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Economics (8121/9121)

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Summer 2006

Examiners' Report

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Contents

AS Unit 1 (6351) – Markets – how they work

General:

This paper follows a now familiar pattern with 8 supported choice questions and two data response questions. It is clear that teachers and candidates have developed effective strategies to tackle this paper and the overall mean score of 23.9 for the paper was higher than for June 2005 (21.6). The paper differentiated fairly well as indicated by the standard deviation of 6.3.

The paper was readily accessible by the vast majority of candidates: most candidates attempted all the questions although a minority did not write anything for question 5 which demanded an understanding of the impact of a tax on the price of a product.

Weaker responses were typified by an imprecise understanding of elasticities and an inability to apply the concepts appropriately. A further problem was that the quality of language in some answers was such that the analysis was imprecise.

Overall, the majority of candidates were well-prepared for this paper and demonstrated a good knowledge of the basic concepts tested in this unit. However, there was an absence of evaluation in many responses especially in parts 9(d) and 10(d).

Section A: Supported Choice Questions

Question 1 (B) Production Possibility Frontiers **Mean Score: 3.65**

The majority of candidates selected the correct key, recognising that the tsunami would destroy resources and so cause an inward shift of the PPF. An easy way of scoring 2 marks was to include a definition of a PPF. This could be supported by an explanation of why the PPF would shift inwards. Some candidates also eliminated options which were unequivocally incorrect such as D which suggested that increased scarcity would cause prices to decrease.

Question 2 (B) Specialisation and Trade **Mean Score: 2.89**

Most candidates understood that both the UK and China would benefit from trade but the supporting explanations were often rather superficial. The best answers used the idea of comparative advantage and illustrated this with a diagram showing the UK with a comparative advantage in services and China with a comparative advantage in manufacturing. However, full marks were often not achieved because explanations were inadequate.

Question 3 (D) Mixed Economies **Mean Score: 2.91**

Most candidates were able to describe the characteristics of a mixed economy but few were able to explain the reasons why a free market economy might lead to an unequal distribution of income with the result that maximum marks were only obtained by a minority of candidates.

Question 4 (D) Income elasticity of demand **Mean Score: 2.97**

The most common weakness was to confuse price elasticity of demand with income elasticity of demand although some candidates also confused elastic with inelastic income elasticity of demand.

However, the majority of candidates provided a formula or definition of income elasticity of demand and did a calculation. This would have gained three marks; a further mark could have been achieved with some application to food.

Question 5 (B) Impact of a tax on equilibrium price **Mean Score: 1.90**

This proved to be the most challenging question on the paper. Although similar questions have been set in the past only a small proportion of candidates were able to calculate the new price correctly. The best way of tackling this question was to consider the amount which was offered for sale at £4 i.e. 500,000 kilos would now cost £6 to supply; the amount originally offered for sale at £5 i.e. 600,000 kilos would now cost £7 to supply etc. The empty column on the right hand side of the table could be used to insert these values and from that the new equilibrium price could be determined i.e. £7 where the equilibrium quantity supplied and demanded would be 600,000 kilos.

Question 6 (C) Opportunity Cost **Mean Score: 4.31**

This was the most accessible question on the paper and many candidates achieved maximum marks by defining opportunity cost and then explaining that the DVDs would be the opportunity cost of the party.
Weaker responses were characterised by inaccurate definitions of opportunity cost and an inability to explain precisely what the opportunity cost of the party would be.

Question 7 (A) Consumer Surplus **Mean Score: 2.34**
This is the first occasion in which a question on consumer surplus has been set in a real world context, based on an article which appeared in a national newspaper. It proved to be a very good discriminator, with only the best students selecting the correct key. However, most candidates were able to achieve 2 marks for defining consumer surplus correctly.

Question 8 (D) Shifts in Demand and Supply Curves **Mean Score: 3.87**

This was a similar question to a number which have been set on previous papers and the majority of candidates selected the correct key. Further, many candidates were able to provide clear explanations which earned maximum marks. However, weaker responses failed to include any reference to the context and so were rewarded with only 2 marks for their explanations.

Section B: Data Response Questions

Both questions were readily accessible to the vast majority of candidates, many of whom demonstrated sound skills in applying supply and demand analysis in unfamiliar contexts. Question 9 (car prices) was slightly more popular than question 10 (The Market for gold, silver and diamonds). The mean mark for question 10 was slightly higher than for question 10. This was probably because candidates were

less confident about applying elasticity of supply in question 9 than cross elasticity of demand in question 10.

Question 9: Car Prices

(a) (i) Explain the term *price elasticity of supply* (2)
Mean mark: 1.62

The vast majority of candidates were able to achieve maximum marks on this question either by defining it precisely or by writing the correct formula for its calculation. A minority of weaker responses failed to make reference to proportionate changes.

(a) (ii) What might be inferred from the passage about the price elasticity of supply for iron ore? Explain your answer. (3)
Mean mark: 1.03

Relatively few candidates achieved maximum marks on this question. A common error was to state that supply was elastic without making any reference to the time frame. While it was clear that mining companies wished to expand production by 50%, it was also clearly stated that "this cannot happen immediately". Other weak responses were characterised by a discussion of factors influencing price elasticity of *demand* rather than price elasticity of *supply*. Only the best answers correctly asserted that supply would be inelastic (at least in the short run) because of the problems of finding new sources and of opening up new mines.

(b) With the aid of a diagram, examine why car prices are likely to increase. (5)
Mean mark: 2.45

Most candidates were able to draw an accurately labelled diagram showing a leftward shift in the supply curve although some referred to the steel market rather than the car market. A significant proportion of responses did not include any evaluative comments but those that did were usually very sound with many commenting on the significance of steel in the production of cars.

(c) What can be inferred from the passage about the price elasticity of demand for a particular model of car? Explain your answer. (4)
Mean mark: 2.29

It was apparent that price elasticity of demand is much better understood than price elasticity of supply and answers to this question were consequently much better than those for question (a)(ii). Most candidates used the extract to good effect in their explanations of why demand for a particular model of car would be price elastic by referring to the availability of substitutes and the competitiveness of the market. However, some candidates did not include a definition of price elasticity of demand or price elastic demand.

(d) Examine two factors, other than price, that affect the demand for cars. (6)
Mean mark: 2.52

Although most candidates experienced few problems in identifying relevant factors, there was little evaluation. Consequently, the marks achieved were low. Evaluation could have included a discussion of the relative significance of the factors identified or by discussing why the factor selected might not be particularly important.

Question 10:

(a) (i) Explain the term *cross elasticity of demand* (2)
Mean mark: 1.58

The majority of candidates were able to achieve maximum marks on this question either by defining it precisely or by writing the correct formula for its calculation. However, a minority of weaker responses were unable to give a precise definition or failed to make reference to proportionate changes.

(a) (ii) Discuss the likely impact of an increase in the price of gold on the price of silver. (5)
Mean mark: 2.29

Most candidates recognised that gold and silver were substitutes and drew a diagram to illustrate that the demand for silver for rise causing a rise in its price. A significant minority concluded, incorrectly, that the cross elasticity of demand would be negative. Only the better responses included evaluation but, where it was included, it was often done very well. For example, some candidates explained why gold and silver were poor substitutes in some countries.

(b) How might an increased demand for diamonds affect the producer surplus of diamond mining companies? (4)
Mean mark: 2.46

There were some excellent diagrams in many answers which showed both the original producer surplus and the increase in producer surplus following the increase in demand. Some candidates lost a mark by omitting to provide a definition of producer surplus.

(c) With reference to the first paragraph of the extract, distinguish between positive and normative economic statements. Explain your answer. (3)
Mean mark: 2.24

Far more candidates defined normative statements in terms of value judgements than in previous years although a significant number of responses referred to them as opinions. In line with previous practice, the latter definition was not rewarded. Definitions of positive statements were generally correct and most candidates were able to select a positive and normative statement accurately.

(d) With the aid of a diagram, assess the reasons why the price of gold increased in 2004. (6)
Mean mark: 2.01

Diagrams were generally well drawn and accurate including both a rightward shift in the demand curve and a leftward shift of the supply curve. However, complications arose when both curve movements were depicted but only an intermediate price was marked instead of the final price. Regrettably, the majority of candidates did not include any evaluation despite the command word 'assess' in the question. Nevertheless, there were some very good evaluative comments in some responses which acted as an effective discriminator.

AS Unit 2 (6352)

The structure of the paper followed the same pattern as recent papers set in this unit, containing more stepped questions: the earlier questions tested knowledge, understanding and application while the latter ones tended to require more in the way of analysis and evaluation. This helped to make the paper accessible to the majority of candidates. Both questions tested candidate knowledge of definitions, for example, external costs, private costs and government failure in question 1 and economies of scale and market failure in question 2. However, many candidates struggled to achieve full marks on these knowledge-based questions, as indicated by their individual mean scores.

The overall mean score of 21.5 was lower than that for the June 2005 series (23.2). This appears to be due to both questions requiring a good understanding of the externalities model. The standard deviation of 6.9 was slightly less than that for the June 2005 series (7.3).

Question 1 (High speed rail link to channel tunnel) was a more popular candidate choice than question 2 (Wind power farms) to a ratio of 2:1. This might reflect the fact that several questions had been set on transport related issues in previous papers, providing candidates with some degree of familiarity. However, the mean score of 20.91 for question 1 was less than the mean score of 22.16 for question 2. This might be due to the difficulties candidates experienced in answering question 1d – the impact of the high speed rail project on UK income distribution. Many candidates struggled with understanding the term 'income distribution' and confused it with 'income level'.

Question 1 High Speed Rail Link between London and the Channel Tunnel

(a) Using examples from the high speed rail link, explain the terms

(i) external costs (Mean score 2.53 out of 4 marks)

This was a straightforward introductory question with two marks available for explanation and a further two marks for application of examples. Most candidates demonstrated an understanding of external costs. It was explained in a variety of ways – each was valid for two marks, for example:

'External costs are negative third party effects. They affect individuals who are not part of the transaction'.

'External costs represent the divergence between social costs and private costs which are ignored by the price mechanism'.

'Those costs from production or consumption which the price mechanism fails to take into account'.

'They are negative spillovers from the production or consumption of a good'.

To achieve full marks candidates were required to provide one or more examples of external costs from the high speed rail link. The most popular responses referred to the job losses likely to arise in other modes of cross channel transport such as the ferry and airline industries. This was awarded with two marks. There were many

other valid answers which referred to noise and visual pollution, wildlife damage and the impact on property prices adjacent to the rail link.

The main reason why candidates did not achieve full marks was due to an insufficient explanation of external costs, for example: 'costs which occur outside of a business'. This was too vague to be awarded the two marks available. Similarly, some candidate answers lacked proper application to the rail link, for example, 'property prices are also affected by the rail link'. This type of answer was too obscure to be awarded the full two marks. It was necessary to develop it further such as identifying that property prices in close proximity to the rail link are likely to fall in value.

