Examiners' Report Summer 2008

GCE

GCE Economics (8121-9121)

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Examiners' Report 6351/01 Markets – How they work

General

This year the entry was just over 10000, with 9785 marked using Epen. The structure of the paper has not changed for some years and is reflected in the ever improving performance of a number of candidates, with the mean increasing this year from 21.8 in June 2007 to 24.4. However, there continue to be a large number of candidates who enter for this examination with what appears to be little or no grounding in the basic fundamentals of this paper such as elasticity or an understanding of taxation and subsidies. The standard deviation has remained relatively constant at 6.3 (June 2007 6.5, June 2006 6.5).

Based on those scripts marked using Epen software 60 per cent of candidates attempted question 10 (mean mark 11.7) and the remainder attempted question 9 (mean mark 10.49).

Almost universally candidates failed to react to the command words directing them to evaluate their responses. This area was particularly poorly done and centres would do well to focus their candidates' attention to the need to evaluate in the final stages of the data response.

The transition to Epen appears to have been completed satisfactorily, and the number of scripts that have to be marked traditionally continues to decline. Centres should make use of the statistical tools available from Edexcel which allow them to identify how they have performed on particular questions. There are no plans to change the structure of this paper in forthcoming series.

Supported Choice

Question 1

Mean: 3.21 Standard Deviation: 1.04

This question focussed on an area of the specification that has rarely been tested and placed it into the context of the new £20 bank note. Many candidates were able to explain what was meant by division of labour and specialisation, giving good examples of where this could be deployed.

However a large number of the candidates were not able to score full marks as they focussed their attention on comparative advantage and specialisation by countries rather than an industry example.

Question 2

Mean: 4.11 Standard Deviation: 1.40

The vast majority of candidates scored very well on this question identifying correctly that restrictions would result in a fall in supply of tuna fish and therefore a price increase. Better candidates went on to illustrate this using a diagram showing a shift in the supply curve to the left and therefore an increase in prices. It was pleasing to see that candidates are taking the opportunities to use diagrams to support their explanations.

Question 3

Mean: 1.64 Standard Deviation: 1.84

This question was answered in a whole variety of ways, with very few students recognising that the positive speculation surrounding the purchase of Alliance-Boots would cause the demand for shares to increase and therefore the price of shares to increase. Better candidates were able to support this assertion with a diagram. Candidates that referred to a willingness to buy shares in Alliance-Boots in the expectation that increased profits and efficiency gains made would result in higher dividends were also rewarded, despite the fact that KKR would likely take Alliance-Boots into private ownership.

Some candidates incorrectly focussed their answers on a fall in demand for Alliance-Boots products as a result of the takeover, often relating this to boycotts and a decline in the quality of the products sold under new management.

Question 4

Mean: 4.58 Standard Deviation: 1.01

This question is very familiar and candidates have come to expect this type of question. Despite relatively poor performances in both the June 2007 and January 2008 session this particular question was answered very well. Almost all candidates understood that they needed to refer to a shift in the demand curve from D1 to D2 and in the supply curve from S1 to S3 in order to obtain full marks.

Question 5

Mean: 2.91 Standard Deviation: 1.63

This question required candidates to sift through a range of information regarding the spending habits of "Rixy". Using income elasticity of demand it was clear that demand for takeaway food had fallen and therefore could be classed as an inferior good. Candidates were expected to define an inferior good, with reference made to negative income elasticity of demand. Of course candidates were able to use the numbers in the question and apply these to the formula to further support their answer. The correct use of the income elasticity of demand formula could have obtained a candidate full marks.

Question 6

Mean: 3.63 Standard Deviation: 1.49

Candidates were expected to use the data provided to arrive at the conclusion that shirts had a price elasticity of demand equal to one by correctly calculating the fall in price as being 20% and the rise in quantity demanded as being 20%.

Most candidates scored at least 2 marks by correctly stating the price elasticity of demand formula with many falling into the trap of transposing the fall in price with the rise in quantity demanded however still managing to arrive at the correct answer. These candidates tended to receive 4/5.

Question 7

Mean: 3.24 Standard Deviation: 1.61

Candidates were able to identify that the increase in demand for corn would result in the demand curve shifting to the right. With this in mind they were able to annotate the original and new consumer surpluses. It was pleasing to see more candidates deploying an effective definition: *Consumer surplus being the difference between what the consumer is willing to pay for a good or service and what they actually pay*.

A number of candidates confused consumer and producer surplus, but this question did not appear to cause candidates significant problems.

Question 8

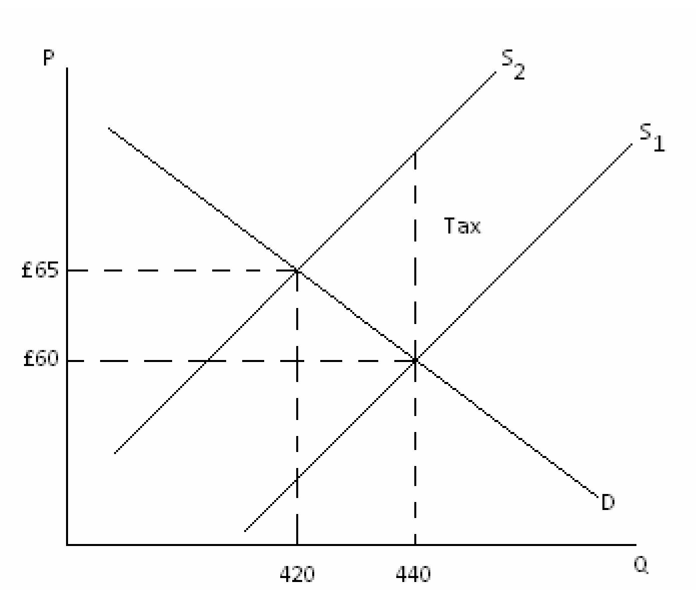
Mean: 2.19 Standard Deviation: 1.92

This is a question that has appeared before in this form, but continues to cause great difficulties.

Candidates could have correctly filled in and explained the final column of the table as below:

Price per unit (£)	Quantity demanded (units)	Quantity supplied (units)	Quantity supplied after tax (units)
70	400	480	*440*
65	420	460	*420*
60	440	440	*400*
55	460	420	*380*
50	480	400	*360*

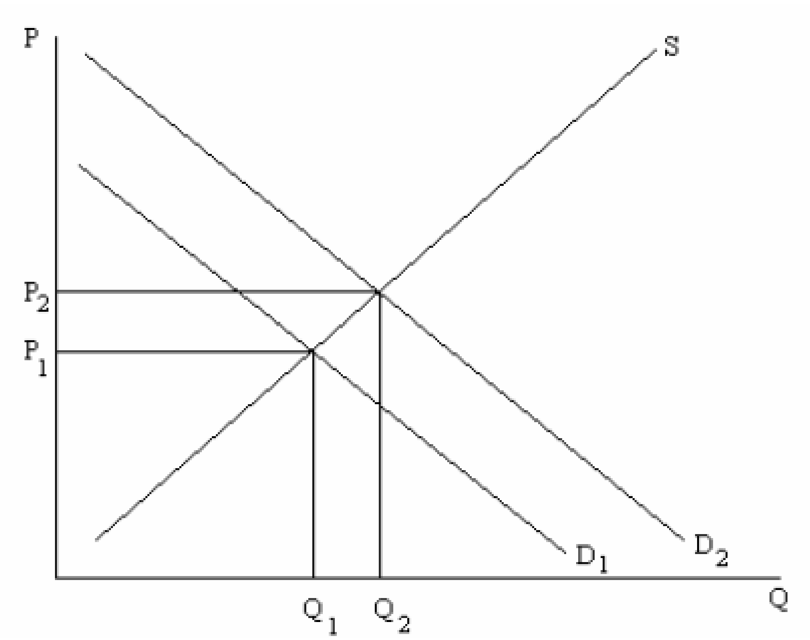
Alternatively they could have illustrated the new supply curve after the tax on a supply and demand diagram. Candidates who did this were required to illustrate the original and new equilibriums and fully label their diagram to obtain full marks.



