

Examiners' Report January 2007

GCE

GCE Economics (8121/9121)

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General Comments:

This paper followed a similar format to those set in recent sessions with eight supported choice questions and two data response questions, each containing stepped questions. The marking scheme was designed to ensure that the full range of marks could be accessed. In the event, the paper proved to be highly accessible with many candidates scoring highly. There was an increase in the mean score to 25.2 compared with 22.4 in January 2006. Nevertheless, the paper differentiated well with a standard deviation of 6.7.

A large number of candidates score highly on Section A, with raw marks of over 30. They achieved this through accurate definitions, diagrammatic analysis and explanations related to the context of the question. The most accessible questions were 8 (income elasticity of demand) and 3 (subsidies) while the most difficult were questions 5 (application of price inelastic demand) and 1 (the price mechanism). Candidates appeared to be less confident in tackling some of the numerical questions (e.g. 4 and 5). Centres should consider strategies for improving candidate performance on such questions.

With regard to the data response questions, Question 9 (bees and honey) was significantly more popular than question 10 (timber) by a ratio of nearly 3:1. This might be because the questions based on the extract from question looked more accessible than those relating to the timber extract in question 10. However, the mean mark of 13.9 for question 10 was higher than that for question 9 (12.9). The most probable explanation is that there was often very little evaluation in answers to 9cii.

Section A: Supported Choice Questions

Question 1 (B) Price mechanism

Mean Score: 2.21

Surprisingly, this proved to be a difficult question: many candidates selected the distracter 'D', which suggested that the main function of the price mechanism was to keep prices stable. In other words, there was a confusion between the 'equilibrium' price and a 'stable' price. Even for those who selected the correct key, full marks were rare because few gave explanations of how the price mechanism operates.

Question 2 (B) Production possibility Frontiers

Mean Score: 3.36

The majority of candidates selected the correct key and defined a production possibility frontier accurately. In many cases, opportunity cost was applied accurately with respect to the short run but answers were often incomplete with no reference to a rightward shift in the PPF in the long run.

Question 3 (C) Application of supply and demand**Mean Score: 3.46**

This question involved a relatively simple application of supply and demand analysis with the result that most candidates selected the correct key. Explanations were generally good and many candidates sensibly included a diagram. The main weakness was that the explanation of subsidies were inadequate.

Question 4 (D) Indirect tax**Mean Score: 2.58**

This question acted as a good discriminator. A disappointingly large number of candidates were unable to secure the correct key, a result of an incomplete understanding of the impact of an indirect tax and to do simple calculations. A sizeable minority of responses annotated the diagram correctly by showing the area of tax revenue but were still unable to calculate the tax revenue received by the government. A further weakness in many responses was an imprecise definition of an indirect tax.

Question 5 (B) Application of price inelastic demand**Mean Score: 1.89**

This was a challenging question which was a good discriminator. It was apparent that many candidates thought the table related to demand rather than to the prices of commodities and consequently selected incorrect responses. Of those who did select the correct key, relatively few actually defined price inelasticity of demand or defined it imprecisely. Typical of the latter response was the following: "If demand is price inelastic, then a price change will have little effect on demand".

Question 6 (A) Producer and consumer surplus**Mean Score: 3.38**

There were some excellent answers to this question: not only did most candidates select the correct key but they included accurate definitions of the terms and identified the original and new areas of producer and consumer surplus. Many candidates also annotated the diagram to show the changes in the surpluses.

Question 7 (C) Changes in supply and demand**Mean Score: 2.25**

This question was quite challenging and only the best candidates provided a precise, fluent answer, supported by a diagram showing supply increasing by a greater amount than demand. Nevertheless, weaker responses were able to gain some credit by explaining the idea of 'excess supply' and drawing a diagram showing an increase in supply.

Question 8 (A) Income elasticity of demand**Mean Score: 3.62**

This question was generally answered well with candidates demonstrating a good understanding of income elasticity of demand. Many responses included accurate calculations and interpreted the result correctly by deducing that potatoes are an inferior good since the income elasticity of demand is negative.

Section B: Data Response Questions

Question 9: Bees and honey

- (a) (i) What is meant by cross elasticity of demand? (2) Mean mark: 1.72

The majority of candidates were able to achieve maximum marks on this question either by defining it correctly or by including the formula for its calculation. However, weaker responses referred to the impact of a change in the demand for one product on the price of another or omitted reference to proportionate changes.

- (a) (ii) using the concept of cross elasticity of demand, analyse the likely effect of the rise in the price of almonds on the demand for hazelnuts. (3)
Mean mark: 2.29

This question was answered well with most candidates recognising that almond and hazelnuts are substitutes and that the demand for hazelnuts will increase. However, some candidates omitted to mention that the cross elasticity of demand would be positive.

- (b) (i) With the aid of a supply and demand diagram, explain the effect of the spread of the varroa mite on the price of almonds. (3)
Mean mark: 2.62

The majority of candidates drew an accurate diagram and explained the effect accurately. However, some responses made no reference to the context while others thought that the increase in price would cause the demand curve to shift.