(ii) private costs (Mean score 2.1 out of 4 marks)

This was another straightforward question. Two marks were available for explanation and a further two marks for application of examples. However, part (ii) proved to be more difficult than part (i) and many candidates struggled with their explanation. Nevertheless, some excellent responses were provided by candidates who simply adapted their earlier explanation of external costs, for example:

'Private costs are internal to an exchange between the consumer and producer'.

'Private costs are paid directly by the consumer or producers in a transaction'.

Candidates who understood the concept usually provided a suitable example to achieve a further two marks. The most popular example was the financial cost of the rail project - £3.7 billion to the consortium of companies and £1.8 billion to the government. Other suitable answers included reference to the type of private costs the consortium would face such as labour, raw materials, plant and equipment.

(b) Analyse one problem associated with estimating the external costs and one problem associated with estimating the private costs of a major project such as the high speed rail link.

(Mean score 3.12 out of 6 marks)

Many candidates had difficulty in correctly interpreting the question. Candidates were required to consider the problems of estimating external and private costs but many interpreted this as just considering the effects these concepts have on a major project.

However, there were some excellent answers and one candidate commented:

'It is very difficult to estimate external costs such as noise pollution from the rail project and how nearby residents are affected by it. It is impossible to attach a monetary value to the noise as it affects people in different ways. Some people may be less affected than others. It might be possible to work out the cost of double-glazing homes but this is unlikely to reflect the true external cost. Nearby house prices are likely to fall whether they are double-glazed or not.

It is difficult to measure private costs of large scale projects since they are typically under-estimated as indicated in the extract. There might be sudden technical difficulties in building the tunnels which greatly increase the cost of the rail project.'

This answer was worth full marks. The candidate clearly identified and analysed two separate problems of estimating external and private costs. Unfortunately, one of the drawbacks of some responses was a failure to separate the external costs from private costs in their answers.

Another limitation of some responses was the absence of application to a major project. These answers could only achieve a maximum of four marks. However, some candidates offered excellent examples of various projects that have become notorious for their cost overrun. In particular, frequent reference was made to the serious problems faced by Multiplex in constructing the new Wembley stadium:

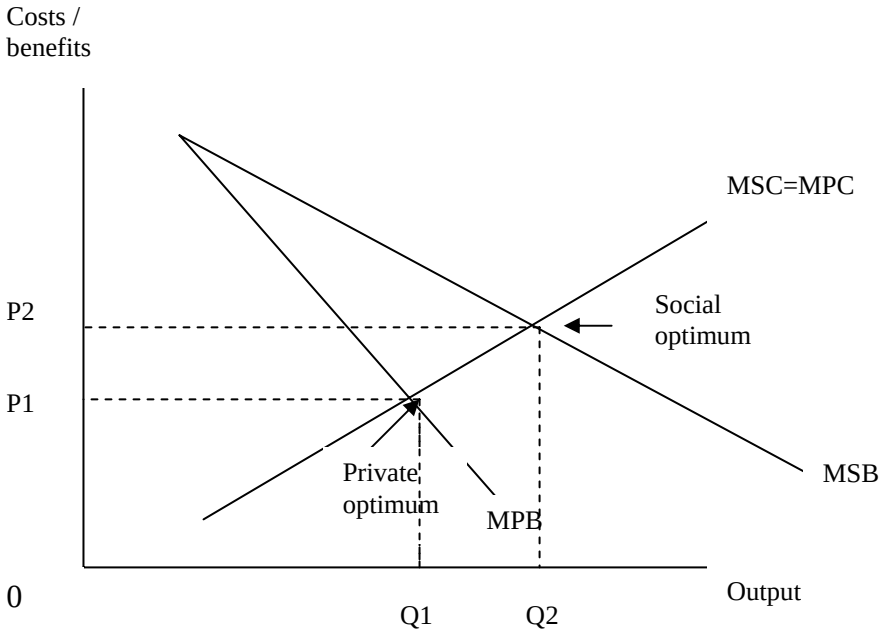
'Building Wembley stadium has posed serious problems in estimating private costs. The project is already a year over schedule and far more expensive than originally planned. This is due to technical problems in constructing the arch and labour disputes among sub-contractors which have caused costs to spiral out of control'.

There were many ways in which candidates were awarded marks – some referred to the difficulty involved in estimating external costs before the project was completed and others focused on how environmental campaign groups might attach more value to external costs than the companies involved in construction. Many candidates were keen to consider the difficulty involved in predicting price changes of raw materials such as steel and of inflation problems in general for long-term projects, affecting the accuracy of private cost estimations.

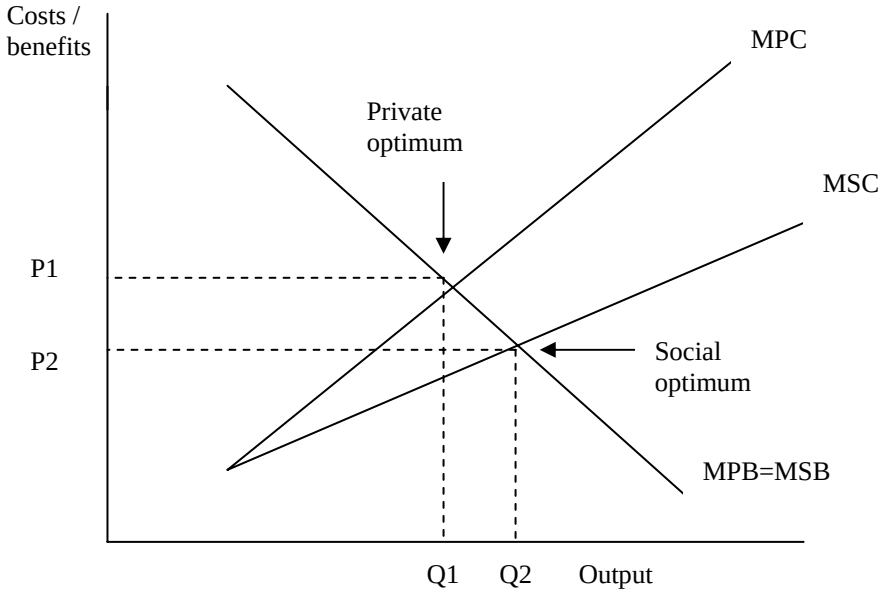
(c) Examine the view that the government subsidy for building the high speed rail link is justified by its external benefits. Illustrate your answer with a diagram.
(Mean score 6.32 from 12 marks)

This question effectively differentiated between the qualities of candidate answers. The best answers included a relevant externality diagram showing either positive benefits from consumption or positive benefits from production. Either diagram was deemed valid and awarded a maximum of three marks if the private optimum and social optimum positions were identified. A further one mark was awarded to a diagram which correctly identified the triangle of welfare gain (the section where marginal social benefits exceed marginal social costs between output positions Q1Q2). Both diagrams are shown as follows:

Positive Consumption Externality Diagram



Positive Production Externality Diagram



Most candidates were able to gain marks by using the data provided in the extracts. Up to five marks were awarded for explaining a combination of external benefits from the rail link, which could also include a correct definition of the term, for example:

'External benefits are third party benefits from consumption or production which the price mechanism fails to take into account. The benefits here include time savings on rail journeys from London to the continent which will boost international trade and

tourism. Faster journeys mean lower transport costs for goods and more foreign visitors to London. Also the rail project will lead to many jobs in construction and operation of the rail link. Furthermore, the rail link should encourage investment between East London and the Thames Gateway'.

Four evaluation marks were available which required the development of two points. One of the most common ways candidates achieved two evaluation marks was to directly answer the question – the government subsidy is justified since the estimated external benefits of £3420 million exceed the subsidy of £1800 million. Usually these candidates followed up their statement by questioning the size of the estimated external benefits, most notably the inclusion of regeneration benefits. According to the National Audit Office, regeneration benefits are usually excluded from such calculations and so undermining the validity of government approach. This was worth a further two evaluation marks.

There were various reasons why some candidates achieved low marks. One of the most common mistakes was to draw a diagram with incorrect labelling of the curves. Quite often candidates confused marginal social benefit and marginal private benefit curves with those of marginal social cost and marginal private cost curves. Such diagrams were usually awarded no marks as it meant the private and social optimum positions were in the wrong place too. Another common error was to incorrectly highlight the welfare gain (or loss) triangle. Marks were not deducted for incorrect diagrams but it meant that marks could not be awarded for them.

(d) Discuss one likely impact on the UK income distribution of the high speed rail link. (Mean score 1.67 from 4 marks)

This proved to be the most difficult question on the paper where many candidates confused income distribution with income level. Consequently, their answers focused more on how the rail project will lead to an increase in national income via the multiplier process rather than how income distribution might be affected.

Despite many disappointing answers, some candidates recognised that the project could lead to greater regional inequality:

'The high speed rail link is based in the south-east of the country as shown by the map in Figure 1. In particular, the project will mainly benefit London and Kent where incomes are already typically high. Many jobs have been created in construction and others from its operation, leading to higher incomes in this area. The rest of the country is unlikely to achieve such benefits, for example the North and so income distribution is likely to widen'.

This type of answer would achieve two marks. To gain a further two marks an evaluative comment was required for example:

'Although the rail project involves billions of pounds of expenditure it is still only a small part of UK national income and so is unlikely to have much impact upon overall income distribution'.

Similarly,

'In the short-run the construction project will largely benefit people and businesses between London and Folkestone. However, in the long-run its operation will benefit

many people and businesses in other parts of the country that now have shorter journey times to the continent'.

(e) (i) What is meant by government failure? (Mean score 0.88 from 2 marks)

This was a straightforward question which required a definition of government failure. Many candidates achieved full marks by referring to government intervention in a market as leading to a net welfare loss. Full marks were also achieved by candidates who referred to government intervention with the intention of correcting a market failure but which led to an inefficient allocation of resources.

However, it was disappointing to find that many responses were incorrect. Some candidates confused government failure with market failure and so gained no marks; others achieved one mark by referring to government intervention leading to a 'worse' outcome in the market.

(e) (ii) Discuss the case for government spending on improving road transport links to the Channel Tunnel. (Mean score 4.29 from 8 marks)

This question was accessible to the vast majority of candidates which reflects the popular issue of road transport on previous papers. Candidates were required to consider the case for government spending on road improvements to the Channel Tunnel with a critical eye. Many responses focused on both the advantages and disadvantages. This was acceptable due to the nature of the previous question in this section (e) (i) which implied that road improvements might constitute a government failure.

Usually, candidates amended ideas from the extracts to develop a series of advantages, namely, reduced road traffic congestion, greater investment, urban regeneration, international trade and tourism. Factor mobility improvements were another valid theme investigated by candidates. A significant minority of candidates even suggested that road improvements would help the channel tunnel operators. For example, it would lead to greater customers via use of the car train known locally as 'Le Shuttle'.

The best answers often questioned the rationale of increased government spending on road improvements after funding the high speed rail link to the tune of £1.8 billion. Here, candidates saw road and rail travel to the Channel Tunnel as substitute modes of transport rather than complements.

Another popular evaluation theme was the issue of opportunity cost to the government:

'There is an opportunity cost to increased government spending on road improvements to the channel tunnel. It might mean the government cannot afford to subsidise the rail link project which is put in jeopardy. It might also mean there is less funds available for education and health care or that an increase in taxation will have to take place to fund the project'.