Question 9 (a)

Mean: 3.5 Standard Deviation: 0.93

Candidates have become quite adept at answering these questions. In particular this question was done well as there was only one shift required, which ensured that most candidates were able to score full marks.



Question 9 (b)

Mean: 1.9 Standard Deviation: 0.95

The focus of this question was on using the price mechanism and the understanding that the supply curve acts as a signalling device to firms to enter the market or if they are an incumbent increase their supply of uranium.

A number of good candidates evaluated their answers making reference to potential barriers to new firms entering the market or how any major increase in supply may cause prices to fall in the long run. That said though there were still a large number of candidates that failed to evaluate at all and therefore effectively capped their answers at 2/4.

Question 9 (c)

Mean: 1.78 Standard Deviation: 1.28

It was disappointing to see how badly this question was answered. Candidates have been exposed to a number of questions on price elasticity of supply, which should have given candidates ample opportunity to practice and develop their responses.

Candidates were expected to refer to the formula for price elasticity of supply and then use this to explore whether uranium could be considered price elastic or inelastic. Most answers will have focussed on the short run difficulties to increase output and therefore how this might be inelastic, whilst in the long-run this was likely to be elastic as more mines became available.

In evaluation candidates could have referred to the different reactions of mining firms depending on where they operated, with many understanding that mining only became profitable for American firms once the price of Uranium had exceeded $80 per kilo. Further evaluation could have focussed on the availability of substitutes or new countries becoming major suppliers or whether stocks were available for release at these higher prices.

Question 9 (d)

Mean: 3.31 Standard Deviation: 1.52

Candidates were able to correctly define a subsidy, but not all could explain the need for a subsidy, either implicitly or explicitly, by referring to high start-up costs or the need to make nuclear power more profitable.

The use of a diagram helped illustrate the effect of the subsidy shifting the supply curve to the right and increasing output.

Evaluation was again only attempted half-heartedly, although there were clear signs of some candidates understanding the need to evaluate. Evaluation often considered whether a subsidy could lead to government failure, whilst others considered the opportunity costs associated.

Question 10 (a)

Mean: 3.27 Standard Deviation: 0.94

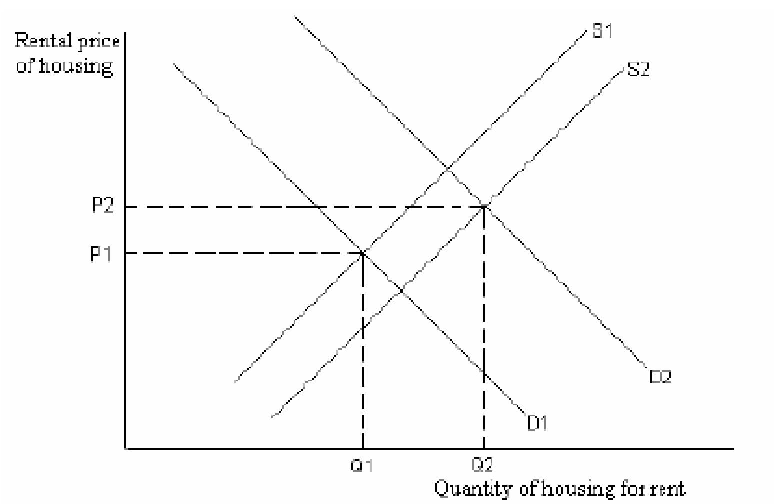
Most candidates were able to correctly define a positive and normative statement. It was particularly pleasing to see very few candidates refer to normative statements as opinions and many more correctly identifying the link with value judgements.

Many candidates were able to correctly identify a positive statement – "Average rents rose in London by 7.4%", however the majority suggested that the statement "Some critics are calling for government intervention as rents become unfairly high" was normative, not recognising that the first part of this statement can be tested and it is only the part which refers to rents becoming "unfairly high" that is normative. However these candidates were still awarded the available marks for identifying the appropriate phrase.

Question 10 (b)

Mean: 3.93 Standard Deviation: 1.52

Similar to the opening part of the other data response question, although this required shifts in both the demand and supply curves, although with an added twist. Most candidates were able to correctly identify that demand for rented accommodation increased but many missed the fact that supply of rental properties was also increasing but at a slower rate.



Candidates would do well to take time to read the whole passage carefully and use the number of marks allocated to a question as a guide to the requirements of the question. Mark bases of 5 or more are likely to look for 2 shifts in the diagram.

Question 10 (c)

Mean: 2.15 Standard Deviation: 1.17

Candidates were required to discuss the relationship between owner-occupied housing and rental accommodation, coming to the conclusion that these are substitutes. Where possible candidates should define key terms and this question was no different, with candidates expected to define cross price elasticity of demand.

A number of candidates incorrectly suggested that there was a negative relationship between owner-occupied housing and rental accommodation suggesting that they were therefore occasionally substitutes or complements.

A discussion of the closeness of the relationship was expected and seen from a number of better candidates, many referring to the need to own a home either because it provided greater satisfaction or met individual's aspirations. Others referred to the increasing costs of mortgages which ensured that despite rents increasing, demand for these would remain stable and others discussed whether people did actually have a choice, in particular those relocating to London for short periods.

Question 10 (d)

Mean: 1.72 Standard Deviation: 1.06

It was hoped that candidates would offer reasons why the supply of rental accommodation had failed to keep up with supply. Many offered plausible reasons such as increasing demand for owner-occupied housing resulting in less rental stock or increasing difficulties to build new properties due to planning restrictions.

Candidates then could have discussed whether the scenario painted would remain in the future – for example increasing housing stock may become available or as the house prices fall they may become more affordable and therefore the demand for rentals would decline.

The majority correctly used the data to establish the premise of the question but failed to do much more resulting in their scores effectively being capped at one or two.

Examiners’ Report 6352: Markets – why they fail

General:

Mean mark: 20.8
Standard deviation: 7.3

This paper followed a similar format to those set in recent sessions with two data responses 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 quite challenging. The mean score was 20.3 compared with 23.1 in June 2007. Nevertheless, the paper differentiated well with a standard deviation of 7.3, an increase on the previous year.

Question 1 was more popular than question 2 by a ratio of about 3:2. Performance on the two questions was broadly similar with candidates achieving marginally higher marks on question1 compared with question 2.

Question 1: Post Office closures

Question 1 (a)

Giving examples, distinguish between the private benefits and external benefits of postal services. 8 marks
Mean mark: 4.73

A key to a successful response to this question was to start with definitions of the terms ‘private benefits’ and ‘external benefits’. Weaker answers defined private benefits simply as ‘benefits to the individual’ and omitted ‘internal to the exchange’. Similarly, there were some imprecise definitions of external benefits as ‘benefits to society’.

Examples were not always appropriate: candidates need to make clear that the private benefits are those accruing directly to the parties involved in the exchange whereas as the external benefits are those which affect third parties who are not involved in the exchange. Better answers used the data effectively when discussing external benefits by making reference to the study suggesting the Post Office generates £16.20 for its local economy, including £6.20 in direct spending on local goods and services.

Question 1 (b)(i)

Illustrating your answer with a diagram, distinguish between the free market and socially efficient numbers of Post Offices. 5 marks
Mean mark: 1.81

There were an alarmingly large number of inaccurate diagrams: some were simple supply and demand diagrams while others were externalities diagrams which were wrongly labelled. Further, the free market and socially efficient production levels were often omitted and explanations were frequently superficial. Nevertheless, stronger responses included perfect diagrams and explained that under a free market there would be under-provision of Post Offices.

Question 1 (b)(ii)

Why might it be difficult to quantify the socially efficient number of Post Offices? 2 marks
Mean mark: 0.78

This proved to be a particularly challenging question for most candidates. The main purpose of the question was to encourage candidates to consider the difficulty of allocating monetary values to external benefits so making it very hard to determine the socially efficient number of Post Offices. Unfortunately, few candidates were able to answer the question effectively.