- (b) (ii) With the aid of a supply and demand diagram, examine the likely effect of 'cheaper imported honey' on the market for Californian honey. (4)
Mean mark: 1.92

The main weakness in answers to this question was the absence of any evaluation in the vast majority of responses. However, most candidates were able to explain the effect of imported honey on the market for honey and included an appropriate supply and demand diagram to support their explanation. Better responses went on to consider the extent to which imported honey was a good substitute for Californian honey.

- (c) (i) What is meant by a *mixed economy*? (2) Mean mark: 1.75

Most candidates were able to identify the basic characteristics of a mixed economy and so gained full marks. A minority of candidates confused a free market economy with a mixed economy.

- (c) (ii) Assess two implications of state subsidies being given to Californian beekeepers. (6) Mean mark: 2.56

Candidates often included a variety of implications rather than focusing on just two. In most cases there was a complete absence of evaluation but better responses discussed the possibility of higher taxes, opportunity cost and the fact that the subsidies might not be effective in destroying the varroa mite.

Question 10: Timber prices

- (a) Outline one advantage and one disadvantage for the Baltic countries of specialisation in the production of timber. (4) Mean mark: 2.65

A significant number of candidates tried to turn this question into a standard answer on the division of labour with the result that their answers were largely irrelevant. Only the best responses applied the concept of comparative advantage in discussing a benefit of specialisation. However, there were some convincing discussions of the problems of overspecialisation.

- (b) With the aid of a supply and demand diagram, assess the significance of the factors which have caused the rise in the price of timber since 2004. (6) Mean mark: 2.85

A surprising number of candidates failed to use the extract effectively with the result that they did not explain the movement in **both** the supply and the demand curves. The quality of the diagrams was rather variable with the labelling of some being rather poor. Many candidates ignored the command word 'assess' and so provided little in the way of evaluation. However, better responses considered the significance of the extent of the movements of the curve and the elasticities of supply and demand.

- (c) Evaluate the likely impact of rising timber prices on the price of houses. (4) Mean mark: 2.64

This question was generally answered quite well: most candidates understood that timber was a raw material used in houses and were able to explain the effect of rising timber prices accurately. Evaluation often centred around the significance of timber costs in the total costs of a house, a line of evaluation which gained credit.

- (d) (i) How is elasticity of supply measured? (2) Mean mark: 1.43

The majority of candidates were able to achieve maximum marks on this question. However, weaker responses omitted the 'percentage' sign in their answers.

- (d) (ii) What might be deduced about the price elasticity of supply of timber in both the short run and in the long run? Justify your answer. (4)
Mean mark: 1.78

Answers to this question were disappointing: many confused factors influencing price elasticity of demand with those influencing price elasticity of supply. Even those who suggested that supply would be inelastic in the short run and more elastic in the long run were unable to provide a justification for this assertion.

Examiner's Report
6352 January 2007

General

The structure of the paper was similar to January 2006's paper in that the questions were stepped: the earlier questions tested knowledge, understanding and application while the later ones tended to require more in the way of analysis and evaluation. This helped to make the paper accessible for the majority of candidates. Indeed, the quality of many scripts made it a pleasure to mark. The days of awarding low marks for many scripts seem long gone as candidates are much better prepared by their teachers and have more learning support resources at their disposal.

The mean score of 23.0 for the paper was lower than that for January 2006 (24.6). The standard deviation of 6.1 was very similar to that for January 2006 (6.3) and reflects a good spread of marks.

Both questions were popular. Around 53% of candidates attempted question 1 on the British Broadcasting Corporation (BBC). Although very few questions on public goods had been set in previous examination series it was pleasing to see many candidates select this option. It was evident that many candidates were well prepared for answering questions on public goods.

Some 47% of candidates selected question 2 on health care. This covered familiar ground and two data response questions had been set on this topic over recent years. Many candidates excelled in applying economic concepts and models to the health care data provided. However, overall candidate performance on healthcare (mean score 21.48) was lower than that for television broadcasting (mean score 23.35).

Question 1: The British Broadcasting Corporation

Q1 (a) (i) Using examples from Extract 1 explain the term 'public goods' (Extract 1, line 2). (Mean score: 2.67)

This proved to be an effective means of differentiating between the qualities of candidate responses. The best answers referred to the two distinguishing characteristics of public goods, namely, non-rivalry (non-diminishable) in consumption and non-exclusion in consumption. Often these candidates then went on to explain the meaning of the two characteristics by using examples from the extract, such as street lighting, public firework displays and national defence.

The weaker answers failed to identify the two distinguishing characteristics of public goods and so lacked direction. It was quite surprising to see some candidates attempt question 1 when they clearly did not understand the meaning of public goods.

Q1 (a) (ii) Explain why public goods are unlikely to be supplied in a free market. (Mean score: 2.12)

This question was also an effective means of differentiating between candidate responses. Those candidates who understood the meaning of a public good were able to explain the 'free-rider' problem, notably, that once the good is supplied, it is impossible to prevent others from consuming it free of charge. Consequently, everyone will wait for someone else to provide the good - which is unlikely to be forthcoming in a free market.