Some candidates were able to evaluate road improvements through its short-run and long-run implications. Many accepted that there might be short-run improvements to road congestion but that in the long-run, more road space will simply encourage more traffic flows, leading to greater congestion.

One problem some responses suffered from was confusing road transport with rail transport. Consequently, their answers were invalid.

Question 2 Wind Power Farms

(a) Refer to Figure 1 and the first paragraph in Extract 1. Outline two factors that might explain the differences in electricity generation from wind power between the UK and one other country shown. (Mean score 2.56 from 4 marks)

This was a straight forward question where a significant number of candidates achieved full marks. The most effective responses used the information in Figure 1 and Extract 1 as instructed. The following is a typical full mark answer:

'The UK generates far less electricity from wind power (649 Megawatts) than Germany (14,609 Megawatts). This is due to two main factors: first the UK government appeared reluctant to fund renewable energy schemes because of their high start-up costs, but this did not concern the German government; second the UK had plentiful availability of other energy resources such as oil, coal and gas unlike Germany. However, because non-renewable resources are running out in the UK the government has recently decided to take renewable energy schemes more seriously'.

Another valid reason used by some candidates was the idea of differences in environmental awareness between the two countries which led Germany to allocate more resources to wind power development than the UK.

Some candidates compared the UK with France and still managed to achieve full marks. Often these responses referred to outside knowledge of a major nuclear power programme embarked upon by the French government over previous decades.

The reasons for not achieving full marks was due to a failure to explicitly use the data in Figure 1 and/or not providing two causes for the differences in wind power electricity generation between the UK and one other country shown.

(b) (i) Define economies of scale. (Mean score 1.01 from 2 marks)

This was another straightforward question where a simple one line definition was sufficient to achieve the full two marks, for example, 'economies of scale refer to falling average costs as a firm increases output'. It was also possible to achieve full marks by drawing a correctly labelled diagram. Even the definition was relaxed so that no reference was required to the 'long-run'.

(b) (ii) With reference to Figure 2, explain two different economies of scale that might arise in the generation of electricity from wind power. (
Mean score 1.95 from 4 marks)

The answers to this question were often polarised, with many candidates either achieving full marks or no marks! To those with a firm understanding of economies of scale it gave an opportunity to achieve an easy four marks, for example:

'Technical economies of scale are evident in Figure 2 where the cost per kilowatt of electricity falls as turbine size increases. This is because as a firm expands and builds larger wind turbines, they are more efficient in generating electricity than smaller turbines. Purchasing economies of scale might also be evident since a large firm is

likely to obtain price discounts through bulk buying of components such as blades, electricity motors and cables used in constructing wind farms'.

Many good responses applied financial and risk-bearing economies of scale to wind power, for example:

'Large wind power firms are able to obtain loans more easily and at a lower rate of interest than smaller firms, providing a cost advantage in production. Furthermore, large electricity power generating firms can spread their risks by diversifying into alternative energy sources such as wind power. This makes sense as fossil fuels become scarcer and run out.'

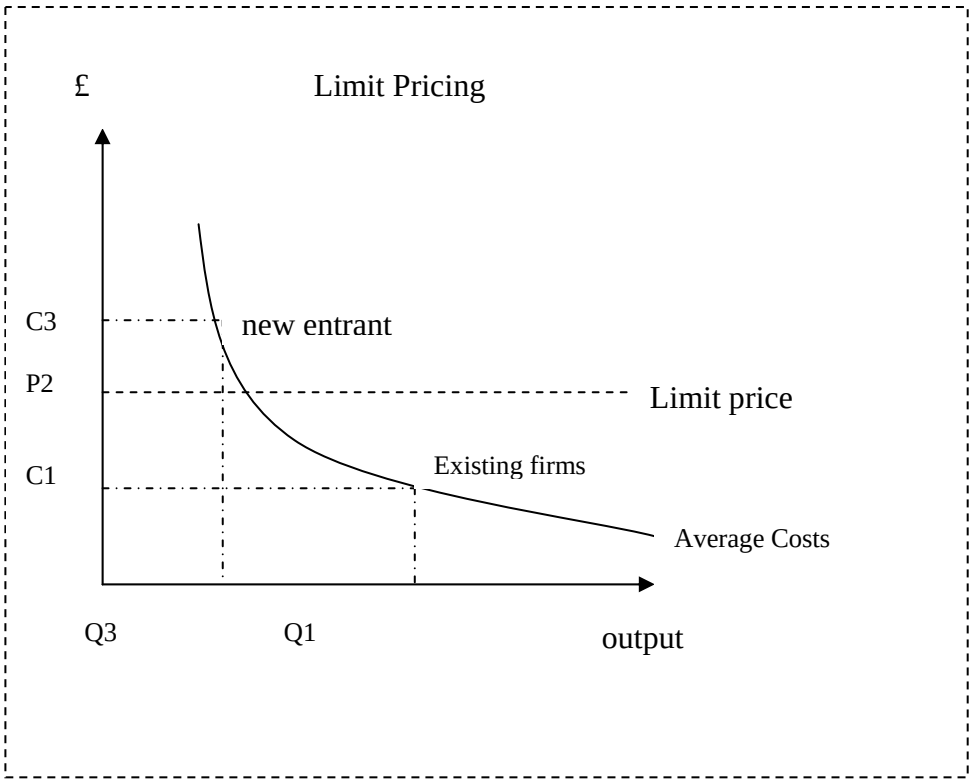
(c) Examine the significance of entry barriers that a firm might face when setting up a wind power farm.

(Mean score 5.09 from 8 marks)

This was answered effectively by the majority of candidates. At least two entry barriers were required and both had to be well developed for achieving six marks. Alternatively, three or more entry barriers could be provided with less development to secure six marks. A further two marks were available for an evaluative comment.

Some excellent answers were provided and many offered three or more entry barriers from the following list: Limit pricing, high start-up costs, economies of scale of incumbent firms, opposition from local community groups, land banks and patents.

A significant number of candidates used diagrammatic analysis to explain how limit pricing works. Existing firms have the benefits from economies of scale with a lower average cost of C1 compared to new entrants who would produce at a higher average cost of C3. This enables the existing firms to set price at P2 to deter new entrants who would suffer a loss. The loss is represented by the gap between C3 and P2.



In evaluation, many responses made good use of the information provided, for example:

'Entry barriers to setting up a wind power farm are more likely to be overcome in the present climate since the government is keen to increase this form of electricity generation. The government is more likely to override local planning objections to the location of new wind farms in order to achieve its own targets by 2010 and 2015'.

Another candidate continued the government intervention theme for evaluation:

'It is likely to be easier for firms to overcome the entry barriers to wind power electricity since the government has increased its subsidy to over £500 million. This will help offset the high start-up costs that firms face.'

The main reasons for not achieving full marks was due to a lack of development of credible entry barriers and the absence of an evaluative comment.

(d) (i) What is meant by market failure? (Mean score 1.00 from 2 marks)

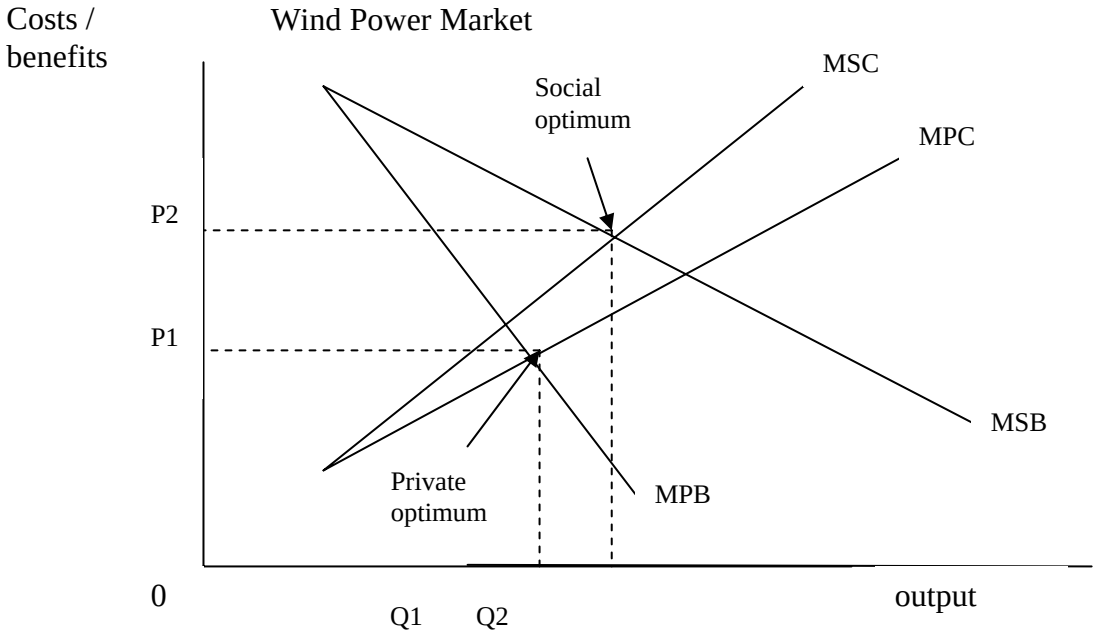
This was another straightforward question where a simple one line definition was sufficient to achieve the full two marks, for example: 'Market failure occurs when the price mechanism fails to allocate resources efficiently' or alternatively, candidates could state 'market failure is where the price mechanism leads to net welfare losses'.

(d)(ii) Discuss, using the concept of externalities, the government's policy of encouraging the generation of electricity from wind power farms. Illustrate your answer with a diagram.

(Mean score 5.61 from 12 marks)

This question was answered less effectively than its counterpart in the high speed rail link (question 1c). This might be explained by candidates who felt they were stronger on externalities choosing question 1 in preference to question 2. Furthermore, question 2 (d) (ii) was more searching in that it required discussion of both external costs and external benefits. These could be shown on one diagram or two separate diagrams.

Up to four marks were available for a diagram accurately depicting the private optimum price & output position (where marginal private benefits equal marginal private costs) and the social optimum price & output position (where marginal social benefits equal marginal social costs). Often the best answers demonstrated these positions as shown below. Note the private optimum is at price P1 and output Q1 whereas the social optimum is at price P2 and output Q2. The diagram depicts that external benefits are significantly greater than external costs and so justifying the case for government support of wind power electricity generation.



Most candidates produced an externality diagram linked to wind power farms, displaying external costs, external benefits or both together. Some candidates produced an external cost diagram linked to electricity generation from fossil fuels. This was also accepted as a valid diagram.

A further four marks were available for explaining what the external costs and benefits might be. It proved to be the easiest way of securing marks for this question. Candidate explanation of external benefits tended to refer to the reduction in fossil fuel pollution and the extension of the availability of fossil fuels for future generations. Candidate explanation of external costs tended to refer to the noise and visual pollution of wind farms and the negative impact upon nearby property prices.