Question 1 (c)(i)

Explain what is meant by the following "Royal Mail now faces full competition as its centuries-old monopoly on the delivery of mail was ended on 1st January 2006." *(Extract 2, lines 9-11)* 3 marks
Mean mark: 2.16

The whole context of the material was that the Royal Mail was the sole provider of the delivery of mail but that it was now facing competition from new firms entering the market. Many candidates answered this question correctly but a large minority chose to use the legal definition of monopoly and so failed to secure full marks on what should have been an easy question.

Question 1 (c)(ii)

Assess two barriers to new firms attempting to enter the market to provide postal services. 8 marks
Mean mark: 4.47

Most candidates could identify two barriers and explain why they might deter new firms from entering an industry. However, only the better responses related the factors identified to the context of postal services making good use of the information provided in Extract 1. The most common barriers considered were economies of scale and the brand name of Royal Mail.

Evaluative comments were relatively rare in answers to this question but occasionally a candidate would consider the relative importance of the reasons suggested or use that information provided to explain that the competition was from "well-financed competitors" who would have sufficient funds to promote themselves heavily.

Question 1 (d)(i)

What is meant by the term *government failure*? 2 marks
Mean mark: 1.16

A pleasing proportion of candidates included a correct definition of government failure in terms of government intervention leading to a net welfare loss. Weaker answers simply referred to intervention 'making the situation worse' or provided very superficial answers.

Question 1 (d)(ii)

To what extent is it desirable to have competition in the delivery of mail?
12 marks

Mean mark: 5.71

Most responses included some potential benefits of competition in terms of increased choice, better quality of service, more efficiency. The distinguishing feature of the best answers was that these points were related to the context of mail delivery. For example, competition could result in faster deliveries, fewer instances of lost mail and new technology in the sorting of mail to speed up delivery.

The phrase 'to what extent' implied a requirement to undertake some evaluation but this was done much less convincingly than the discussion of the advantages of competition. Better responses considered the possible loss of economies of scale; the possibility that the service would deteriorate in rural areas where the delivery of mail would be less profitable; and also that prices might actually rise because the Royal Mail might lose its subsidy from the government.

Question 2: Climate change

Question 2 (a)(i)

Explain what is meant by *market failure*. 2 marks
Mean mark: 1.33

This question was generally answered well with many candidates scoring full marks. However, some made no reference to the price mechanism as being responsible for resources being allocated inefficiently.

Question 2 (a)(ii)

Why might climate change resulting from economic activity be regarded as "the greatest market failure the world has seen"? (Extract 2, line 1) 4 marks
Mean mark: 1.47

Relatively few responses addressed all elements of this question. Identification of a market failure such as negative externalities or information gaps was required along with examples of the impact of climate change such as droughts and floods. Further, some consideration of the magnitude of the problems resulting from climate change was needed.

Question 2 (b)

With reference to Figure 1, assess two factors which might explain the difference in the projected increases in greenhouse gas emissions in China and the United States. 8 marks
Mean mark: 4.24

Most candidates were able to identify and explain two possible factors which might explain why greenhouse gas emissions in Chine are expected to grow at a much faster rate in China than in the USA. The factors most commonly mentioned were the faster rate of economic growth in China than in the USA with rising incomes leading to increasing demand for cars and other consumer goods; and the industrialisation of China resulting in more energy consumption, in contrast with the USA whose service sector is continuing to grow relative to manufacturing.

Good use was made of the data in Figure 1 but only those candidates who made specific reference to the numbers were rewarded with the two marks available. Given that the command word was "assess" there was a requirement for evaluation but only a relatively small proportion of answers included valid evaluative comments.

Question 2 (c)

Much carbon dioxide is created from the burning of fossil fuels to produce electricity. Illustrating your answer with a diagram, explain the difference between the free market and socially efficient levels of electricity production from fossil fuels. 5 marks
Mean mark: 2.68

As with question 1(b), there were an alarmingly large number of inaccurate diagrams: some were simple supply and demand diagrams while others were externalities diagrams which were wrongly labelled. Further, the free market and socially efficient production levels were often omitted. Only the best responses correctly explained the external costs associated with the production of electricity by fossil fuels and demonstrated that under a free market there would be over-production and consumption.

Question 2 (d)

Explain three reasons why 'there are several difficulties associated with the issue of climate change' *(Extract 1, lines 13-14)* 9 marks
Mean mark: 4.62

Most candidates were able to select the three difficulties mentioned in Extract 1 (uncertainty about costs; crosses generations; and is a world-wide problem) and make some brief comment about them. However, it was disappointing that few answers included any application of the concepts which are central to this unit, for example, absence of property rights, external costs and information gaps. In weaker responses, the difficulties identified in Extract 1 were not identified specifically.

Question 2 (e)

Evaluate carbon trading, green taxes and regulation as means of reducing carbon emissions. 12 marks
Mean mark: 6.16

Most candidates were able to explain at least two of the measures quite well and offer some evaluative comments. The key characteristics of good responses which contained convincing explanations were those which offered some analysis of the measures, for example, by including a diagram when discussing green taxes or by discussing the significance of incentives and costs when considering carbon trading. The best answers also included perceptive evaluative comments on each of the measures, for example, the implications of price elasticity of demand when considering green taxes; the costs of enforcement in relation to regulation; and the problems of large firms buying permits with regard to carbon trading.

Weaker responses often included little by way of evaluation or focused almost exclusively on one of the measures.

Examiners' Report 6353/01

General

The mean was 24.8, almost two marks up from 2007 (22.9) which was itself a one point increase on 2006 (21.9). The standard deviation fell to 7.8 from 8.8 (2007) and 8.2 (2006). Question 2 was more than twice as popular as Question 1 (3600 to 8000), although the performance of each was similar.

In general the paper seemed fairly approachable. There was the lure of a straightforward supply side policy essay question in Question 1, with a fairly standard demand management approach throughout Question 2. There were many evaluation attempts not just in the mini-essays but in other parts of the questions, and it clear that most centres have learnt what to expect on this unit. Most impressive was the very general willingness to use diagrams to illustrate arguments, and the use of the data to support an argument.

There were 13 605 entries for this unit (compared to 10 404 for Unit 1 and 12 073 for Unit 2) but only 11 600 marked online. This indicates that many students find there is more than enough to say and the space available for some questions could be increased. 23% of candidates were retaking, and the performance at the lower end improved most significantly. 10 114 were domestic entries, an increase of 10.6% since 2007.

Overall Performance by item - Home Candidates

item	Mean	Standard Deviation
Q01ai	1.44	.655
Q01aii	1.37	.778
Q01bi	5.13	1.825
Q01bii	3.51	1.814
Q01ci	1.48	.818
Q01cii	2.09	1.441
Q01d	7.67	3.954
Q02ai	1.29	.644
Q02aii	3.01	1.160
Q02aiii	5.49	2.065
Q02bi	1.63	.523
Q02bii	3.54	1.371
Q02biii	2.17	.775
Q02c	7.86	3.979

Question 1 (a) (i)

There are three main ways in which this question on productivity was attempted, as usual with these questions. The neat and succinct 'output per unit of input' was common in the strong scripts, for two marks; the sense of output relative to costs, that is 'efficiency' for two marks; and the answers which merely referred to production per hour for zero marks.

Question 1 (a) (ii)

This was possibly the most worrying question in terms of the skills of the candidates to interpret data. The vast majority of answers observed that 'Britain had a constant rate of hourly productivity', which meant that answers were then closed off from a score above one out of three. The reason for awarding this single mark was that in almost all cases some understanding could be shown of the changes 'relative to Britain', although to say that productivity in, say, France, was falling *per se* is of course incorrect.

Question 1 (b) (i)

Candidates were able to easily identify from the data three relevant factors to explain Britain's poor productivity performance. Many candidates, however, struggled to explain clearly the link to productivity. A minority of candidates confused the terms 'production' and 'productivity'. Suitable evaluation was often provided, typically making use of relevant points provided in the data.