The best answers also identified the difficulty of estimating the amount of a public good consumed by each individual and consequently, the problem of charging for it. Many responses used the difficulty of charging for street lighting as an example.

The weaker responses did not progress beyond the idea that public goods can only be provided by the government and that no government intervention exists in a free market.

Q1 (b) With reference to Extract 1 and Figure 2, discuss the effectiveness of the television licence fee as a means of financing the BBC. (Mean score: 4.73)

This was a relatively easy way of securing marks as long as candidates made use of the data and developed their answers from this. There were many factors candidates could refer to in arguing both ways over the effectiveness of the licence fee as a means of generating income. Some excellent answers referred to the idea that £2 billion of consumer surplus remains untapped by the BBC as 17 million of Britain's 23 million households place a greater value on the corporation's programmes than the licence fee.

The main reasons for not achieving marks was due to a failure to refer to the information provided and a tendency to focus on the general advantages and disadvantages of a television licence rather than its effectiveness as a means of financing the BBC.

Q1 (c) (i) What is meant by the phrase 'monopoly power over television broadcasting' (Extract 2, line 1)? (Mean score: 1.55)

The vast majority of candidates achieved the full two marks by defining a monopoly and then referring to the BBC as having monopoly power in terms of its market share.

Q1 (c) (ii) Explain two possible barriers to the entry of new firms to television broadcasting. (Mean score: 3.92)

This was well answered by many candidates who were able to identify two entry barriers and apply them to television broadcasting. The most popular entry barriers included high start-up costs (for example, purchase of television equipment, satellites, studios, government licence) and economies of scale. A significant minority considered brand loyalty for existing operators and the use of limit pricing.

Q1 (c) (iii) Why might a monopoly in television broadcasting be against the interests of consumers? Justify your answer. (Mean score: 3.45)

This was another question that candidates found accessible. Most answers referred to some of the problems associated with monopoly power, for example, less consumer choice, political bias, less innovation, falling quality, inefficiency and high fees. Many candidates offered good application to television broadcasting. The main drawback was a lack of evaluation, for example, prioritising the disadvantages or considering the long term implications of monopoly power in terms of erecting further barriers to entry and influencing consumer attitudes.

Q1 (d) Evaluate the likely implications for the BBC of increased private sector competition in television broadcasting. (Mean score: 4.91)

Many good answers started with the idea that the BBC may experience falling viewing figures and falling revenues. From this starting point candidates then considered how the corporation might respond, for example, making efficiency savings on programme budgets, staff redundancies and relocation of offices from London to Manchester. Some responses considered joint ventures in developing future programmes and others considered whether the BBC might seek the right to sell advertising time. All were valid ideas.

There were many impressive answers which considered specific themes. One approach was to argue the BBC has strong customer loyalty and an excellent brand of television programmes and so would be able to cope with the increased competition. Others were less optimistic and suggested the BBC would have to switch emphasis from diversity and excellence of programmes to a narrow set of simplistic shows for mainstream audiences.

A great deal of thought had gone into the responses. Some candidates suggested that increased competition would not matter as the BBC still has a guaranteed income from licence fees; others questioned whether the BBC would be able to continue with the licence fee if it lost many viewers. A slightly different approach was taken by candidates who suggested that digital technology would enable the BBC to introduce 'pay per view' television and so make the licence fee unnecessary.

The main limitations in candidate responses came down to either brevity of answers or a tendency to misinterpret the question and focus on the advantages of increased competition to consumers. It is vital that candidates carefully consider what the question is asking before rushing into the answer. It is worth spending one or two minutes planning the answers to questions with a large mark base.

Question 2: Health care provision in the UK

Q2 (a) (i) What is meant by the term external benefits?

(Mean score: 1.35)

This was answered accurately by the majority of candidates who used various explanations such as 'benefits external to an exchange which have positive third party effects' and 'benefits from production or consumption which the price mechanism fails to take into account'.

Q2 (a) (ii) Analyse the 'external benefits from health care provision' (*Extract 1, line 1*). Illustrate your answer with an appropriate diagram.

(Mean score: 3.30)

The quality of answers varied from excellent to very poor. The best responses included an accurately drawn diagram depicting external benefits as the area in between marginal private benefits and marginal social benefits.

To secure full marks candidates were required to analyse the external benefits from healthcare, such as the benefits from a healthier workforce in terms of higher productivity, revenue and profits and a lower absenteeism rate for firms. Relevant answers also included benefits to the government in terms of higher tax revenue and benefits to society in general where there is an improved quality of life and a higher life expectancy.

However, there were relatively few excellent answers and many included basic diagrammatic errors such as not labelling the axes or incorrectly labelling the curves and the area of external benefits. Also the analysis of external benefits from health care was either ignored or answered so briefly as to offer little explanation worthy of more than one or two marks.

Q2 (b) (i) With reference to extract 1, explain the causes of 'increasing demand and cost pressures on the health care budget' (*Extract 1, lines 11-12*).