Another four marks were available from two evaluative comments. Many candidates were able to secure two marks by discussion of the opportunity cost involved in government subsidies for setting up wind farms. In a similar vein, some candidates referred to the effectiveness of Renewable Energy Obligation Certificates as a means

of encouraging wind power farms. This overlapped with answers in part (e) but was accepted as totally valid and marked accordingly.

The main weakness of candidate responses was in the drawing and explanation of the externality diagram. It appears that many candidates are uncertain of what to do here and consequently did not achieve full marks.

(e) With reference to Extract 2, examine the advantages and disadvantages of Renewable Energy Obligation Certificates as a means of reducing fossil fuel pollution. (Mean score 4.94 from 8 marks)

The concept of renewable energy obligation certificates (REOCs) is similar to that of pollution permits and tradable obligation farming certificates set in previous examination questions on this paper. It was pleasing to see many excellent answers where candidates considered the advantages and disadvantages of such a scheme, providing an overall evaluative comment in their arguments.

The best answers used prompts from the information provided, for example: The advantages include rapid expansion of renewable energy - assisting the government in reaching its targets; correcting market failure by forcing energy firms to take into account fossil fuel pollution and so internalising the external costs; making firms pay fines if they fail to achieve their renewable energy targets which are then distributed to firms who successfully achieve their targets; encouraging more investment into renewable energy resources. The disadvantages from the data include the likelihood that firms will pass on the extra costs to consumers in the form of higher prices and the relatively low renewable energy targets set for power generating firms (just 15% by 2015).

However, considerable scope existed for candidates to introduce valid ideas from outside of the extracts such as increased administration costs to firms and the difficulty in monitoring and measuring pollution; some responses suggested REOCs will be ineffective if other countries fail to introduce similar measures; the possibility of UK firms becoming uncompetitive due to higher energy costs was another popular theme developed by candidates.

Reasons for poor performance in this question tended to be where candidates only focused on the advantages or disadvantages of the scheme rather than both. Another limitation was revealed by some candidates who regurgitated their notes on tradable pollution permits – without properly amending their answers to apply to REOCs.

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The mean was up 1.2 to 21.7 out of 40. The standard deviation was 8.2 (8.7 in 2005).

The paper seemed much more challenging than in recent years, and the mark scheme was therefore designed to use the full range of marks at the upper end. Question 1 in particular caused some major differentiation. There was – as with last year - very little attempt at evaluation on the early sections that request it. There were however more healthy attempts than seen in the past on the essay question, in particular in discussion of elasticities, the size of the multiplier, the relative merits of macroeconomic policies and the sense that the short run and long run consequences are often different.

The wording of the texts and the questions – with hindsight – appears to have been over-complicated, but the paper certainly sorted out the thinkers from the rote learners. There was a large cluster of marks at the lower end in many centres, as there were only a limited number of questions with 'easy' marks such that a regurgitated answer might provide.

Question Analysis

Q1(a)(i)(oil prices and AS). This was not as easy as it looked, and it differentiated well between those who could understand the data terminology and those who thought that index numbers are synonymous with real values. Answers need only briefly to refer to the term 'base year' and the concept of relative price changes – there is no need to fill all the lines available.

Q1(a)(i) This question was well answered, with many getting all the marks in few words and a well-labelled diagram. The most frequent omission was the link between the micro concept (oil) and production costs more generally (AS). Many could not leave the micro context at all, and even referred to the 'aggregate demand for oil'.

Q1(b)(i) and ii There was ambiguity concerning the word 'difference', and widespread misunderstanding of Figure 2. It was also confusing in the light of the fact that the UK is no longer a net exporter of oil (those who mentioned that were duly awarded evaluation marks). A worrying number of answers had drawn the conclusion that the US uses less oil than the UK. Similarly many thought that the only impact on AD was via consumption.

Q1(c)(i) and ii *Productivity gap* was a new 'area' and there were 8 marks based on this. However the text did provide the definition of the gap, and those where there was a reference to output per unit of input and a comparison between countries could earn the marks in few words. Many confused productivity with production, and the gap was therefore assumed to be an output gap. These answers clearly were **not** making reference to the text, although indicated in the question.

Q1(d) This turned out to be an interesting question because of the reference to **input costs** in the question (the mark cap of 4 out of 6 evaluation was used frequently), and the need to explain how a supply side policy might be used to control **inflation**, as this is not textbook theory. Many good explanations and examples of supply-side economics were offered and much better evaluation than in

the past was evident. In particular, effective use was made of comparisons between supply side policies and those policies more usually used to control inflation.

Q2(a)(i) It was fairly hard to discriminate between good and fair scripts owing to the instruction to 'identify' rather than 'calculate'. Most could use the data and observe an increase, although in retrospect the data could have been given in total rather than relative terms and then the calculation would have been expected. However if it had said calculate then more than 80% would have got zero marks, given that those who did attempt it made no reference to the *change over original times 100* formula.

Q2(a)(ii) Many simply **identified** the trend rather than **explained** it. There was some confusion between interest payments and interest rates. A good many observed that although there did seem to be a contrasting trend, this seemed to be going into reverse at the end of 2003.

Q2(a)(iii) Almost all those answering Question 2 attempted this section on income distribution, unlike last year, although in June 2005 the corresponding question was about **falling** interest rates. The question was made into a good discriminator by imposing a mark cap for those which made no reference to **redistributive** effects. Those who had practised using last year's paper would have known the most direct response was first to identify groups and then show how these groups' income would be affected by interest changes. Many answers discussed more generally the impact of rising interest rates on AD and then tried to make a logical conclusion about income distribution based on falling GDP, but for this to be credible there needed to be a link to groups such as the unemployed or shareholders. Some took the approach that house prices would fall, but the link from wealth to income was rarely clear in this case.

Q2(b)(i) This evaluative question turned out to be a good discriminator – the mark scheme allowed falls in AD as well as slowing AD but with certain provisos. A good number can now explain wealth effects convincingly, and many also referred to the likely impact on confidence levels. Evaluation tended to be either that housing is the major form of asset in the UK, or that consumption is the major element of AD. By contrast, many gave micro-centred responses, and disappointingly many answers explained that cheaper houses meant people had more to spend on other things, or that they would buy more houses.

Q2(b)(ii) One possible problem with this question was that there not enough space, and many answers did not work through the reasoning as to why the MPC might be concerned about the data – in other words, very few made reference to the function of the MPC and many thought it acted as the macroeconomic arm of the government.

Q2(c)(i) Although the question has not been asked before, many could deduce an explanation of export-led growth. Those who were re-taking the Unit having studied the A2 course, in particular the development option, found this a straightforward question.

Q2(c)(ii) This was a good question for testing the balance of payments, in that the understanding of inflows and outflows were required. It was clear that there is still much confusion between money flows and flows of goods and services. Many thought that the impact of consumer spending would be through the effect on the

price level and hence a fall in competitiveness, which was allowed although not the obvious point to make.

Q2(d) Many candidates were unprepared for anything like this! There was a disappointing amount of text regurgitation, but many did attempt to use the data to make a connection to AD changes. Only two of three pieces of data needed to be extracted, although many only referred to interest rates and when explaining that these did **not** change was not in fact an answer to the question. Most however could use AD/AS analysis to come to some sort of conclusion, and the evaluation is becoming a well-rehearsed skill.

Qu.	Parts (potential) grade A candidates usually get/ typical response		Parts (potential) grade E candidates usually get/ typical response
1ai	Base year, relative price changes		Relative price changes, not tending to use economic terminology
1aii	Many got all the points on the mark scheme, perhaps omitting the link between oil and production costs more generally		AS shift OR oil as a production cost. The main problem was seeing the link between the micro and macro concepts
1bi	UK 0.4 US –1.1		Some data reference, but without the direction of flow
1bii	Impact of oil prices on X and M; UK is net exporter in the data		A link between oil prices and AD
1ci	Output per unit of input, and some data use		Sense of efficiency
1cii	Two valid points, explained		Two weak but *valid* points, i.e. efficiency concepts, **not** related to production/output gaps
1d	Two or three policies explained, usually with a diagram, and in the best answers with a comment to explain that these counteracted the increasing input costs		Two or three policies, often without adequate explanation. There was much confusion over the use of supply policies in the role of controlling inflation – understandably many spent much time on monetary policy in the UK
2ai	Calculation that the increase was enormous – around 30%		Sense of an increase and data reference
2aii	Trend and the conclusion that interest rates must have fallen		Trend
2aiii	Identification of at least two groups and the redistribution of income between the two		Some understanding that interest rates can connect to income, although many did this via AD analysis
2bi	A slowdown rather than a fall in a few cases; in many cases, clear *confidence* and *wealth effects* and some attempt at evaluation		A fall in AD and either a wealth effect or some evaluation
2ci	Increased injections into the circular flow		Exports connected to economic growth
2cii	Contrasting flows		Exports as inward flow (many did not understand the consumer spending implication on imports)
2d	Use of the multiplier and AD shift diagram; use of two or three pieces of data and two pieces of evaluation		A sense of the multiplier, some data use, and at least one attempt at evaluation

A2 Unit 4 (6354)

The paper proved to be highly accessible to the vast majority of candidates and there were some excellent answers. The mean mark of 45.0 was similar to that of June 2005 (45.6). The standard deviation of 11.3 was less than June 2005 (13.2) but the paper differentiated effectively between candidate performances.

Although the pressure of time appears to still be a problem in this paper, it was pleasing to note that most candidates attempted all the supported multiple choice questions and all the sections of one data response question. This indicates that candidates are being well prepared for the examination and have become familiar with the pressure of time, probably through practising past papers under test conditions. The mean scores for the last sections of both data response questions are not dissimilar in percentage terms to the previous sections.

Supported Choice Questions

These questions continued to provide a challenge over the breadth and depth of candidate knowledge and understanding. A large number of candidates achieved scores above 30/40 by producing accurate definitions, diagrammatic analysis and relevant application of economic concepts to the data. The key to success remains explaining the correct option, linking the answer back to the terms of the question. However, up to two marks can be achieved by explaining why two options are incorrect but this must be done clearly and with explicit reference to these keys.

The supported choice questions differed in degree of difficulty. Candidates appeared to find questions five (sales maximisation) and six (declining demand for a monopoly) the hardest and questions two (perfect competition) and nine (marginal revenue calculation) the easiest.

Question 1: Economies of scale (Mean score 1.99 from 4 marks)

Most candidates selected correct option 'A' and proceeded to define economies of scale, for example, '*long-run average costs fall as a firm increases output*'. This was awarded two explanation marks. It was also acceptable to demonstrate this concept through a suitable diagram.

To achieve the third explanation mark candidates were required to infer the type of economy of scale shown by the table – namely, technical or volume based economies of scale from the orders for new container ships. This proved to be quite difficult for many candidates. Potential marks were also missed through an incorrect definition of scale economies, where some candidates omitted the 'long-run'.

Question 2: A firm in long-run perfect competition (Mean score 2.93 from 4 marks)

This proved to be an easy question for most candidates who have been well schooled in the theory of the firm. A comment was required on both parts of the correct option, namely 'perfect competition' and 'normal profit'. Many candidates thrived in their explanation and achieved full marks, for example:

'The firm is in perfect competition since average revenue equals marginal revenue. This only occurs under perfect competition. The firm is also a price taker as shown

by the perfectly elastic demand curve for its product. Only normal profit is achieved since average revenue equals average cost at output position Qe'.