Question 1 (b) (ii)

The majority of candidates understood that the productivity improvements would result in an increase in the economy's productive capacity, illustrated by a shift of the long run aggregate supply curve to the right. Diagrams were generally appropriately labelled, with just a small proportion of candidates incorrectly using microeconomic diagrams. Some diagrams did not illustrate the changes on the axes, and for those who drew the AD crossing a horizontal section of the AS curve (Keynesian spare capacity) there were difficulties in illustrating price or output changes. Candidates were able to identify appropriate effects but these were not always suitably explained. For example, the answer might say that cost per unit falls so prices fall, but no more reasoning. The better answers would then go on to talk about competitiveness or living standards.

A substantial minority referred to an AD shift, either in isolation from an AS shift or as a combined answer. It was encouraging to see many of these answers argued through the concept of export-led growth. Clearly, where an AD as well as an AS shift is possible it is advisable to include both, not least because even if a shift is wrong marks will not be removed.

As with any questions asking for effects there were the inevitable answers focusing on causes. Many offered evaluation but there were no marks for this.

Question 1 (c) (i)

This question drew out some very feeble responses relating to the idea that everyone is working. Some coloured this by saying that everyone had a paid job. Many attempted to say that several people were excluded from the concept of full employment, such as students, but the concept was rarely honed carefully enough to give the full concept of the workforce. There were many ways to earn the full marks, and perhaps one of the most efficient ways to answer this was to say that was where the economy operates at the vertical part of the aggregate supply curve. It was equally easy to say that everyone willing and able to work does have employment. By using the concept of full capacity or 'no spare capacity' or the workforce the answer was likely to earn two marks. Several answers did offer the labour market equilibrium analysis – there are some advantages for those re-taking this unit having done the A2 preparations.

Question 1 (c) (ii)

Candidates were able to apply their understanding of the concept of full employment to consider a problem which may consequently arise from the economy operating at this position. An aggregate demand/supply diagram was often provided in support of candidates' explanations. Few candidates, however, went on to fully develop the problem for the economy using economic analysis. Perhaps the most fruitful approach was to discuss price pressures, and then develop this internationally in terms of competitiveness. Another healthy approach to developing the concept of full employment of resources more generally and not just labour was the environmental problems that might occur with maximum use of resources.

Question 1 (d)

Candidates showed a good awareness of policies to increase productivity in the economy. Typically, a fairly wide range of supply side policies was identified and explained. The majority of candidates supported their explanations with a correctly drawn aggregate demand/supply diagram. Suitable evaluation points were typically identified, although they were often insufficiently developed.

As is commonly the case with supply side answers, there was a plethora of bad responses involving subsidies and interest rate manipulation. Further, there were many answers suggesting fiscal and monetary policies which clearly could only be seen to relate to output rather than even a very lose interpretation of productivity. Many responses simply rewrote the concepts in the passage and said how they could be improved, which was for many difficult to develop into more general economic analysis.

It was also surprising to see many answers solely based on demand side policies. While there were some (but limited) marks available for this approach, it did not sit well with the thrust of the data or the preceding question. It is important that students realise for this and for the new Unit 2 next year that this is a data response paper, and the mini-essay is a culmination of the reasoning worked through up until the essay presents itself.

Question 2 (a) (i)

As often the case where three words will do 'total planned expenditure' there were many long answers to this question. Most gave the components of AD, and many either drew or described a drawing of the AD schedule. Disappointingly many just repeated the word 'demand' from the question, and did not go any deeper into the concept.

Question 2 (a) (ii)

This was a surprisingly well understood and answered question. Most answers were argued around consumption and investment, although full marks could be earned just using the consumption step.

Many answers discussed exchange rates, which were pleasing to see, although once identified there was ambivalence as to the effect via the price of exports and imports on aggregate demand. It was also very disappointing in the exchange rate approach to see many argue that an increase in interest rates would attract FDI. While FDI is not on the specification, marks would of course be awarded if the reasoning were correct, though in most cases it was not. Many others argued through hot money arguments that the increase in hot money would increase X-M. Again it must be asserted that while Unit 6 material can be of some help, it is often the more simple approaches that earn the marks, for example by arguing through consumption and investment.

Question 2 (a) (iii)

The great majority of candidates correctly identified that the interest rate increased, and it was encouraging to see prolific use of the data. Suitable diagrams showing a decrease in aggregate demand were provided. Some candidates did, however, fail to fully address the question by not stating the observed falls in the price level and real output of the economy. Many instances of further explanation were given, including the identification of the multiplier effect, and by providing appropriate quotes from the text. The better responses considered the effects on AS as well as AD – as with question 1bii, it is advisable to include both, not least because even if a shift is wrong marks will not be removed.

Most responses included evaluation, often consisting of two separate points. The most common argument was a consideration of the shape of the AS, although many considered the size of the interest changes and the time delay of 18-24 months for the full impact of the interest rate changes to be felt in their entirety.

Question 2 (b) (i)

This proved to be a very easy question, with almost all candidates spotting the upward trend, and a good majority able to use some of the data from the graph or the passage effectively. Some concrete application was required for the second mark, which was successful in most cases.

Question 2 (b) (ii)

Candidates demonstrated a good understanding of the impact of the higher exchange rate on net exports. A great deal of responses also included suitable further analysis. However, many responses failed to identify the worsening of the current account deficit, instead explaining that a current account deficit would be created. A few candidates misunderstood the exchange rate change, incorrectly providing analysis of the consequences of a fall in the exchange rate.

There were many pieces of extended analysis offered for this question, using the data to discuss the changes relative to the euro and the counterbalancing effects on the net trade position that this implies. Such answers were generously awarded.

Question 2 (b) (iii)

A question in this format has appeared over several recent papers, and yet still there are many whole centres failing to appreciate the underlying request of this question: the sources of information supplied must be related to the role of the MPC, and therefore if there is no mention of impact on the price level of the changes identified, nor the inflation target, then the mark is capped at 2/4. For this reason many of even the most able candidates scored 38 rather than 40 on this paper.

Question 2 (c)

Many candidates correctly recognised that a tightening of fiscal and monetary policies represented contractionary policies, although the word tight was often understood as meaning carefully controlled or not understood at all. Candidates showed a good understanding of macroeconomic objectives, often stating a large number of objectives in their responses. Explanations provided typically explained the impact of the individual policy on a macroeconomic objective, although sometimes the analysis was insufficient in providing a thorough explanation. Commonly a candidate would give two objectives and then proceed to explain how to solve them (often through expansionary FP/MP) rather than say how any one policy affects both, whether tight or otherwise. Most candidates supported their explanations with an appropriate aggregate demand/supply diagram, or provided the equivalent verbal analysis, but these marks were not awarded unless provided in the context of contractionary policies.

Most responses included appropriate evaluation although these points were sometimes insufficiently explained. The most common types of evaluation was the most pertinent point that contractionary policies have little benefit on economic growth or employment, but that in the view of classical economists there will be no negative effect on growth. Other common types of evaluation considered the time period involved for the implantation of policies, and the relative effectiveness of monetary and fiscal policy.

6354 Principal Examiner's Report June 2008

The examination paper was highly accessible and provided an effective means of differentiating between the qualities of candidate answers. The vast majority of candidates offered an explanation to all the supported multiple choice questions. Both data response questions proved popular with fifty-four percent of candidates answering Question 12 (The UK chewing gum market) and forty-six percent attempting Question 11 (Market share for current account banking).

The mean score for June 2008 (45.1) was very similar to June 2007 (45.6). The standard deviation for June 2008 (11.8) was slightly higher than for June 2007 (10.9).

Section A: Supported Multiple Choice Questions

These questions continued to be an effective differentiator to candidate responses and the full range of marks were awarded. A significant number of candidates were very well prepared and demonstrated an excellent understanding of both the specification and the techniques involved in answering the questions. Many achieved scores over 30/40, providing excellent definitions, economic analysis and relevant application. However, the mean score was 22.58 out of 40 marks – not as high as in previous series.

The key to success involves defining key concepts and applying appropriate economic theory and analysis. Annotation of the diagrams provided in some questions is a good strategy, for example, Q3, Q5 and Q9. Furthermore, Q2, Q4, Q6 and Q8 offered scope for candidates to introduce diagrammatic analysis as a means of demonstrating their knowledge and understanding of the issues at hand.