(Mean score 5.0)

This was a relatively straightforward question for candidates to answer since there were many useful points available from extract 1. Most were able to achieve high marks. To gain full marks it was necessary to develop an explanation to four of these points, including reference to at least one demand factor and one cost factor.

The main reasons for poor performance on this question was either answers which just repeated the extract offering no development of the points, or, responses which ignored the points in the extract altogether.

Q2 (b) (ii) Examine one economic implication of these demand and cost pressures.
(Mean score: 1.81)

The majority of candidates were able to secure two marks by referring to the funding implications for the government, namely, the opportunity costs involved; taxes may have to rise or cuts made to other areas of government spending such as education; alternatively, the government might increase its borrowing and so place the debt burden on future generations.

To achieve full marks some evaluation was necessary, for example, consideration of the size of increased funding for healthcare and whether a major tax rise is inevitable. Some candidates noted that government spending on the NHS had already increased in real terms by 70% over recent years and that this is set to continue up until 2008 -the implications being that significant increases in funding are necessary.

An alternative valid approach used by some candidates was to suggest that cutbacks have to be made to the NHS budget and waiting lists might increase or the quality or treatment fall. Often these responses discussed the staff cutbacks made by some NHS trusts as they went into greater debt.

Q2 (c) With reference to the information provided, discuss the impact on health care provision of the increase in NHS funding.

(Mean score: 4.66)

This was another question where many candidates achieved high marks for analysis and application, making effective use of the data. Many responses developed the obvious points, for example, 10,500 more doctors, 20,000 more nurses and 100 new hospitals are likely to have improved the quality and quantity of health care provision. This was further supported by falling average waiting times for operations shown in Figure 1 and the increase in hospital managers shown in Figure 3 - which should improve the allocation of resources. Moreover, the extra pay of nurses and doctors offered incentives to work harder.

Some candidates developed an alternative approach by questioning the effectiveness of increased NHS funding. These responses also referred to the data and suggested that resources could be better allocated to enrolling more nurses and doctors rather than more managers. They also pointed to the falling number of hospital beds shown in Figure 2 and falling labour productivity shown in Figure 4.

The highest scoring answers provided two or more evaluation points, for example, falling labour productivity could simply reflect improvements to the quality of health care for each patient as more time could be spent in hospital or where each nurse and doctor had relatively fewer patients to care for at any one time.

Another popular evaluation approach was to consider the time period. In the short run we might expect to see only limited improvements as it takes time to recruit and train doctors and nurses and build hospitals. However, in the long run we could expect significant improvements as these resources become available. But even here, candidates argued in various ways and some suggested that in the long run health care provision may worsen due to the growing demands and costs placed upon it. All of these ideas were valid and demonstrated the qualities required to develop an argument and therefore evaluate the question set.

Q2 (d) (i) Outline the meaning of the phrase 'local monopoly power of hospitals' (Extract 2, line 2). (Mean score: 1.16)

The majority of candidates achieved at least one mark by defining a monopoly in terms of being a sole supplier or having a very high market concentration. For some candidates the second mark was elusive as they failed to refer to the idea that a hospital would be the sole supplier or dominant provider of health care in a local area. Typically, a town or local authority would have one major NHS hospital providing health care services.

Q2 (d) (ii) With reference to Extract 2, examine the case for increasing the role of market forces within the NHS. (Mean score: 4.20)

This question proved to be more challenging and many responses became side tracked into a general 'state versus private' health care service rather than using the pointers in Extract 2, to consider the role of market forces within the NHS.

Effective answers focused on the potential benefits from applying market forces to the NHS such as increased consumer choice and payment for work done rather than a block grant system. Also, by making hospitals compete for patients it might lead to shorter waiting times and more efficiency in treatment.

Of course, the best answers offered some balance and questioned whether patients had the knowledge to make suitable choices over what treatment to receive and from whom (asymmetric information). In a similar critical light, some candidates questioned the pricing method for treatments since some provided higher payments than others. This could lead to hospitals withdrawing certain services such as Accident and Emergency and increasing other services such as short stay admissions. This might not be the most effective way of allocating resources if it reduces the range of services offered.

Examiner's Report
6353 January 2007

General Comments:

The mean mark for the paper was 21.1 for January 2007 (22 in January 2006). Standard deviation 7.3 for January 2007 (7.6 in January 2006).

There were many similarities with January 2006 in terms of difficulty - there were some questions which consistently caught many candidates out, which meant that a handful of marks were hard to achieve. The A/B boundary fell by 1 mark to 28, and the E/N remained at 14.

Generally it was felt that the paper discriminated well, perhaps a little too well at the top end. The paper revealed some common weaknesses, many specific to whole centres. These include the belief that the MPC might have any interest in solving macroeconomic problems besides that of inflation, and that increases in the interest rate attracts FDI and hot money which *increases AD*. Many also thought that consumption is an injection, and that consumption in the UK is falling.

Question 1 was considerably more popular than Question 2, explained partly by the fear by many of any questions relating to the balance of payments, partly the rather potentially baffling data, and partly the apparently more complex essay question in part 2d.