Even the weaker responses selected the correct key most of the time but lost marks through only explaining one part of it, often omitting a comment on normal profit.

Question 3: Cost-plus pricing (Mean score 2.14 from 4 marks)

This was potentially a very difficult question but many candidates answered it well, reflecting the fact that cost-plus pricing had been tested in the June 2004 paper. It demonstrates that candidates are being well prepared for the examination by learning concepts from previous question papers.

A significant number of responses explained cost-plus pricing accurately to achieve two marks, for example:

'Cost-plus pricing is where a firm works out its average costs from a given level of output and then decides to add a percentage profit mark-up to set the price'.

Examiners were looking for reference to average cost, profit mark-up and price.

The third explanation mark appeared more elusive. Candidates were required to apply the concept to context of jeans, either by a relevant diagram or numerical example; indeed, either of these was awarded up to two marks. It was most pleasing to see some candidates use diagrammatic analysis, depicting a constant average cost curve and a downward average revenue curve, highlighting a profit mark-up in between at a set output level.

Alternately, candidates could secure the third mark by referring to an advantage of cost-plus pricing, for example, protection against unforeseen increases in production costs for the jeans manufacturer.

Question 4: Marginal analysis for a monopoly (Mean score 2.33 from 4 marks)

This was a highly accessible question where candidates could achieve three explanation marks by defining the term marginal revenue, drawing a relevant monopoly diagram and identifying that marginal revenue is positive at the profit maximisation position (where marginal costs equals marginal revenue).

The best answers made effective use of marginal analysis: Since a monopoly experiences positive costs at the profit maximising output level then so too must marginal revenue be positive (as MR=MC).

The main distracter appeared to be incorrect option 'D' which stated that 'demand is price inelastic'. The monopoly model demonstrates that this is untrue as demand is price elastic when the firm is operating at the profit maximisation level of output.

Question 5: Sales maximisation (Mean score 1.66 from 4 marks)

This was the most difficult supported choice question on the paper which came as a complete surprise to examiners. Candidates were tested by diagram on the familiar concept of sales maximisation. However, instead of an output diagram displaying average cost and average revenue, candidates were shown one with total cost and total revenue.

The requirements for achieving the full explanation marks were straightforward: Candidates had to define sales maximisation (the highest possible output position a firm can achieve without making a loss) (1), identify this to be the output level where total cost equals total revenue (1) and to state that only normal profits are gained (1). There was even sufficient flexibility in the mark scheme for candidates to achieve a mark by identifying sales maximisation to be where average cost equals average revenue!

This question also offered an excellent opportunity to knock-out incorrect options such as 'B' which is the position of profit maximisation – not revenue maximisation and 'C' which is the position of revenue maximisation – not profit maximisation. However, candidates had to be explicit by stating the incorrect option letters to achieve the marks.

The main distracter appeared to be option 'C' (incorrect profit maximisation) though other popular choices were 'B' (incorrect revenue maximisation) and 'A' (incorrect total variable cost equal's total revenue).

Question 6: Declining demand for a monopoly (Mean score 1.72 from 4 marks)

This was the second most difficult supported choice question on the paper as candidates struggled to explain how a decrease in demand would affect a monopoly's output, profits and price.

However, it was pleasing to find the majority of answers apply diagrammatic analysis since this was the most effective approach for achieving the explanation marks. The best answers showed an inward shift of both the average revenue and marginal revenue curves as well as a decrease in the level of supernormal profit. Although this was difficult to draw under timed conditions and in a small space, examiners were keen to award marks for anything that appeared to be correct.

Nevertheless, a common mistake was to rotate the average revenue curve inwards from its top rather than shift it completely inwards. This led to selecting incorrect option 'A' (assuming an increase in price). Another common mistake was to shift the average revenue curve inwards but not the marginal revenue curve. This led to selecting incorrect option 'D' (assuming output stays constant).

Question 7: A firm in a monopolistically competitive market
(Mean score 2.36 from 4 marks)

Candidates were well versed in understanding the model of monopolistic competition and had few problems in gaining an explanation mark through identifying the 'wide choice of dishes' offered by Indian restaurants as an example of product differentiation. Usually these candidates secured a further mark by offering another characteristic of a monopolistically competitive market (such as many buyers and sellers acting independently or fierce competition leading to normal profits in the long run). Alternately, candidates could secure a mark through drawing a correct short-run or long-run diagram for a firm in monopolistic competition.

However, the best answers made good use of the second part of the correct option - customer loyalty. Here, candidates suggested that by developing customer loyalty the Indian restaurant might be able to increase the price of its dishes to gain more revenue and profit.

Question 8: Price discrimination (Mean score 2.18 from 4 marks)

This question tested candidate understanding of price discrimination and its application to book purchases at Tesco's stores and on its website. Most candidates selected the correct answer and were able to define price discrimination. The best responses followed up by explaining the importance of having different price elasticities of demand between the markets, for example:

'Price discrimination is when a firm charges consumers a different price for the same product. Tesco is able to do this by separating book customers into the internet market and in-store market. Demand for Bridget Jones's Diary is probably price inelastic in the internet market as customers are charged £5.99 but for its in-store shoppers demand is likely to be price elastic as just £3.73 is charged. By charging different prices Tesco's is able to increase its revenue and profits'.

Some candidates offered diagrammatic analysis, depicting different elasticities of demand and price positions for the diary. Again, this tended to be awarded with full marks. Any attempt to apply price discrimination to the diary and bookstore were looked upon favourably. For example, a small number of candidates suggested the in-store price of the diary is cheaper because of the absence of postage and packaging costs. Others suggested it was more convenient to purchase on-line from home and so people paid a premium for this service.

The main distracter was option 'C' which incorrectly suggested a higher price elasticity of demand for the book among Tesco's internet shoppers than its in-store customers. This may have confused some candidates who incorrectly associated a 'high price elasticity of demand' with a 'high price'.

Question 9: Marginal revenue calculation (Mean score 3.07 from 4 marks)

As stated in the introduction, candidates found this to be the easiest supported choice question on the paper. However, it still required an understanding of the concepts total revenue and marginal revenue. Furthermore, a numerical calculation was involved to work out the marginal revenue from building and selling one extra plane. The high scores reflect sound preparation as candidates study previous papers, where a similar question on cakes appeared several years ago.

To achieve full marks it was necessary for candidates to show their workings in getting to the correct answer. Most candidates calculated the original total revenue from four planes (4 × £1.2m = £4.8m) and the new total revenue from five planes (5 × £1.1m = £5.5m). Then they deducted £4.8m from £5.5m to obtain the correct answer £0.7m.

Question 10: Entry barriers and role of Competition Commission (Mean score 2.24 from 4 marks)

Most answers correctly referred to the increase in entry barriers as the reason why the EU Competition Commissioner blocked the proposed merger between the state-owned gas and electricity industries in France. Usually, these candidates followed up by explaining one or more entry barriers that might arise, the most popular being an increase in economies of scale. Some astute candidates referred to the fact that economies of scale are already enormous in each industry and that the merger might make little difference in terms of increasing entry barriers. These were sound responses.

Marks were also awarded to answers which referred to the role of the EU Competition Commission in preventing a reduction of competition. In particular, its role is to 'make markets work well' through maintaining and encouraging healthy competition.

A significant number of candidates selected the incorrect option 'C' where the dangers of diseconomies of scale were seen as the reason for blocking the merger. This of course, is of no interest to the EU Competition Commission unless it impinges upon the level of competition in markets.

Data Response Questions

The data response questions appeared highly accessible to candidates as they were based upon current issues. Question 12 (Brewing industry) was a more popular choice than question 11 (Water industry) to a ratio of 2.5 : 1. The mean score for question 12 (23.43 from 40 marks) was also higher than question 11 (21.58 from 40 marks). This might have reflected the familiar nature of concentration ratios and integration to candidates compared to utility regulation.

As with previous data response papers the questions were stepped. Questions 11 (a), (bi) and 12 (a) & (bi) tested knowledge and application skills; Questions 11 (c), (d) & (e) and 12 (c), (d) & (e) tended to focus more on testing candidate analytical and evaluation skills.

Question 11: The Water Industry

(a) Explain *two* aims of an industry regulator such as Ofwat.
(Mean score 3.88 from 6 marks)

The majority of candidates were able to explain two aims of an industry regulator, the most popular being to increase economic efficiency and to protect consumers via price controls. Often candidates used information from the extract to good effect, for example:

'One aim of the regulator is to ensure water firms have an incentive to increase efficiency. This is achieved through insisting upon high levels of capital expenditure shown in Figure 2. By spending nearly £17 billion on investment we can expect to see increases in efficiency, for example, cuts in water leakage rates and improved water quality.

A second aim of the regulator is to control the price of the water services to prevent consumer exploitation. This is done through the RPI + k or RPI – x formula. The water companies are regional monopolies and if left to their own devices, could capture consumer surplus by massive price increases.'

This was a straight forward but highly effective answer which merited the full six marks. Other frequently mentioned regulatory aims included 'improving water quality' and 'promoting competition'. Some candidates brought in interesting examples from other industries such as telecoms, postal services and energy, revealing good case study work.

The main reasons for not achieving full marks were due to limited development of candidate explanations and a failure to distinguish between two clear aims of an industry regulator.

(b) (i) Explain the meaning of the sentence 'The price of water and sewerage services…..will rise in real terms by an average of 18 per cent over the next five years' *(Extract 1, lines 1 and 2.)* **(Mean score 1.58 from 2 marks)**

The high mean score indicate that most candidates had no trouble in explaining the sentence. Often the best answers were the simplest, for example:

'It means the price of water and sewerage services are rising by 18% more than the general price level over the five years'.

And

'Once inflation is taken into account, water and sewerage services are rising by 18% over the five years'.

Some candidates offered superb numerical explanations:

'If inflation over the period is 10% then it means water services will increase in price by 28%'.

(b) (ii) With reference to Figures 1 and 2, analyse *one* **possible reason why the permitted price increases in household water and sewerage vary between regions.**

(Mean score 2.11 from 4 marks)

This was a more searching question which tested candidates' ability to use the data. However, two marks could easily be achieved by explicit reference to the data:

'Thames water is allowed to increase its price by 21-25% since it has a massive capital expenditure target of £3092 million. Northumbrian water is allowed a smaller price increase between 10-20% since it has a lower capital expenditure target of £839 million'.

A further two marks could be gained by commenting on a possible reason for water price variations:

'Thames water needs to charge its customers a higher price to pay for the huge capital investment programme. Since water is an essential good it is price inelastic in demand. By raising price the firm can obtain more revenue at little expense to itself. This might satisfy the regulator but not the consumer'.

Some candidates questioned whether there was a direct relationship between the two sets of data due to apparent anomalies. This was also accepted as a valid point.