As in previous years, candidates found some questions easier to answer than others. The three supported multiple choice questions which recorded the highest marks were Q8 (Predatory pricing), Q6 (Price discrimination) and Q10 (Sunk costs in the soft drinks market).

The three supported multiple choice questions which recorded the lowest scores were Q2 (Marginal profit), Q7 (Regulation of the water industry) and Q3 (Calculation of average fixed cost).

As in previous examination series some candidates ran out of time. It is crucial for candidates to practice past papers under exam conditions to enhance their time allocation skills.

One interesting point to note is that in some centres many candidates attempted to gain marks by knocking-out incorrect options. Up to 2 marks are available for successfully knocking-out two incorrect options. However, mixed success was achieved here. It requires candidates to explicitly state the option key which is being knocked out and then to offer an appropriate explanation. Examples of how to successfully knock-out incorrect options are provided for the supported multiple choice questions in this series. One can see that a certain skill is required and that it may be quite challenging.

Question 1 (c)

Electricity generation market
Mean 2.40 out of 4 marks

Most candidates selected the correct option and identified that a merger between British Energy and Drax would lead to 28% market share (above the legal definition of a monopoly of 25%), prompting an investigation from the Competition Commission. This was usually followed up with reference to the role of the Competition Commission in promoting consumer interests or a discussion of the dangers of a reduction in competition. This was sufficient for full marks.

The main weakness for many candidate answers was the failure to identify that a merger which exceeds 25% market share, effectively creates monopoly power.

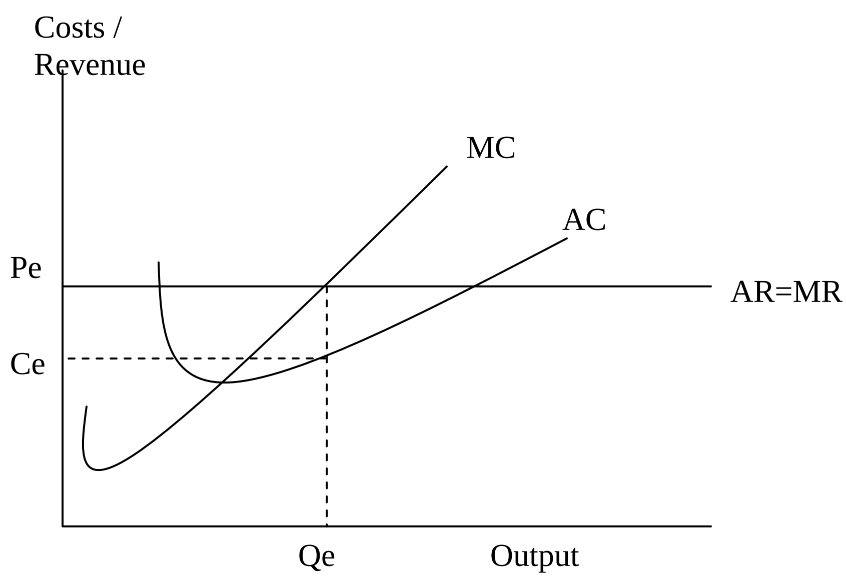
Some candidates successfully knocked-out one or more incorrect options, for example: *'Option B is incorrect since the three-firm concentration ratio is 45%, which is less than 50%'.* This is a good example of how to knock-out an incorrect option.

Question 2 (c)

Marginal profit for a profit maximising firm in perfect competition
Mean 1.34 out of 4 marks

The lowest mean score was achieved on this question as many candidates struggled with marginal analysis. Often incorrect option B was selected as candidates assumed a firm making supernormal profits would automatically minimise its total costs.

However, this question differentiated well and some excellent answers were recorded. The best answers demonstrated that marginal profit must be zero at the profit maximisation level of output since marginal cost equals marginal revenue. This was usually followed up with a definition of marginal profit and a diagram of a perfectly competitive firm making supernormal profits in the short run.



One common mistake was for candidates to draw a diagram of a firm in monopolistic competition rather than perfect competition and so wasting valuable time with no return.

Some candidates successfully knocked-out an incorrect option, for example:
'Option D is incorrect since total revenue must exceed total cost if the firm is making supernormal profit.'

Question 3 (e)

Calculation of average fixed cost
Mean 1.99 out of 4 marks

This was a question where most candidates either achieved full marks or no marks, with little in between. The examiners found it surprising that a significant number of candidates struggled to calculate average fixed cost for the production of mobile phones. Often candidates calculated average total cost and so ended up selecting incorrect option C (£30) rather than E (£10).

However, the majority of candidates achieved full marks simply by showing the formula and correct calculation for average fixed costs.

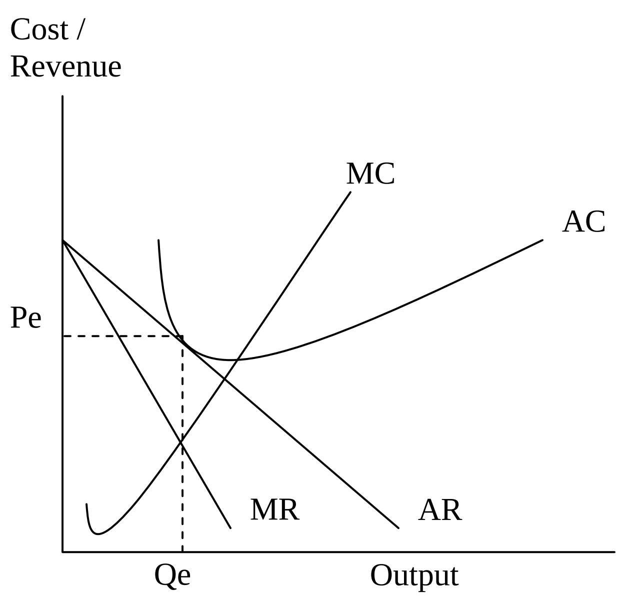
Some candidates used the knock-out technique, for example: '*Option B is incorrect since £10,000 represents total fixed cost, not average fixed cost.*'

Question 4 (e)

Plumbing services - an example of monopolistic competition
Mean 2.49 out of 4 marks

This was another question which thoroughly differentiated between the quality of candidate answers. The context of the question (plumbing services) and correct key revealed how to gain full marks. Some application to plumbing services was awarded one mark, for example, the existence of different types of plumbers such as those which fix leaking water pipes or gas heating engineers. By explaining how product differentiation occurs in plumbing candidates achieved a mark, for example, the reputation of plumbers or hours of service.

However, it was possible to achieve full marks without reference to plumbing, for example, by defining normal profit, explaining how supernormal profits are competed away in the long run (due to low entry and exit barriers) and, drawing a diagram of a monopolistically competitive firm in long run equilibrium position



As with June 2007, the question was slightly more challenging since no marks were awarded for simply identifying a characteristic of a monopolistically competitive firm unless linked to the correct option statement.

The successful use of the knock-out technique was evident in some responses, for example: *'It is not option C since a monopoly is a market with one dominant firm. Yet there are many thousands of small plumbing firms in the UK'.*

Question 5 (d)

Revenue maximisation
Mean 2.05 out of 4 marks

Most candidates selected the correct key and identified that revenue maximisation occurs when the total revenue curve reaches a peak – a position where marginal revenue is zero. The best answers used marginal analysis to explain what happens at either side of revenue maximisation, for example: *'Before output Q4, marginal revenue is positive and so still adding to total revenue, whereas after Q4 marginal revenue is negative – reducing total revenue.'*

A significant minority of candidates confused revenue maximisation with sales maximisation and so selected incorrect option E.

The knock-out technique readily offered itself to this question, for example: *'Option B is incorrect since profit maximisation occurs at output Q3, not Q2 and, option C is incorrect since sales maximisation is at output Q5, not Q3.'*

Question 6 (e)

Price discrimination in the sale of iTunes between UK and US
Mean 2.68 out of 4 marks

Most candidates selected the correct option and explained the importance of separating consumers into different markets, preventing leakage between them for price discrimination to be effective. In the case of iTunes this is fairly easy to do since the UK and US are two distinct markets with little chance of seepage.