45% of entrants were re-sitting the Paper.

Comments on individual questions:

Question 1) For both parts (a) (i) and (a) (ii) the questions were effective discriminators at the lower end of the spectrum. Specifically:

(a) (i) Many gained full marks on this question, referring to *total* demand and by recognising the components of AD as featured in Figure 1. There were, however, some weak responses that referred to *average* demand, or offered a very micro based explanation.

(a) (ii) There were many well-defined answers, with considerable understanding of the circular flow of income (despite the fact that this was not *required*) and many could refer to S T and M, often with examples from the data. Consumption, however, was often included as an injection, in this and in the following part (1 (a) (iii)).

(a) (iii) The majority of answers failed to recognise that injections were still increasing albeit at a slower rate. There was still up to two marks for the transmissions mechanism and one for the multiplier, and a further three marks could be earned for the AS shift - the aim here was to increase the discrimination on this question, which to some extent seemed an effective resolution to which was otherwise a little stretching at AS level. This was the most problematic question on the paper in that it made some marks inaccessible to all but a few. The fact that injections were rising more slowly is perhaps a philosophical leap for AS candidates, but one which has been examined several times in the past.

(b) (i) This was a purely theoretical question, and the application and evaluation marks were available in (b) (ii). As with 2 (c) (i) and (ii) there are clearly advantages for those who had read the questions and can see how one question might relate to another. Many minutes were lost in the repetition of ideas. In terms of discrimination it proved useful that the data for part (b) (ii) was not convincing, in that it didn't offer a conclusive answer to this preliminary part. As a consequence many attempts were made to speculate about the possible relationship between the two, many of which involved an inverse relationship.

(b) (ii) Few answers noted that for most of the period shown, both house prices and consumer spending were still rising, though at different rates. There were many good attempts at finding relationships between sections of the data, but few that took the periods as a whole, or noted that in the last quarter the house prices had begun to fall. Evaluation was minimal - it is still the case that many answers ignore the request for evaluation in the stem, owing to the fact that the question has a low mark base. But there are many avenues for evaluation, and in effect this was the evaluation of an 8 mark question on the relationship between the two variables. The obvious evaluation points were that there might be a *time lag* between one set of changes and the results on the other. For the development of this point up to two marks, further explanation would be required. Other common evaluation points referred to the different scales and degree of variability of house prices relative to consumer spending, or that the data was inconclusive and more information was required. Again for the second mark for this kind of evaluative approach it would be advisable to suggest other types of data that could prove useful, for example consumer confidence indicators.

(c) It might have been a little harsh to reserve a mark for the role of the MPC, when candidates may clearly have known this, demonstrated by their answers to d. But this does reflect the nature of the function of the MPC, and the exclusion of any other targets - the majority of responses reflecting on the aims of the government rather than the MPC. The question had been softened compared to earlier sessions in that there were two marks available for the link between the interest rate and AD, of AD and the interest rate, one for each factor mentioned. A surprisingly large number of answers used information drawn directly from the Figures 1 to 3.

(d) This produced a good range of responses, and the rote learners were soon distinguished from the thinkers. The question required the context of tight monetary policy and fiscal policy, and use of the data provided - but many explained demand side policies - especially fiscal policy - in an expansionary context thereby missing some marks. There was often confusion between analysis of government spending as a demand or a supply side policy. There was much use of supply side policies offered as a contrast to demand side policies, but these could earn only a maximum of three evaluation marks. The importance of answering the question directly and not regurgitating a pre-learnt list of demand and supply side policies should be stressed. The context of the question is of paramount importance, and the data and earlier questions should be used as building blocks for the mini essay in the last part of this paper.

Question 2)

(a) (i) Questions based on indices appear regularly, and this kind of question should be expected. Reference needs to be made to the **base year** and there should be some sense of relative price changes or comparison. Many answers revealed a very weak understanding of indices - many think it means 'taking inflation into account' (i.e. gives real values) or confused it with the CPI (or equivalent) which might have been the only index with which they are familiar.

(a) (ii) With the calculation questions it is of course good practice to state the formula, and a mark was made available for this - although not required for full marks. A surprisingly large number of candidates had entered the exam room without taking a calculator, which seems almost as startling as the sheer quantity of those who appeared not to know how to calculate a percentage change. In common with Mathematics GCE at Edexcel it was decided to make use of the 'special case' ruling, such that those who had selected the right data and made the first step of the calculation correctly - that is the subtraction - could be awarded one mark.

(a) (iii) The question asked for use of AD/AS analysis - a surprisingly large number were not aware of how to incorporate this analysis, and ignored the X-M element of AD. Instead answers were often based on changes in consumption that might result from changes in the exchange rates, which were rarely convincing. The AS approach was allowed, but capped at 5/6 if there was no mention of changes in AD, in line with a similar question in January 2005. Many answers did not refer to growth, either verbally or using arrows and careful labels on the diagram which again was not fully answering the question, and again meant the mark was capped at 5/6. Careless approach means several grades lost - it is certainly better to write a shorter answer with the correct analysis rather than extended prose following unclear thought processes.