(c) Examine *one* **advantage and** *one* **disadvantage a water company might experience from a regulatory price control period which lasts for five years.**

(Mean score 4.03 from 8 marks)

This question was similar to one posed on a specimen paper and demonstrates the benefit to candidates of good preparation. The most effective answers focused on

the firm rather than consumer and developed a range of ideas from one advantage and one disadvantage:

'One advantage of a long term price control is that firms can plan better. It provides certainty over their future revenue stream and gives them plenty of time to make adjustments to their business. They will have a better idea of how much they can afford to invest and how far efficiency savings must go. The current price control is great for a water company since it allows big price increases.

However, a disadvantage of a long term price control is that it takes no account of external shocks or technological change within the industry. A water firm might suffer from a serious drought or bacteria which lead to big increases in costs that are unforeseen. This might lead to a fall in profits'.

A fairly common mistake was for candidates to examine the advantages and disadvantages from the consumer's point of view. This highlights the importance of answering the question set and how some time should be spent on carefully reading the instructions.

(d) Examine the extent to which the 'regulatory system protects water companies and their profits at the expense of consumers' *(Extract 1, lines 16 and 17)*

(Mean score 4.97 from 10 marks)

This looked a tough question. However, by using the data provided six marks could be attained comfortably. Candidates could agree with the statement by referring to the significant increase in share prices (Figure 4) and the large increase in water bills (Figure 1). Alternately, they could disagree by referring to the capital expenditure targets (Figure 2) and improvements in customer services (Figure 3).

A further four marks were available from developing one or more evaluation points. The most frequently cited idea was that the price increase was necessary to cut down on the amount of water wasted through leaking pipes and so ensure long term supplies. Another popular idea was to justify the price increase through meeting tough EU water quality standards.

(e) To what extent is the water and sewerage market likely to be a contestable one?

(Mean score 5.01 from 10 marks)

This was familiar territory for most candidates as contestable markets are a popular theme in the syllabus. Most responses were awarded two marks for defining a contestable market. A further four marks were available for analysis and application to the water industry. Not surprisingly, most candidates argued the water industry to be non-contestable due to the high sunk costs involved in building reservoirs, water pumping stations and installing pipelines.

Candidates tended to struggle in securing the four evaluation marks available. However, the best answers attempted to prioritise and consider the magnitude of entry & exit barriers. Some candidates made use of the time span and suggested the government might create a similar structure to that seen in the rail and gas industries in order to increase contestability. This was accepted as a valid argument.

Question 12: The Brewing Industry

(a) With reference to Figure 1, identify the market structure of beer production. Justify your answer. (Mean score 3.1 from 4 marks)

Most candidates made a pleasing start by identifying the beer industry as an oligopoly and then proceeding to define the term and calculate a relevant concentration ratio. A minority of candidates suggested the industry was a legal monopoly since Scottish Courage had more than 25% market share. This was accepted as valid but some reference to concentration ratios was necessary to secure full marks.

(b) (i) Explain the meaning of a 'vertically integrated industry' *(Extract 1, line 4)* **(Mean score 1.8 from 2 marks)**

This was another question that was well answered, the best being succinct and to the point:

'A vertically integrated industry is where a firm operates at different stages of production in the same industry, for example, breweries owning pubs'.

(b) (ii) Assess the advantages and disadvantages to a business of being vertically integrated. (Mean score 4.58 from 8 marks)

This was also well answered by the most candidates. The strongest part of the responses tended to be consideration of the advantages of vertical integration, where a range of points were elicited, for example, increased profit margins, secure market outlets, secure supplies, impose entry barriers against competitors and scale economies. The most frequently used disadvantages were reference to diseconomies of scale followed by the costs of funding an expansion and finally, the attention of competition authorities to the business.

The main reason for losing marks was due misinterpreting the question where responses focused upon the consumers' interest rather than business interest. Nevertheless, many candidates offered an evaluative point, for example, weighing-up the advantages and disadvantages to the business and whether being vertically integrated makes sense in a declining market.

(c) Evaluate the likely impact on competition in the beer production industry of the decision by the competition authorities to force breweries to 'sell off most of their public houses' *(Extract 1, lines 2 and 3)* **(Mean score 4.52 from 8 marks)**

This appeared a tough question but as long as candidates focused on competition in beer production they were likely to score marks. The best answers developed the most obvious point, for example:

'By forcing breweries to sell off most of their public houses we can expect an increase in competition. This is because more firms will be able to enter the beer market and sell their product to the pubs. Previously, it was difficult for new firms to enter beer production since it was hard to find buyers as most pubs were owned by major breweries (a vertically integrated industry). The impact of new entrants should lead to more price competition in the beer market, leading to a fall in prices.'

The better responses also recognised the possible impact on non-price competition, for example:

'The major breweries may be forced to concentrate more on non-price competition factors in order to maintain beer sales. They may need to invest in product quality and spend more on advertising and sales promotion such as Amstel sponsoring the Champions league'.

A number of responses used the extract to provide examples of non-price competition via the launch of new multi-coloured and flavoured beers.

The two evaluation marks proved to be more elusive to many candidates. Some suggested that lots of small breweries have closed down due to the increased competition forced upon the major breweries, ironically, leading to less competition in the long run. This was an excellent point.

Others candidates suggested that the actions by the competition authorities might have accelerated the exit of major breweries from the market, such as Bass and Whitbread, who have diversified into leisure interests. Again this was regarded as an excellent evaluative point.

(d) Discuss the exit barriers that a brewery might face when planning to leave the industry.

(Mean score 4.09 from 8 marks)

This was a more straight forward question yet candidates did not perform as well as expected. Most candidates identified sunk costs as a form of exit barrier to score one mark. This was usually backed up with examples of exit barriers to gain further marks. However, some responses failed to properly apply or analyse exit barriers to the beer industry. Furthermore, little attempt was made at evaluation.

Notwithstanding these common errors, some excellent responses were provided:

'The building premises and equipment might be highly specialised and so a brewery might face high sunk costs on exit. On the other hand, another brewery might be keen to purchase old equipment at a good price to maintain the distinct flavour of a beer. Also, buildings can easily be converted to housing or office space these days and so exit from the market has its financial rewards.'

Similarly,

'Large redundancy payments to workers might be an obstacle for leaving an industry. However, the brewing industry has become capital intensive over the past decade and so redundancy costs are likely to be relatively low. Marketing costs to develop customer loyalty might represent another exit barrier to a beer firm. However, often the firm can sell its product names and recipes to other beer companies – and so reduce the exit costs. This is quite common in brewing.'

These answers combined application, analysis and evaluation together, and were awarded high marks.

(e) Is it inevitable that the numbers of small producers in an industry such as beer production will decline? Justify your answer.

(Mean score 5.34 from 10 marks)

The question on small firms was quite novel for the current syllabus though it was a popular theme in previous syllabi. The best answers developed a case for and against the idea that small firms will inevitably decline. Often, economies of scale were seen to play a significant role in the demise of small breweries.

The best responses also tended to make effective use of the data provided, for example:

'Figure 2 shows a fall in beer consumption in pubs and restaurants. Between 1998 and 2002 annual beer consumption fell from 34 million barrels to 22 million barrels. The downward trend appears to be continuing for the future which makes conditions very difficult for small breweries who have limited financial resources to weather the storm.'

And,

'The extract mentions that more than forty small breweries have closed down leading to an increase in industrial concentration. It appears inevitable from this data that the number of small producers will continue to decline.'

Alternative views pointed to the possibility of small producers developing specialised brands to appeal to niche markets, where economies of scale cannot be exploited due the small number of customers. In a similar vein, some candidates suggested that strong customer loyalty exists for small local breweries.

The question also offered scope for candidates to refer to industries other than beer production, though few ventured away from this market.

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There was a small decrease in the mean mark to 31.3 (31.6 in 2005) with an increase of 0.6 in the standard deviation to 9.9 (9.3). There were very few parts left blank, and the questions appeared to be fairly squared with the Specification as delivered by centres. Evaluation was evident in all but a few scripts.

Question 1 was perceived to be a difficult question, when compared both with Question 2 and with the papers over the past two years. Question 1 was demanding in terms of economic theory (theory of demand, monopsony in particular).

Question 2 was by far the most popular question, with about three-quarters of candidates choosing this question. On average, responses seemed to gain slightly higher marks on question 2 than question 1. This is largely explained by the relatively straightforward approach in 2(d), which had the effect of pushing up marks quite significantly in some cases. However this was balanced to some extent on the 10-mark question 2(b) which was often the lowest scoring in percentage terms.

The response of candidates to particular questions

Question 1

Despite the student-friendly data, many candidates were wary of the EU context and the explicit request for monopsony and for MRP theory. The Figures were rarely used, but where they were – notably Figure 1 in 1a and Figure 2 in 1(d) - they were generously awarded.

(a) This was often surprisingly poorly answered. Many answers began with a descriptive account of the 35-hour week which did not in itself earn any marks, while others did not read the question properly and discussed the implications of the 35-hour week on wages and unemployment rather than the **removal** of the 35-hour week or discussed issues related to **employment**. It should be remembered that for a 20-mark question the answer should include four major points. Although the marks can be earned with fewer points, the general scheme for awarding the marks is 3 + 2e, with three marks for knowledge, application and analysis and two for evaluation. Evaluation of this question tended to be brief and it is advised that candidates explain the evaluation point rather than listing the ideas. Much evaluative comment was focused on elasticity but there was very little comparative comment or use of the Extract.

With hindsight this would have been better as a 15-mark question, as few earned more than 15 marks.

(b) The question was an effective discriminator, and did encourage the candidates to use the data and to apply theory. Good knowledge of monopsony was used in many responses and, where drawn, an accurate diagram could be used to gain a straightforward three marks. There was also good use of Extract 2, with most responses picking up marks through using relevant examples. Only the very strongest answers identified the existence of bilateral monopoly in Extract 2 although a significant number of responses made reference to the fact that the strength of monopsony was generally greater than monopoly. Many responses confused monopoly in the labour market with monopoly as a market structure (i.e. Unit 4) with

reference to the firms Siemens and DaimlerChrysler. A few responses focused on monopsony or monopoly only rather than both.

(c) This was often a well-answered question, with the issue of flexibility being effectively rehearsed from past papers. There was some misunderstanding of what a **flexible** labour market is – whether a demand or supply side issue - and often the context was put within the management of the **firm** rather than that of the government. While clearly the government is a major employer and answers such as 'improve incentives' therefore had some validity, it is important for answers to be brought explicitly into the context of the questions to earn the higher marks. Another major weakness was a failure to work thoroughly through the logical economic arguments. For example, some responses discussed raising the NMW to improve flexibility without making a convincing case through discussing productivity changes.

(d) This was a fairly straightforward question, and there was a similar question requiring explicit use of MRP theory in 2004. Despite this, many responses tended to show little understanding of MRP although most candidates mentioned labour being a derived demand in their answers. There was often some discussion of elasticity. Furthermore, like Question 1a, evaluation tended to be weak and there was little discussion of the weaknesses or assumptions of MRP theory in answers.