The best answers explained the significance of having different price elasticities of demand between the markets in order for Apple to increase revenue and profits. Usually these responses referred to UK consumers having a relatively price inelastic demand compared to US consumers, thus enabling Apple to charge a higher price. Sometimes this was demonstrated through appropriate diagrammatic analysis and awarded with up to 2 explanation marks.

A common error was for candidates to assume a low price elasticity of demand would lead to a low price and a high price elasticity of demand lead to a high price of iTunes.

The knock-out technique led some candidates to suggest that: '*option A is incorrect, since greater price competition in the UK would usually lead to lower prices – not higher prices.'*

Question 7 (b)

Mean 1.89 out of 4 marks

This proved a challenging question and many candidates selected incorrect keys, such as A or D, revealing a lack of understanding of real and nominal price changes.

However, it was quite easy to pick up explanation marks by identifying the 'RPI' as the Retail Price Index (or a measure of inflation) and that 'k' permits water firms to raise prices above the rate of inflation in order to fund capital investment programmes.

The most lucid answers used the information provided, for example: *'the RPI is 3.9% and k is 3.1% and when added together the nominal water price has increased by 7%. Now, since water bills have risen by 3.1% above inflation, this must represent the real price increase. The term 'real price increase' refers to adjusting the figures to remove inflation from the data.'*

There was not much use of the knock-out technique with this question but some candidates suggested that option C was incorrect since the Retail Price Index or headline inflation actually includes mortgage interest repayments in its calculation.

Question 8 (c)

Predatory pricing in the computer chip market
Mean 2.80 out of 4 marks

There were many pleasing responses where candidates defined predatory pricing, identified its aim and then explained how it works, for example: *'Predatory pricing is when a firm reduces price to below its average costs of production in order to knock-out existing competitors. This is what Intel attempted to do against Advanced Micro Devices and in the process both firms made large losses. If the price reduction is maintained long enough then it might lead to Advance Micro devices exiting the market and so increasing market share and profits for Intel. In the long run, Intel would raise its prices back up to recover its losses and make huge monopoly profits.'*

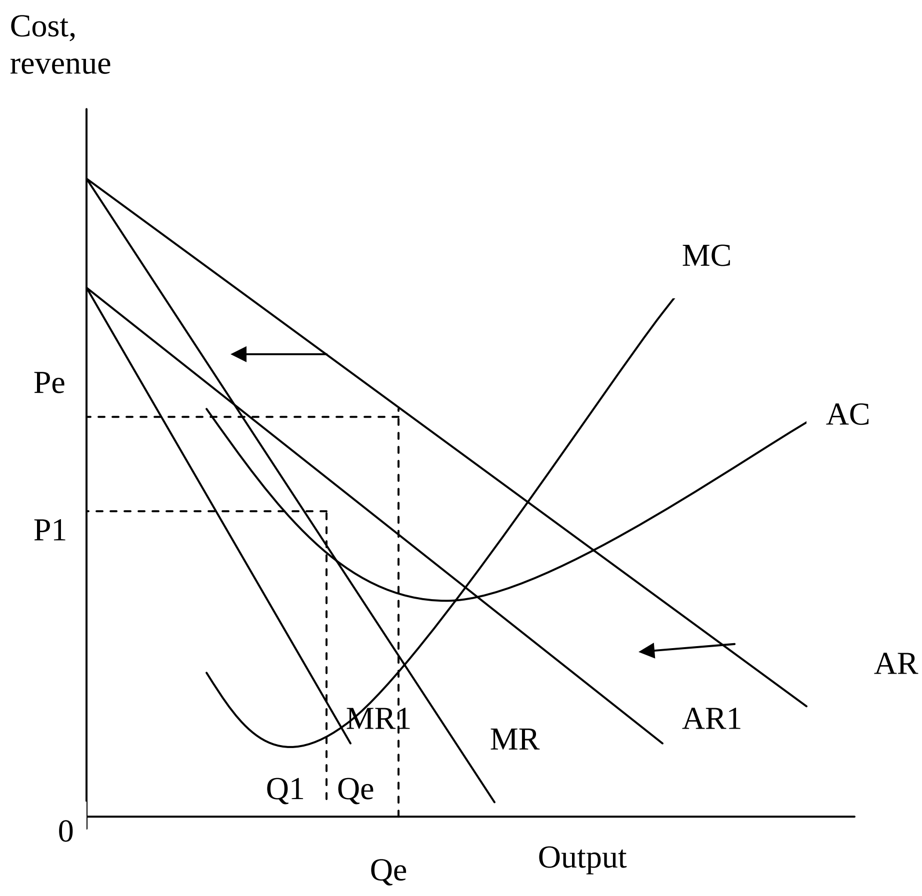
A minority of candidates offered diagrammatic analysis which was well rewarded. A popular knock-out selection was option E, for example: *'Option E is wrong since predatory pricing will only increase consumer surplus in the short run as prices fall. However, in the long run, the predator will raise prices back up and so reduce consumer surplus.'*

Question 9 (a)

Falling demand for DVDs
Mean 2.31 out of 4 marks

This was another question which effectively differentiated between responses. It was very pleasing to see the large number of candidates who annotated the diagram by correctly shifting the average revenue and marginal revenue curves inwards, revealing a lower equilibrium price and output position for the firm. This was awarded two marks. The very best answers accurately highlighted the original and new area of supernormal profits following a decrease in demand. This was awarded one mark. In effect, it was possible to achieve maximum marks by selecting the correct key and just annotating the diagram.

A common mistake made by some candidates was to pivot the new average revenue and marginal revenue curves from the original position rather than shift them downwards. The effect was for these candidates to select incorrect option C, believing that price actually increases.



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Question 10 (b)

Sunk costs in soft drinks market
Mean 2.63 out of 4 marks

Most candidates selected the correct key and defined the term sunk costs. This was usually followed by a discussion on Coca Cola's high advertising expenditure as an example of high sunk costs. To gain full marks it was necessary to explain how advertising could also lead to brand loyalty or create price inelastic demand, making it harder for firms to enter the market.

Suitable knock-out answers often focused on option 'D' for example: *'High levels of contestability actually make it easier to enter or exit a market without loss and so this option is clearly wrong. The massive advertising expenditure actually makes the market less contestable.'*

Section B: Data Response Questions

Both data response questions were popular choices with candidates. Fifty-four per cent opted to answer Q12 (UK chewing gum market) and forty-six per cent selected Q11 (Market share for current account banking). The mean score for Q12 (23.86) was higher than for Q11 (21.70). This appears to reflect the difficulty some candidates experienced in answering Q11(c) concerning the impact of bank branch closures on consumer welfare.

Question 11 Market share for current account banking

Question 11 (a)

With reference to Figure 1, identify the market structure of Britain's current account banking. Justify your answer.
Mean 2.22 from 3 marks

This proved to be an easy three marks for most candidates who identified the market structure as an oligopoly, defined the term and then proceeded to calculate a concentration ratio from the data provided.

How to Improve
Read the question instructions and use Figure 1's data in the answer, for example, calculation of a concentration ratio. Ensure correct calculation (note that 'others' should not be used as this includes all the remaining firms).

Question 11 (b) (i)

Using the information provided, explain the type of integration that has occurred in the banking industry.
Mean 2.26 from 3 marks

This was another easy three marks for the majority of candidates who identified and defined horizontal integration, using an example from the banking industry.

How to improve
Use the information from the extract. The takeover of Abbey bank by Santander bank is an example of horizontal integration.

Question 11 (b) (ii)

Examine the advantages and disadvantages of bank mergers to the banks involved.
Mean 6.52 from 12 marks

This was reasonably well answered by most candidates who often explored two advantages and two disadvantages of bank mergers to the banks involved. The most common advantages raised were increased economies of scale and greater market share, leading to more profits and market power. The most frequent disadvantages raised were the possibility of diseconomies of scale and the financial costs of the takeover.