(b) (i) This was a relatively straightforward question, with most responses observing that while all income-groups countries referred to were enjoying growth, the lower income groups were growing more quickly. Many referred to specific pieces of data, which was encouraging.

(b) (ii) This was the first time that a question of this nature had been set since the Curriculum 2000, and those who had started their 5B course in Economic Development may well have been at an advantage. Many weak answers put the reasoning down to *factors of production* which in themselves are not the cause or constraint on growth, rather a change in availability or productivity should be referred to. Answers which said that inflation was a cause of differing growth rates often lacked a clear transmission mechanism to illustrate why higher prices might affect growth - for example by inflation causing a country to become uncompetitive. Many implied a shift in AD or AS, which is the variable factor in AD AS analysis of course! A more convincing approach would be an explanation via competitiveness

(b) (iii) The expected answer to this question was that increased incomes resulting from growth would mean that imports are sucked in and there is reduced pressure to export. While many did give this answer, the export-led growth argument was common - possibly owing to the question on this in Summer 2006 for whom this was a re-sit exam. A surprisingly large number of answers, often whole centres, explained that increased growth means that money is attracted to the economy which increases AD. Clearly if hot money or other Foreign Portfolio Investment is attracted to a currency that currency would rise in price, and a fall in

AD would ensue, in the long run at least. True FDI and FPI are likely to increase when an economy is prospering, meaning an improvement on the financial account, with worsening on the current account in the long run owing to IPD - but this explanation was rarely given.

(c) (i) This was a standard question, although it is important for answers to distinguish between *eligibility* to claim JSA and the number of claimants per se. The LFS is currently a survey of 51 000 households (not 60 000) although both figures were accepted - but not 60 000 was not accepted when an answer referred to *individuals*, of which 101 000 are currently surveyed.

(c) (ii) Many respondents could offer reasons why one measure was higher than the other, but lacked a valid reason as to why the claimant count was falling more quickly. In weaker answers there were reasons why unemployment more generally was falling. The most common successful approach was to discuss changes in the rules for eligibility to claim JSA, although there were many other valid explanations.

(d) This essay was perhaps a little more challenging than the equivalent essay in Question 1, owing to the request to apply supply side reforms to growth, as well as to put them in the context of a currency appreciation. Many could gain the six marks available for the discussion of supply side reforms, and could draw a helpful diagram. But there were many answers which confused supply side reforms with fiscal policy, and others who drew only microeconomic diagrams. The response that subsidies are a supply side reform was generally not well rewarded, owing to the need to explain that the subsidy of firms is not at the expense of other production stimulating projects, and that total subsidy to firms increases rather than a micro approach that one firm might increase its capacity.

Qu.	Parts (potential) grade A candidates usually get/ typical response	Parts (potential) grade E candidates usually get/ typical response
1ai	Total demand and components from data	Total demand and at least one of the components
1aii	Concept of increases into the circular flow, with example	A rote learned definition
1aiii	Correct AD shift, possibly with multiplier and AS changes	Fall in AD
1bi	Rising house prices lead to an increase in consumer spending, with a transmission mechanism, e.g. the wealth effect	A sense of correlation!
1bii	Use of data and some evaluation. Very few noted that both series were rising	Use of data
1ci	Sense of target, and two valid factors. There would be continual reference to the price level	Two items chosen but no emphasis on price level; many using data excluded by question
1d	Some sound evaluation and application of the multiplier. Both monetary and fiscal policy focused on the control of inflation.	Two or three policies, often without adequate explanation. There was much confusion over the use of demand side policies in the role of controlling inflation - mainly writing purely about expansionary demand side policy. There is increasing evidence of evaluation at this end

Qu.	Parts (potential) grade A candidates usually get/ typical response	Parts (potential) grade E candidates usually get/ typical response
2ai	Base year, relative exchange rate changes	Sense of an index and data reference
2aii	Use of percentage change formula; accurate use of data	'Special case' use of data awarded 1 mark
2aiii	Decrease in AD with correct mechanism	Sense of relative price changes, but often missing out the relatively cheap imports
2bi	A clear observation made, with data use	A general observation made, often without specific reference to the data
2bii	Two clear reasons given with examples or other illustration	It was not clear to many why the higher income countries would grow at a slower rate, though usually some marks could be awarded for relevant factors for the low income countries
2biii	The mechanism via X-M clearly given, with some attempt at evaluation (most commonly the export led growth argument)	A surprisingly large number of answers said that a rise in growth would be hand in hand with a rise in exports, which earned some credit when linked to the export led growth argument
2ci	Most gave JSA and the criteria at the LFS of availability to work	Some use of data/sense of claiming payments
2cii	A convincing reason given - there were many novel and valid ideas	Most produced some accurate but not relevant explanations of why they produce differing totals.
2d	Addressed currency appreciation and the context of the question, focusing on growth as the main thrust of the mini-essay	Understood the basic types of supply side reforms

**Examiner's report
6354 January 2007**

General

The mean has risen to 47.8 (2006 45.8) and the standard deviation has fallen to 10.7 (2006 11.5). A small majority of candidates did question 11 on Tesco (53%) with the remainder opting for General Motors. The mean marks for each of these questions were similar with the mean for question 11 being 19.4 and question 12 being 21.07.