Question 2

(a) The question was approachable, and few responses ignored either spending or taxation. Consequently, there was little capping of marks. Most responses delivered three relevant points, although there was a tendency to merge ideas and a distinct failure to use paragraphs as tools to build arguments. It is advised than factors, once identified, should be illustrated using the passage and then explained using economic analysis (there was much that was political). The factor should then be evaluated, and although the evaluation can be saved for the end of the essay it is often found that the candidates are more successful in taking a critical stance where encouraged to evaluate at every stage. Many responses were very descriptive of the ageing population: in some cases a whole page was written which obviously gained no marks even though it showed evidence of good general knowledge. There seemed to be little appreciation of the fact that a government has some flexibility in its fiscal stance in the short run.

(b) This was on average the worst answered question on the paper. In referring to the 'sad decline' of pensions, the quotation from Extract 1 acted as a distracter rather than a stimulus for evaluation as had been intended. A significant number of responses took the "sad decline" to mean falling pensions and their whole analysis was based on this assumption. There was hardly any reference to Figure 1 showing increases in real pensioner income, and little reference to the fact that, even after housing costs, pensioner income has been growing. Many other responses identified the factors in Extract 1 but offered little or no further analysis. There was a significant number of responses with no clear understanding of what income distribution is, discussing the context of "income distribution is decreasing" rather than becoming less equal. There were many attempts at using a Lorenz curve in this question, which, when given showing the whole population is difficult to justify in the context of the sub-group of pensioners' income distribution.

(c) There was an ambiguity in the question (within the over 65 age group or between those above and below 65) which meant that a variety of responses was allowed in

the mark scheme. Most responses managed to come up with three factors but many did not always seem entirely plausible and were often overlapping. For example, many said that some pensioners had accumulated much wealth over their lifetime, and then went on to say that they had had different levels of inheritance. While it is possible to earn some credit for similar ideas, it is unlikely that the analysis and application will have been developed in a sufficiently distinct way as to earn a high score. The best answers demonstrated a high level of real-world knowledge. It was a disappointment that as many as half of the respondents referred to **pensions**, specifically excluded in the question, and it has been agreed that in future the excluded factors will be put in bold format on the question paper.

(d) This was a very straightforward question with a lot of high marks (15+/20) awarded. Because of this it was not a very good differentiator. In most cases the Lorenz Curve was correctly drawn or described: the shift was sometimes missing or not labelled. Most candidates had no trouble identifying three policies and there was good knowledge shown of the Working Families Tax Credit (including current up-to-date evaluative comment on the recent over-payments by the government) and the Minimum Wage. If anything, answers were overly long rather than lacking detail. Evaluation was also good on this question.

Qu.	Parts (potential) grade A candidate response		Parts (potential) grade E candidates usually get/ typical response
1a	Several approaches were given in the strong answers – for example those who distinguished between hourly rates and total wages. Some good use of income and substitution effects		Increased supply of labour and appropriate diagram. A recognition that unemployment might increase
1b	Monopsony well identified and good application from the passage. Some excellent diagrams were given. A very limited number of responses identified monopoly in the labour market context. Bilateral monopoly analysis in extremely rare cases.		Use of data to identify market power in its various forms.
1c	Education and training were usually fruitful responses in this question.		Weaker answers failed to identify an actual government policy, and focused more on flexibility
1d	Robust handling of the elements of MRP theory and its limitations.		Weak use of MRP theory and very limited evaluation
2a	At least three good points and some evaluation.		Two or three valid points, covering both spending and taxation.
2b	At least two approaches to this, with a sense of **income** distribution, with some evaluation		One approach, with some confusion between the absolute and relative changes in pensions, and problems in examining income redistribution
2c	Few made the distinctions between poverty and inequality explicit, those there were some good answers where regressive taxes were used on the poverty side		Three causes given, though often with some overlap (mainly cost of living) and some basic understanding of income/wealth concepts

2d	Three relevant government policies, and practical knowledge used in evaluating incentive effects. Accurate Lorenz curve, with labels and a sense of inequality reduction shown on the diagram.		Three plausible government policies, some evaluation, and fairly glib understanding of Lorenz.

Examiner's report 6355/02

General

The mean mark has fallen to 33.1 (2005 - 34.9) and the standard deviation has fallen to 9.4 (2005 - 10.3). The majority of candidates did question 2 (Brown's Marshall Plan for world poor), with anecdotal evidence suggesting that some 75 per cent of candidates attempted this question.

It remains the case that many of the candidates lack the necessary economist's toolkit to succeed in this examination; this can pose major problems for candidates who repeatedly fail to follow the instructions given in the question to evaluate their answers. Evaluation is an essential part of this unit (40 per cent), and is included in each individual component; failure by candidates to evaluate their answers puts them at a serious disadvantage. Data reference was weak in many cases, where candidates were unable to apply the knowledge that they possessed to the case examined and in the context of the data presented. This was most obvious in question 2(d) where candidates were instructed to compare their answer with another developing region, those that failed to do so found that their answers were capped.

A number of candidates are unable to put into context the areas that they are studying or writing about. Instances of China appearing in the Middle East, and Brazil or Chile appearing in Africa were not uncommon, as were references to the country of Sub-Saharan Africa. Centres would do well to try to put the three major developing regions into a geographical context, perhaps when analysing the contrasting levels of success in the different countries.

It still remains the case that many candidates use bullet points, and develop lists to answer questions. This can mean that the points identified are not developed sufficiently to ensure full credit. Candidates need to understand that the basic rule of thumb is 2 points for 10 marks, 3 points for 15 marks and 4 points for 20 marks, all of which have been evaluated.

Good candidates tried to use the various economic models that exist in development economics, but unfortunately the nature of the analysis did not develop these lines of argument and so often candidates were not fully rewarded for this approach. Use of economic models associated with development is to be welcomed, but candidates will need to be in a position to explain the workings of the model, and furthermore identify and explain the limitations associated with such models. However, candidates will not be at a disadvantage in future sessions of this examination specification if they have not mastered the various economic models.

Question 1

(a) This was generally an accessible question, most candidates were able to identify three factors from the final paragraph, although there remained a minority that either failed to refer to the final paragraph or included material from other aspects of the extract.

Those candidates who did refer to the final paragraph were able to score well through data reference, and identification of the impact of these issues on the economic and social development of Indonesia. Such issues included

poor sanitation, and lack of investment in infrastructure, and their impact on the quality of life and health of Indonesians.

However, candidates often did not use the text to evaluate their responses, for example candidates could have suggested that the issues surrounding poor sanitation would not be resolved in the short term, and would necessitate large sums of government spending, diverted from other perhaps more needy areas.

(b) Candidates did not fair as well as had been hoped on this question. The aim of the question and extract was to explain the clear fall in domestic investment in Indonesia. Foreign Direct Investment was to be addressed in part C. However, many candidates wrote at length about FDI and why this had fallen. If these candidates were able to put this alongside a discussion of domestic investment then they were not penalised. However, answers that focussed solely on FDI were capped.

Those candidates that were able to write about the fall in domestic investment could score highly referring to their wider knowledge and the material in the text. For example good candidates were able to put into context the difficulties faced by entrepreneurs in Indonesia when trying to set up their business. Better candidates also made reference to the other countries in the data, suggesting perhaps that Indonesian entrepreneurs might have withdrawn their capital investing instead in Singapore, China or Malaysia. Others referred to the negative impact of terrorism (Bali) and the Tsunami of 2004.

Again it was essential to evaluate answers, perhaps by focussing on which factors played the most substantial role in reducing investment, or discussion of the global economic conditions, in other words global investment was falling, and therefore Indonesia was not an isolated case.

(c) Most candidates were well versed in answering this sort of the question. Many were able to offer a wide range of very good policies, although a minority did concentrate their answer on the advantages and disadvantages of FDI rather than the policies designed to attract FDI. Such policies included those based on the extract such as a reduction in bureaucracy, improving productivity and reducing the minimum wage. Others referred to reductions in taxation and the introduction of subsidies.

Although candidates were able to identify policies to attract FDI, fewer found it easy to evaluate their answers. Candidates could have discussed the impact on the environment, perhaps the desire by Indonesia to discourage FDI, or the footloose nature and expense of such investment, in addition to evaluating the individual policies.

(d) This was well answered by the majority of candidates who were able to analyse two indicators. These included composite indexes such as HDI and other indicators such as literacy rates, and infant mortality. A number of candidates incorrectly stated the components of HDI, and others referred to the "Big Mac Index" as an indicator of economic development gaining them limited credit.

Few were able to evaluate well. This could have been done for example by discussing the relative accuracy of the data provided.

Question 2

(a) In general candidates were well versed in the arguments for the writing off of official debt. However, a number of candidates were unable to distinguish accurately between aid and debt, and others displayed an ignorance of the origins of the current debt crisis. Many did not base their answer on a discussion of cancellation of "official debt" but assumed that all debt would be cancelled.

It was the case that candidates failed to fully evaluate the points that they made. Such evaluation could have focussed on the arguments against cancellation of debt such as the moral hazard associated with the cancellation of debt.

Candidates who based the bulk of their answer on the arguments *against* the cancellation of debt were rewarded equally to those who answered with a focus promoting the cancellation of debt.

(b) Candidates were able to score highly here. Many candidates had a good grasp of aid, and were able to make clear distinctions between tied and untied aid. Arguments for the increasing of aid varied from the contributions it would make to the infrastructure of countries receiving this assistance to improvement in health and education provided by increased aid.

Again candidates were required to evaluate their arguments, perhaps referring to the length of time required to fully appreciate the benefits, or arguments surrounding the willingness of donor countries to increase aid (aid fatigue) or the relative size of this increased aid compared to global GDP.

(c) Candidates were able to write good answers focussed on the problems associated with a removal of tariffs by developed and developing countries. These concentrated on the infant industry argument, loss of tax revenue in developing economies, and the consequential damage to the public purse and possible dumping by developed countries.

A number of candidates based their answers on a unilateral reduction of tariffs by LEDCs; this was not the premise of the extract and therefore did not illicit the sort of responses expected from candidates.

Evaluation was necessary to score well, and many candidates did not achieve many marks in this area. It was relatively easy to obtain these marks by contrasting the problems associated with trade liberalisation with the benefits from free trade. These could have included access to export markets, associated jobs, increase in choice and benefits from comparative advantage.

(d) Many candidates were well rehearsed in the reasons for Sub Saharan Africa's lack of economic growth. Most responses focussed on the debt crisis, levels of Aids, corruption, political instability and a lack of FDI. Better candidates were able to contrast the performance of some countries within Sub Saharan Africa, particularly those which possess large quantities of raw materials.

However, while there were many good points made, candidates often failed to make even the most cursory of comparisons. These answers were capped at 6/12 for knowledge, application and analysis. Better answers compared each point made with a contrasting region, many focussing their comparison with the relative success of Asia, and China in particular.

A number of candidates had a good historical knowledge of the contrasting regions. Some were able to argue convincingly that the colonial heritage of Sub Saharan Africa had played a major part in its lack of growth. Whilst others talked about US aid in South Korea, Japan and other parts of South East Asia contributing to their relative success.