How to improve
Ensure the answer remains focused on the question. Unfortunately a significant number of candidates discussed the advantages and disadvantages of bank mergers to customers rather than to the banks. Also, many responses regarded rationalisation of production as a disadvantage rather than an advantage to the banks involved. However, banks can achieve significant cost savings through rationalisation, leading to greater productive efficiency.

Question 11 (c)

Evaluate the likely impact of further bank branch closures in Britain on consumer welfare.
Mean 4.89 from 12 marks

This proved to be a challenging question. Many answers tended to focus either on the extract information or the analysis behind reduced competition but not both. The best answers offered a combination of the two, for example:

'The 4,041 branch closures tend to be concentrated in poor inner city and rural areas and so this is where consumer welfare is likely to fall. It means a longer time is taken for customers to visit their local branch and there is also an additional travel cost in terms of petrol or bus fares. On the other hand, 1,074 bank branches have opened in out-of-town shopping centres and business parks in the prosperous south-east. This is likely to help increase consumer welfare in this region since it is easier for customers to visit their branch.

Thus, we see a reduction in competition, consumer choice and quality of service in poor inner city and rural areas but the opposite may well happen in out-of-town shopping centres and business parks. Queuing increases in one area but decreases in the other! There is a danger of monopoly power forming in the areas where bank branches have closed down, leading to possible higher prices for bank services.'

Usually, some evaluation was offered by the better responses, often focusing on the growth in internet and telephone banking:

'Rationalisation of unprofitable bank branches may have enabled the banks to allocate more funds to the development of internet and telephone banking. For example, Halifax bank launched Intelligent Finance while Abbey bank set up Cahoot. These have proved to be very popular services which directly increase consumer welfare, especially for the young and computer literate. At a click of a button it is possible to pay bills and transfer funds from one account to another, as well as keep a close check on personal finances. However, this has to weighed up against the increased possibility of fraud on the internet and the fact that many people do not have access to a computer or do not know how to use one – especially among the poor and old.'

How to improve

Try and combine prompts from the extract with economic analysis. Also, remember to evaluate (the easiest way for this question is to explore both views on whether consumer welfare is damaged by bank branch closures and draw a conclusion from this).

Be careful to focus on branch closures rather than whole bank closures. Some candidates were side tracked into discussing the issue of monopoly formation and nothing else.

Question 11 (d)

Analyse the likely impact on bank profits of the Office of Fair Trading's investigation into the penalty charges placed on current account holders.
Mean 2.24 from 4 marks

This was quite straightforward and most candidates recognised that profits are likely to fall, depending on the outcome of the investigation. Fines and compensation to bank customers have the effect of increasing costs and so causing profits to fall. The best answers also referred to the £2.6 billion the banks have already refunded 3.8 million customers.

How to improve
Use the information in the extract to develop an answer. For example, another one million customers may receive compensation from the banks if the High Court deems the penalty charges were excessive.

Question 11 (e)

Discuss the significance of two entry barriers a foreign company such as Santander bank might face when expanding into Britain.
Mean 3.57 from 6 marks

The answers varied in quality, but most responses identified two entry barriers. The most popular barriers were brand loyalty, asymmetrical information, cultural and high start-up costs. Sometimes the explanation of these barriers was too brief, perhaps reflecting problems of time in answering this paper. Many responses offered no evaluation and so could only achieve up to four marks.

How to improve
Take careful note of the question and offer an evaluative comment, for example, prioritising between the two entry barriers or discussing their magnitude.

Question 12 The UK chewing gum market

Question 12 (a)

With reference to the information provided, outline the changing market structure of the chewing gum industry in the UK.
Mean 2.37 from 3 marks

The vast majority of candidates identified the chewing gum market as a monopoly and then proceeded to define the term. This was usually backed up with data from Figure 1 showing how the entry of Cadbury Schweppes has reduced the market power of Wrigley but yet monopoly power still remains. Many excellent responses referred to the market becoming a duopoly; others referred to the idea of oligopoly – both of these comments were valid.

How to improve
Use the information in Figure 1 and the extract when prompted by the question.

Question 12 (b)

With reference to the information provided, explain three factors which have enabled Cadbury Schweppes to gain 15% of the UK chewing gum market so rapidly.
Mean 4.40 from 6 marks

The vast majority of candidates made effective use of the extract and identified three factors. These were selected from the following: Cadbury's purchase of Adams – a chewing gum company; the £10 million advertising campaign to raise awareness of the Trident brand; £20 million spent on developing a high quality gum product; the well established distribution network that Cadbury's has with various retailers. By developing three of these factors many answers gained full marks.

How to improve
Use the information in the extract as a starting point and then develop them.

Question 12 (c)

Discuss the advantages and disadvantages to a firm such as Cadbury Schweppes from producing a range of goods in different markets.
Mean 4.86 from 8 marks

Most candidates offered at least one advantage and one disadvantage. The most popular advantages focused on different economies of scale and risk diversification. Some responses included the idea of launching new products to achieve further growth when other brands had reached maturity.

The most popular disadvantages focused on the lack of knowledge and expertise a company might face when diversifying into new markets. Similarly, the danger of managerial diseconomies of scale was another common factor.

The main drawback was the lack of evaluation. Just explaining the advantages and disadvantages did not count as evaluation due to the wording of the question.

How to improve
Ensure an evaluation comment is made, for example, prioritising between the advantages and disadvantages – with justification. In Cadbury's case its strong brand image means that producing a range of goods in different markets could provide dividends as many consumers trust the name.

Evaluation could also come in the form of a time frame. It could take months if not years to establish products in different markets. For example, Cadbury's launch of Trident chewing gum took four years in the making after purchasing Adams.

Question 12 (d)

Discuss the possible economic consequences for producers and consumers of a price war in the chewing gum market.
Mean 5.39 from 10 marks

This question differentiated greatly between the quality of candidate responses. At the top end of the mark range, candidates explored the impact of a price war on consumer surplus, consumer choice, product quality, market contestability, profits, and funds for product development. Quite often, a monopoly diagram was used to show the possible danger of a price war leading to the exit of firms and increased monopoly power for the victor. Usually, distinct comments were offered on both producers and consumers.

However, the weaker responses sometimes confused a price war with a 'price increase' or used demand and supply diagrams rather than monopoly and oligopoly type diagrams in their answers.

How to improve
Use the information in the extract and evaluate. Some candidates developed interesting and valid arguments, for example, a price war would be ineffective in driving either Wrigley or Cadbury Schweppes out of the chewing gum market since both are powerful firms with huge financial resources behind them.

On the other hand, the price war could be effective in deterring new entrants such as the Italian company Perfetti. Discussions on how price wars may end through tacit collusion were also valid. Perhaps the most obvious way to evaluate was by discussing the short term and long term impact of a price war on consumer surplus.

Question 12 (e)

Assess the likely impact on consumer welfare of high profit margins for confectionery manufacturers.
Mean 2.42 from 5 marks

This was a relatively straightforward question and many candidates achieved high scores simply by discussing both sides of the argument and therefore, offering some evaluation.

At first glance, high profit margins (30% mentioned in the text) appear to reduce consumer welfare since it implies relatively high prices and low consumer surplus in the confectionary market. However, the high profits could reflect productive efficiency and economies of scale in the industry or the profits may be used for product innovation, leading to better quality and more consumer choice in the long run.

How to improve
Ensure some evaluation is offered by investigating both sides of the argument.

Question 12 (f)

To what extent is the UK chewing gum market contestable?
Mean 4.42 from 8 marks

Most candidates were prepared for a question on contestability. After defining the term many responses focused on why the chewing gum market is unlikely to be contestable, referring to various entry barriers, for example, high start-up costs, research and development costs, brand loyalty, huge marketing expenditure, economies of scale and control of market outlets. All of these were valid points.

How to improve
Ensure that evaluative comments are made, for example, the magnitude of the advertising expenditure – Cadbury Schweppes spent £10 million just on the launch of its Trident brand. This would deter most potential entrants.