It remains the case that many of the candidates lack the necessary economist's toolkit to succeed in this exam; this can pose major problems for candidates who repeatedly fail to follow the instructions, given in the question, to evaluate their answers or draw a diagram. 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.

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. Whilst this paper suffers from time pressure it is clear that many pupils are able to manage their time successfully, but there still remains a significant number that fail to answer the full range of questions because of the time. Centres would do well to stress time management and give pupils the chance to develop their time management techniques.

A sizeable number of candidates do not select any key, but continue to write a detailed explanation for their answer often implying the correct answer. If there is no key selected or the incorrect key is selected then the candidates mark is capped at 2 out of 4. Candidates should be reminded to check their work, as examiners cannot second guess which key the student would have chosen.

Question 1

Mean: 3.23

This is a familiar question causing limited problems. Most candidates were able to access the full range of marks here.

Most difficulty was caused by those students who insist on referring to a 7 firm concentration ratio of 100 per cent (i.e. assuming that "others" represents one firm) and those candidates that confused monopolistic competition with monopoly.

Question 2

Mean: 1.90

There were a range of good answers here, with many drawing diagrams showing supply increasing in the industry as new firms enter to exploit super normal profits being made in the short-run.

Many of those candidates who did not select the correct key selected A and argued that output by the firm would increase to meet extra demand that would follow from the fall in price. They could score up to 2 marks for identifying that barriers to entry are non-existent in perfect competition and this would allow new firms to enter the industry.

Question 3

Mean: 3.48

It was pleasing to see so many score so well on this question. Candidates often supported their answers with diagrams highlighting the profit maximisation and revenue maximisation points.

Question 4

Mean: 3.41

Candidates were able to define price discrimination, identify the conditions necessary for successful price discrimination and apply this to the cinema industry. Candidates wrote of price discrimination between different age ranges and different times of the day.

Question 5

Mean: 2.38

This question caused some difficulties, with many candidates correctly identifying the key, but not being able to access the full mark range.

Candidates would be well advised to ensure that they define the role of the competition commission and then suggest reasons for this sort of collusive behaviour by Manchester United and JJB sport.

Question 6

Mean: 3.08

Many candidates were able to make reference to RPI -X and explain both how it works, the reasons for the need to price cap and the meaning of the components.

A minority of candidates confused price capping with profit capping limiting their ability to score the full marks.

Question 7

Mean: 3.32

This question caused few difficulties. Candidates were able to approach this question by focussing on either the difference between Total Cost and Total Revenue or by equating Marginal Cost and Marginal Revenue. For candidates to score full marks they had to show clear calculations of either the difference between TC and TR across a range or MC and MR to prove that the key selected was correct.

Question 8

Mean: 3.18

Candidates were able to define price discrimination, identify the conditions necessary for successful price discrimination and apply this to the railway industry. Many candidates focused on the difference in elasticity of demand between the two groups travelling before and after 09:15.

Question 9

Mean: 2.57

Candidates were able to correctly identify that the firm was revenue maximising and therefore selected the correct key. However many found it harder to access further marks as they were unable to explain fully their reasoning for $MR=0$ being the revenue maximisation point.

Candidates were expected to explain that to the left of the revenue maximisation point MR was positive and therefore adding to total revenue and beyond the revenue maximisation point MR would be negative and thus reducing total revenue.

Better candidates annotated the diagram they were to help explain their answers.

Question 10

Mean: 1.94

Many candidates failed to identify the shut down point and therefore failed to realise that the firm would carry on operating in this situation.

Better candidates were able to comment on the contribution that firms would make to their fixed costs by continuing to operate and covering their variable costs.

Question 11 a

Mean: 2.23

Candidates could identify that the food market best resembled an oligopoly and were able to apply the data presented in the question to support their answer. Many focussed, quite rightly, on the concentration ratio, the number of firms in the industry or the potential barriers to entry.

A substantial minority explained that the market structure was a monopoly because Tesco possess more than 25 per cent of the market share. Whilst this may be true, this does not rightly explain the market structure of the food industry.

Question 11 b

Mean: 5.49

Candidates were expected to draw an imperfect competition diagram reflecting either a fall in costs or more likely an increase in revenue. Those who drew a static imperfect competition diagram were rewarded with a maximum of 2 from the 4 marks reserved for the diagram.

Using this diagram candidates should have then referred to the possible routes that a firm could use to increase either their revenue, sales, or cut costs. Many candidates referred to advertising to reduce the number of competitors and make demand more inelastic, or attempting to source their produce from lower cost operators.

Weaker students suggested that Tesco should become a profit maximiser; a valid comment given the assumption often made that Tesco was a sales maximiser. However they were unable to offer sufficient explanation as to how Tesco might undertake this shift in strategy.