Evaluation proved elusive for many candidates here, they were unable to discuss which policy was the most significant hindrance to the development of Sub Saharan Africa or to disaggregate the region between those that had experienced corruption and political instability with those that had a much more stable period of development since independence. Too often candidates dealt with Sub Saharan Africa as one homogenous entity, indeed some approached it as one country, rarely acknowledging the differences in climate, raw materials, history and economic development that exist within the continent.

UNIT 6356 PRINCIPAL EXAMINER'S REPORT:

General:
Mean mark: 53.2; Standard Deviation: 14.7

This paper proved to be more challenging than that set in June 2005: the essays required more independent thinking and both data response questions required higher order analytical and evaluative skills. This presented problems for a minority of candidates who appeared to have only a superficial understanding of the subject. In these cases, analysis was often confused, diagrams were inaccurate and the quality of language made it difficult to understand precisely what the candidate was trying to say. There was often a complete absence of evaluation in these responses. Nevertheless, it was pleasing to see some really excellent scripts which demonstrated not only an understanding of the subject matter in the Unit 6 specification but also a firm grasp of concepts learned from other units. These scripts are a credit not only to the candidates themselves but also to their teachers who have obviously played a significant role in preparing their students so well for the examination.

Overall, there was a fall in the mean mark compared with June 2005 and an increase in the standard deviation.

Section A: Essays.

The ability to write extended prose in a constrained time frame is a very important transferable skill valued both by universities and employers. Essays in economics require a candidate to identify, explain, analyse and evaluate issues together with the appropriate application of economic concepts. While it was gratifying to see these skills demonstrated convincingly by a minority of candidates, there was evidence that some need more practice developing essay writing skills. In particular, students should be encouraged to plan their answers and to use paragraphs to separate ideas. Nevertheless, there were some really good essays on question 1(b), an area in which few candidates would have had specific preparation.

The most popular essay was question 2 on the balance of payments while the least popular was question 3 on public finance.

1 (a) 'Trading blocs are the most significant factor contributing to globalization.' To what extent do you agree with this view?

This was generally answered quite well: most candidates considered several factors which have contributed to globalization (especially technology and transport) although a few just confined themselves to a discussion of the consideration of trading blocs. The better responses demonstrated an ability to link trading blocs into the process of globalization and included effective evaluation. A minority of weaker responses confused trading blocs with trading blocks while others spent too long on an introduction to the concept of globalisation.

(b) Evaluate the likely economic effects of a decision by the UK to withdraw from the European Union.

This question discriminated very well. The best candidates considered a range of possible effects such as on trading patterns, the Balance of

Payments; foreign direct investment and agriculture and included convincing evaluation. In contrast, weaker responses demonstrated a remarkable lack of knowledge by discussing the likely economic effects of the UK withdrawing from the euro while others developed long and poorly focused arguments with questionable economic linkages.

2. (a) Both the USA and the UK's balance of payments' are recording large deficits on their trade in goods balances. Do such deficits matter? Justify your answer.

Much of the analysis was convincing, demonstrating sound theoretical knowledge together with the ability to explain both sides of the argument. Many responses correctly noted that the deficit related to the trade in goods balance and so commented on the significance of the services balance.

On the other hand, a large minority of candidates confused budget deficits with balance of trade deficits and some assumed that the UK and USA had fixed exchange rates. A further weakness in some responses was to focus on the causes of such deficits rather than on whether or not they were a problem.

(b) Compare the effectiveness of supply side and fiscal policies to correct deficits on a country's current account of the balance of payments.

This question was answered much less impressively that part (a). Supply side policies were well understood and often evaluated appropriately. However, some candidates merely listed the policies and included little analysis. Fiscal policy proved more problematic: while better responses included a discussion of deflationary policies, other confused fiscal policy with supply side policies or monetary policy. Further, a significant number of candidates suggested unconvincingly that reflationary fiscal policy might be an appropriate method of reducing a current account deficit.

Generally, evaluation was not very convincing: for supply side policies there was an over reliance on time-lags although better responses discussed the incentive/disincentive effects of higher taxes in relation to fiscal policy.

3. (a) In 2000/01 the UK's public expenditure was 37% of GDP. This is forecast to increase to over 42% by 2007/08. Examine the likely economic implications, apart from increased taxation, of this trend.

This was the least popular of the essay questions and there were relatively few strong responses. Some candidates confused public expenditure with expenditure by the public (consumer expenditure) while others became side-tracked into a discussion about how the money might be raised although the question was worded with the intention of excluding this possibility. Only the best answers considered the significance of the rise in public expenditure as a percentage of GDP and discussed possible 'crowding out' implications. There was a tendency for some weaker response to go into great depth about the long term consequences of 'pension time-bombs' even though the question specified 2007/08. A lack of evaluation was a particular problem in answers to this question.

(b) Assess the economic effects of a significant increase in taxation on the UK economy.

The quality of responses to this question was very broad. The best answers used aggregate demand/aggregate supply analysis effectively and discussed the likely effects on a range of issues such as real output, the price level, unemployment and the current account of the balance of payments. Some went onto to consider the impact on incentives to work, foreign direct investment and the budget deficit.

Weaker responses were characterised by one or more of the following: microeconomic analysis of a rise in taxation; focusing on second round effects such as assuming that the tax revenue would be spent on social security benefits; or giving details of the different types of taxes rather than examining the effects of an increase in taxation. Often, evaluation was little more than a comment that the impact would depend on the size of the increase in taxation.

Section B: Data Response Questions:

While there were some very sound answers to these questions, weaknesses were apparent in many responses. Candidates need to ensure that terms are defined accurately; appropriate reference is made to the context; analysis is developed carefully and evaluation is included when required. Poor time management was evident in some scripts which meant that some questions had not been attempted. Question 4 on protectionism in the context of textiles was significantly more popular than question 5 on relative economic performance of selected countries. This was probably because candidates considered the context and material to be more accessible in question 4. Nevertheless, there were some impressive answers to question 5 particularly by those candidates who made good use of the information provided.

4. (a) Briefly explain the difference between 'quotas' (Extract1, line 4) and 'tariffs' (Extract 2, line 5) (4)

The definitions were usually accurate but relatively few candidates made any reference to the context.

(b) With reference to Extract 1, explain two benefits of quotas to industrialized countries with their own textile industries. (6)

Most candidates identified two benefits of quotas but some related them to developing economies rather than to industrialized countries. The benefits were often not explained fully with reference to the extract.

(c) With reference to Extract1, to what extent might the continued use of protectionist policies be justified? (10)

Many responses discussed the case for protectionism generally, for example, to protect employment, with little or no reference to the information provided. Only a minority of candidates discussed the factors mentioned in the first extract, for example, that China was 'keeping its currency at an artificially low level' and 'giving subsidies to its textiles industry'. However, there were some very good evaluative comments along the lines that

protection would distort comparative advantage and so reduce world welfare.

(d) With the aid of a diagram, assess the effects of tariffs on imports of textiles into the EU. (10)

Generally, this question was done well with a higher proportion of candidates able to include an accurate diagram than in previous examinations. The impact of the tariff was usually analysed convincingly but only the best responses included appropriate evaluative comments by discussing the significance of factors such as the size of the tariff and the price elasticities of demand and supply.

(e) To what extent do you agree that tariffs on textiles can be 'likened to a system of regressive taxation' (Extract 2, lines 9-10)? (6)

This question proved to be very challenging with a number of candidates making no attempt at answering it. When it was answered, the definitions of regressive taxation were often imprecise: most said that tax would fall as income rises forgetting that it should be tax falling as a proportion of income as income rises. Further, few candidates were able to relate this concept to the tariffs on textiles.

(f) Discuss the factors which might determine the international competitiveness of a country's textile industry. (12)

Factors influencing competitiveness were identified by most candidates. However, the application to the textile industry was weak and only the best responses included any effective evaluation. For example, few candidates prioritized the factors which they had selected or drew conclusions.

5 (a) Explain what is meant by the term 'international competitiveness' (Extract 1, lines 1 and 2) (4)

Candidates struggled to define the term competitiveness without using the word 'compete' in the answer. Better responses made reference to price and non-price factors as examples. Few responses made any reference to the extract comparing the international competitiveness of different countries.

(b) Assess the relative significance of three factors which might explain the poor performance of the eurozone countries mentioned in the first paragraph of Extract 1. (12)

This question was generally answered quite well. Different interpretations were accepted i.e. a discussion of the three of the factors mentioned in the passage: over-regulation, inflexible labour markets, high taxes, inadequate research and development OR factors which might explain the poor performance of Germany and France. In practice most responses interpreted the question by looking at three of the factors mentioned above and include relevant analysis together with at least some evaluation.

(c) Assess the costs and benefits of monetary union in the European Union. (10)

This question discriminated quite well: strong response include a detailed discussion of possible costs and benefits but, at the other end of the scale, a surprising number of weaker answers were unable to identify the arguments clearly while others considered the case for UK entry into the eurozone. Slightly better responses managed a basic list of the various costs and benefits including factors such as the 'one size fits all monetary policy' and the elimination of transactions costs.

(d) With reference to the third paragraph of Extract 1, contrast the UK's monetary policy with that of the European Central Bank. (8)

The answers to this question were generally disappointing: many candidates lacked a knowledge and understanding of inflation targeting, especially in the EU. Relatively few candidates commented on the significance of the differences in inflation targets. For example, with a 2% maximum inflation target, the ECB's target has a more deflationary bias than the Bank of England's symmetrical target. Centres should be reminded that the specification includes specific reference to "unemployment and inflation in an EU context". A weakness evident in many answers was that they included material on fiscal policy such as the 'Golden Rule'.

(e) Explain how some supply side policies could 'prove counter-productive by undermining consumer confidence' (Extract 1, line 6) (4)

Only a small minority of candidates were able to answer this question successfully. Supply side policies were usually understood and defined correctly but candidates experienced considerable difficulty in applying them to the question set. Responses which took an example such as a passing a law to make it easier for firms to hire and fire workers could then discuss the detrimental impact on consumer confidence and gain high marks.

(f) To what extent does the pursuit of a low rate of inflation conflict with other macroeconomic objectives? Refer to the data provided and other information.

Answers focused mainly on the possible conflict between inflation and unemployment. Relatively few responses covered other possible conflicts such low inflation and economic growth. A further weakness in many answers was that there were few references to the data.
Evaluation was frequently absent but this was probably a result of poor time management.

8) Statistics

Unit 1 Markets – how they work

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	40	26	23	20	18	16
Uniform boundary mark	90	72	63	54	45	36

Unit 2 Markets – why they fail

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	40	25	22	19	17	15
Uniform boundary mark	90	72	63	54	45	36

Unit 3 Managing the Economy

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	40	27	23	19	16	13
Uniform boundary mark	120	96	84	72	60	48

Unit 4 Industrial Economics

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	80	55	49	43	37	31
Uniform boundary mark	90	72	63	54	45	36

Unit 5 Option A Labour Markets

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	60	36	32	28	24	21
Uniform boundary mark	90	72	63	54	45	36

Unit 5 Option B Economic Development

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	60	38	34	30	26	23
Uniform boundary mark	90	72	63	54	45	36

Unit 6 The UK in the global economy

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	100	62	55	48	41	34
Uniform boundary mark	120	96	84	72	60	48

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