majority of answers reached at least Level 2 on the mark scheme, with large numbers in the top Level 3.   Nearly all candidates recognised beneficial effects on residents who would be consumers at the store and harmful effects on some local

shopkeepers, as well as benefits to shareholders. The effects on employment were only considered by about half of the candidates. It was probably a minority who discussed externalities such as congestion and noise. A lot of the candidates chose to introduce appropriate terminology in their answers such as economies of scale and dividends.

(c) There were a wide range of responses as to why LG set up in the EU. A lot of good answers recognised that, by being made inside the EU, there would be free trade and the goods would not be subject to tariffs or quotas. Some also recognised the high number of potential consumers and lower transport costs.

(d) Candidates were asked why LG set up in the UK. Quite a lot of answers referred to the strong currency but this was not justified and would make exporting difficult. Many possible reasons were given and acceptable, including available and/or skilled labour, costs of labour and land/premises, availability of government grants, good transport links and a large market within UK.

(e) How would a rise in the value of the pound affect LG? The best answers recognised exports would be dearer and fall in volume but imported materials would be cheaper, and gained full marks. Some failed to consider the import side to this. Some candidates gave a standard answer of the effect on the balance of payments, ignoring the actual question of LG. The weakest candidates got the analysis wrong, stating exports would be cheaper.

4   The data was in the form of a line graph showing both the base interest rate and the rate of inflation. For many candidates, their weakest answers were to question 4. It seems that many candidates were not well prepared on the topic of inflation.

(a) Candidates were asked to compare the base interest rate in real terms. The majority failed to do this and just considered the nominal rate.

(b) This asked how the data showed that the cost of living had risen. A lot of candidates seemed not to understand this. A lot gave answers which described the trend in the interest rate rather than inflation, many discussed both in 'hedging their bets' kind of answers. A common problem was to highlight a *rise* in inflation, whereas only the best answers showed a clear understanding that the cost of living would fall as long as inflation is positive.

(c) There were a number of routes to achieve marks on this question, which asked how a rise in interest rates could control inflation. The answers varied greatly in quality, the worse showing little knowledge but the best reflecting a strong understanding. The most frequent correct answers explained the effects on saving and borrowing, and hence spending. Quite a few candidates explained the effects on disposable income of people with mortgages.

(d) The final question asked candidates to evaluate the effects of inflation. Answers varied considerably in quality and, overall, candidates did not perform as well as on question 3(b), for example. While some explained the problems of inflation on the balance of payments and employment and the danger of hyperinflation, these were absent from many answers. Some candidates had a vague idea that low inflation was beneficial to an economy but had trouble explaining why this might be. A lot of answers were contradictory or went off at a tangent, e.g. discussing the effects of a change in the exchange rate. Strong Level 3 answers to this question were the exception rather than the rule.

GCSE Economics (1985/4)

Case Study Paper – Higher Tier

General Comments

On the whole, candidates were very well prepared for this examination paper. Candidates had a good understanding of the economic issues involved in the pre-released material and were able to use economic terminology throughout their answers. Candidates appeared to struggle with questions which required them to 'discuss' and, therefore, failed to achieve the top level in these questions. Generally candidates were able to explain their answers; however, they must ensure that they use the mark allocation as a guide for how much to write and in how much depth to write it.

Comments on Individual Questions

1   (a)   Most candidates gained full marks. The key to this part of the question was to 'compare', candidates who did not compare scored only one mark.

    (b)   Generally well answered. Candidates who simply stated their response gained one mark. The more able candidates went on to explain their answer and, therefore, gained full marks.

2   (a)   This part of the question, describing the trends in sales, was well answered, with most candidates scoring full marks.

    (b)   On the whole, this part of the question was well answered. Some candidates lost marks by forgetting to label axes, the new demand curve and the new equilibrium. The weaker candidates got the demand and supply curves the wrong way round or drew a diagram for ipods rather than CD's.

    (c)   (i)   Generally very well answered. Candidates were usually unable to provide a precise definition of opportunity cost.

    (c)   (ii)   If candidates gained full marks in c(i), they were generally able to apply their knowledge and gained full marks in this part of the question.

3   (a)   Most candidates gained full marks on this part of the question, correctly calculating the selling price of the CD.

    (b)   This question asked if all goods and services should have VAT on them. More able candidates used economic terminology such as 'regressive'. Candidates who were able to give both sides of the argument and use economic terminology gained full marks.

4   (a)   Candidates tended to use the technological problems in their answer, rather than economic conditions.

    (b)   Most candidates were able explain what firms could do and, therefore, most candidates achieved a Level 2 response. However, very few candidates 'discussed' and therefore could not reach Level 3.

5   (a)   Most candidates gained full marks. Weaker candidates assumed that using any data from the table would produce the correct answer; if these candidates showed their working they gained 1 mark.

(b)   This question regarding sales of CDs on the Internet was generally well answered. Candidates who gave a one-sided argument could not gain the full range of marks.

6   More able candidates were able to explain why Robbie Williams gets paid a high amount and why Michael Stand gets paid a lower amount. Top answers used elasticity to explain why. The weaker candidates used very little economic terminology.

7   Candidates tended to only get two of three available marks as a result of not giving enough information. Some candidates calculated the new market share.

8   (a)   More able candidates were able to explain that entrepreneurs organised the other factors of production and, without them, there would not be an efficient allocation of resources.

    (b)   This part of the question was generally well answered.

9   Good answers used the data to explain whether the standard of living would increase or decrease. Top answers discussed how the standard of living would change comparing both time periods. Weaker candidates simply regurgitated the data giving little or no explanation.

General Certificate of Secondary Education

Economics (1985)

June 2006 Assessment Series

Component Threshold Marks

Component	Max Mark	A	B	C	D	E	F	G
1	100			59	51	43	35	27
2	80			46	40	34	28	22
3	100	77	62	47	34			
4	80	55	48	42	35			

Specification Options

Foundation Tier

	Max Mark	A*	A	B	C	D	E	F	G
Overall Threshold Marks	200				115	100	85	70	55
Percentage in Grade					21.2	27.0	22.5	13.5	9.5
Cumulative Percentage in Grade					21.2	48.2	70.7	84.2	93.7

The total entry for the option was 227.

Higher Tier

	Max Mark	A*	A	B	C	D	E	F	G
Overall Threshold Marks	200	161	144	122	100	78	67		
Percentage in Grade		6.8	19.9	31.9	25.4	12.0	2.3		
Cumulative Percentage in Grade		6.8	26.7	58.6	84.0	96.0	98.3		

The total entry for the option was 1078.

Overall

	A*	A	B	C	D	E	F	G
Percentage in Grade	5.6	16.5	24.6	24.6	14.6	5.8	2.3	1.6
Cumulative Percentage in Grade	5.6	22.1	48.6	73.2	87.8	93.6	95.9	97.5

The total entry for the examination was 1305.