Question 11 c

Mean: 3.38

About 10 per cent of candidates misinterpreted this question and wrote about why Tesco might have wished to diversify, missing the point of the focus of the question.

In general, this was well done though not all students could come up with two reasons as to why Tesco was in a position to be able to expand into the various markets identified in the question. Students were comfortable identifying and explaining their points but didn't always refer to the context of Tesco and their expansion into these sectors of the market.

Question 11 d

Mean: 4.09

Candidates were able to recognise the desire that Tesco might have to move into new markets - to exploit potential economies of scale, benefit from increased profits, avoid the limitations imposed by the competition commission on expansion in the UK, or expand market share abroad to develop a foothold in another country.

However few students were able to evaluate this question well. There was limited appreciation of the difficulties that Tesco might face when expanding abroad. Much of the evaluation offered was out of the context of the question.

Question 11 e

Mean: 4.21

Candidates were comfortable explaining why the OFT may have allowed the takeover by Tesco of T&S. These centred on benefits to the consumer in the form of lower prices and increased competition.

However it seemed odd that few candidates were able to explain the role of the OFT coherently and then attempt apply this to the question posed. Many candidates failed to deal with the possible negative aspects of a takeover of T&S, such as the ability to exercise greater control over the corner shop industry through cross-subsidisation or increased marketing/purchasing economies of scale or that additional competition might result in fewer corner shops operating in the future, reducing choice etc.

Question 12 a (i)

Mean: 2.48

Candidates could identify that the car industry can best be described as an oligopoly and were able to apply the data presented in the question to support their answer. Many focussed, quite rightly, on the number of firms in the industry or the potential barriers to entry faced by car manufacturers.

A minority explained that the market structure was a monopoly because General Motors dominate the number of brands in the car industry. Whilst this may be true, this does not rightly explain the market structure of the car industry.

Question 12 a (ii)

Mean: 2.23

Candidates were expected to discuss the meaning of price fixing and then follow this up with a discussion of the conditions necessary for price fixing that an oligopoly exhibits.

A significant number of candidates misunderstood the meaning of price fixing, and rather than equate this with collusion they attempted to answer the question from the perspective of making price.

The kinked demand curve was used, but rather than to explain why it may be desirable to collude and thus avoid price wars, candidates focussed on how a firm might set price at a particular point, without much reference to the significance of that particular price.

Few candidates were able to evaluate this question and access the full range of marks. Candidates could have considered the difficulties of price fixing in the car industry, the possible objections of organisations such as the OFT or the incentive to breakaway from any price fixing agreement.

Question 12 b

Mean: 3.99

Candidates were expected to address the possible reasons why Toyota had avoided mergers and takeovers in the past. The data was littered with plenty of material to inform any discussion. Candidates could have looked at the difficulties that GM has had in integrating Fiat; this might have been due to different cultures, different processes, the need to sustain loss making brands that had been recently taken over, or the breakdown of management control and the consequential diseconomies of scale.

Yet again candidates found it difficult to evaluate - this need only have been very simple, focussing on the possible gains (economies of scale, access to new models, access to research and development, increased market share) that Toyota may have gained from mergers, but had been forfeited by avoiding mergers and takeovers.

Question 12 c

Mean: 2.01

A surprising number did not appear to understand the meaning of inverse correlation and spent the bulk of their answer describing the data without any real reference to the relationship that appears to exist between brands and profit levels.

Candidates could have approached this question from a number of angles, perhaps considering the difficulties of integrating a number of business models under the one corporate brand, or the additional costs of advertising various brands, or the belief that loss making brands should be cross-subsidised by others. Any sensible arguments that could have explained the apparent inverse correlation were rewarded.

Question 12 d

Mean: 4.93

Candidates were able to tackle this familiar question with some success. Most were able to identify and explain a pricing and non-pricing strategy for GM to pursue, with the majority focussing their attentions on predatory pricing and advertising as the two policies that GM might consider.

Evaluation was limited here, as elsewhere. Many candidates focussed their evaluation on bland, and undeveloped statements such as suggesting that predator pricing might be illegal or that advertising was expensive without much thought to why this might be the case.

This was most disappointing, particularly as questions requiring similar skills have been seen before. Even limited development of an evaluative point can merit full credit.

Question 12 e

Mean: 4.09

It was pleasing to see so many answers that were able to explain a contestable market in the context of low sunk costs and low barriers to entry.

Many were able to argue, quite convincingly in some cases, that the car industry was not contestable, highlighting the enormous costs associated with research and development of new models, high levels of brand loyalty and therefore the consequential need to advertise heavily in order to break in to the market.

However, many did not see the need to address whether the car industry might be considered contestable. The expansion of Chinese car manufacturers referred to on line 4 and 5 was missed by many students, whilst the development of Toyota from humble beginnings could well have been used to suggest that the industry may have possessed some elements of contestability.

Statistics

Unit 1 Markets - how they work

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	40	30	26	22	19	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	27	24	21	18	16
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	28	24	20	17	14
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	56	50	44	38	32
Uniform boundary mark	90	72	63	54	45	36

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