Some candidates offered an alternative view that the chewing gum market might be contestable since Cadbury Schweppes successfully joined and the Italian company Perfetti has considered entering. Others suggested that it might be possible to join through developing a niche market for its product.

Examiners' Report Paper 6355 /01

General observations

The mean at 33.3 was exactly two marks lower than in June 2007 (35.3) and the same as the mean in June 2006. The standard deviation had fallen fairly significantly to 8.2 (9.5 in 2007 and 9.9 in 2006).

Popularity of questions was 60:40 in favour of Question 1.

In general it was felt from the outset that the paper had been very challenging, and Question 2 more difficult than Question 1, and the mark scheme was adjusted accordingly. The best percentage performances appeared on the 20 mark questions, and the worst on the 10 mark questions.

Interestingly, and encouragingly, whilst Question 1 was perhaps a little less demanding, a lot of the more able answers were in evidence in Question 2 as it allowed them to demonstrate a broader range of skills, particularly in the use of helpful diagrams with their analysis of the sections on marginal revenue product, National vs. Regional Minimum Wage, and Monopsony; there were many robust responses which gained high marks. Question 1 appealed to the less confident candidates as it was based more on comprehension and application of the material provided with less requirement for diagrams; it was also favoured by many of the overseas centres, probably owing to the specifically UK based data in Question 2. Too many scripts insisted on a summary at the end of each section which just repeated earlier analysis and gained no marks; prioritising should include some additional insight or reasoning to gain evaluation marks. Similarly, many candidates wasted too much time by re-iterating the title of the question and leading in gently to their first comment; much better to begin straight away with, for example, 'The first factor is…….' It was encouraging to see some well-selected opinions from various parts of the media which added sophisticated insight and commentary. Both questions gave scope for some excellent responses showing flair and awareness.

Many examiners commented on the use of symbols rather than full prose, for example an upward arrow to mean 'increase'. This seriously impedes the progress of an examiner in his or her search for marks.

Question 1

Question 1 (a)

The best scripts were clear on who is counted as being in the workforce and who is economically inactive, and produced balanced arguments on both employment *levels* and *rates* of unemployment. There was a wealth of information in Extract 1 which some strangely ignored and became side-tracked on a purely theoretical analysis of what causes unemployment.

As with many cases with the Labour Markets paper, there was a confusion between employment and unemployment, with many seeing one as the exact reverse of the other. There is a continuing misunderstanding of what constitutes a workforce: many answers fell back on the erroneous conclusion that the rise in unemployment was explained by the rise in incapacity claimants and young people taking further education.

An interesting aspect of this question appeared to be that there are in effect two apparent paradoxes. One is that both employment and unemployment levels are rising, and the other that employment rates can fall while levels rise. Clearly this has enormous scope for evaluation and the strong answers addressed these apparent paradoxes confidently at the start of their essays, earning a generous allocation of evaluation marks.

Sensible allocation of time is essential in a short exam: candidates must read ahead carefully through all the sections and plan where their material is to be most profitably used. Too many wrote far too much on the factor of immigration when, clearly, they found themselves repeating much of it in the more specialised part (b).

Question 1 (b)

This was confidently handled; most candidates produced intelligent analysis supported by comments which indicated interest in studying the economic aspects of immigration. The majority made the rather obvious link to increased labour supply and a basic diagram showing a fall in wages and increased employment, and could develop this diagram to discuss changes in unemployment where wages fail to fall.

Some innovative answers looked at the development of a dual labour market, and the issues of equivalence between UK and non-UK based qualifications. A very few considered, using dynamic analysis, what is in fact the most convincing explanation: arguing not that women are leaving the workforce but that fewer are joining, for example young people and immigrant entry rates are falling.

Disappointingly, several focused on social issues such as crime and tension, without a specific link to economics. In this context it is advised to refer to specific economic issues such as the supply and demand for housing.

Question 1 (c)

For some this posed problems: the phrase ‘public finances’ was, strangely, not clearly understood. Weaker candidates wrote far too much for a question worth only 10 marks; whilst much analysis was devoted to explaining why, for example, women were leaving the workforce, the need to focus on how it would improve or worsen government finances was sometimes hardly mentioned.

There was a surprising belief in many of the answers that if a worker continued working after the official age of retirement the government had no need to pay his or her pension. Clearly any means-tested pension benefits would be affected, but this was seldom pointed out. Many candidates incorrectly stated that women leaving the workforce would be paid incapacity benefits (a mis-reading of extract 1, lines 28-30). There were also a significant number of candidates who did not read the question properly and focused on non public finance impacts such as employment rates, income distribution and economic growth or discussed the reasons for the changes in participation.

In general this was not a high-scoring part of the paper, and the importance of thinking carefully before writing an answer is of great significance as a mark discriminator.

Question 1 (d)

Focus was again a prerequisite: able answers had analysis centred on lone parents and incapacity claimants, but many others suggested generalised courses of action which pertained to the whole labour market rather than the two designated groups. A typical answer would describe a policy aimed to increase the overall level of employment, such as the National Minimum Wage or New Deal, without any specific reference to participation.

Those who focused relevantly produced some fine responses and scored highly.

Question 2

Question 2 (a)

This produced some very good answers with plenty of scope to demonstrate economic theory applied to particular parts of the country. Occasionally scripts overlapped between regional earnings and wage differentials; many did not understand the data, or simply misread it to the effect that the regional minimum wage had already been introduced. Some over-generalised wages to incomes.

In general, however, candidates seemed to enjoy answering this section and scored well. Basic economic tools of analysis were used to good effect, such as elasticity.

Question 2 (b)

A difficult question for some who lacked a clear framework in their arguments; the better answers produced a balanced coverage which highlighted, first, the weaknesses of the National Minimum Wage (NMW), and then produced convincing reasons on how a Regional Minimum Wage might remedy some of these defects, with qualifying evaluations. Weaker scripts failed at times to make it clear whether they were discussing a national or a regional wage, and much was left implicit; whilst some who had clearly revised everything on the National Minimum Wage filled their answers with nothing else. While there were some marks available for the benefits of the NMW these were restricted to the 'evaluation' section, and discussion of the relative merits of a regional minimum wage veered towards its unfeasibility, again in the evaluation section. So while it is clear that evaluation is a high order skill, there are only 8/20 marks available, and the answers must focus in the main in addressing the issues directly as posed by the question.

Again, it was a question which discriminated the confident answers from the uncertain. Diagrams would be used to great effect both to illustrate the weaknesses of the NMW and to evaluate the effects of an RMW. However many just reproduced a standard NMW diagram with no link to the question itself. Furthermore, a large number did not appear to understand that a NMW below the equilibrium has no effect, some candidates stating that this would create increased employment.

Question 2 (c)

Monopsony as a theoretical concept clearly appealed to several who produced excellent diagrams and wrote knowledgeably on its operation; in addition, it was encouraging to see some thoughtful references to bilateral monopoly, again well illustrated on a diagram and with some articulate commentary.

However, this section was a step too far for the probably the majority of candidates who found it a challenge to progress beyond the basic concept, and never seemed quite sure what was implied by 'the public sector' and just talked about 'firms'. Some spent the bulk of the time addressing the concept of monopsony alone, and did not apply to the context at all. The concept of wage negotiation was often ignored. Evaluation in this part was also at a low level of performance, perhaps owing to the belief that monopsony is itself an evaluation point, and a new set of tools are needed to evaluate this itself.

Question 2 (d)

Most grasped the meaning of a flat-rate tax and argued how it might affect jobseekers in different ways but there was an underlying hesitance to develop the analysis beyond the basics, similar in some respects to the handling of section (c) in Question 1. The more convincing responses differentiated between high earners and low earners who sought jobs, and questioned whether this tax rate was the only thing which might influence their decisions or opportunities.

The common mistake was to focus on incentives and disincentives to the workforce as a whole, rather than the jobseeker. There was a common mistake in arguing that a flat rate tax is regressive, and many who just assumed that any flat rate would be incredibly high and therefore damaging to all job seekers. Most could see that job seekers would be affected at the lower end, but there was rarely the idea that people with high skill sets and earning potential might be job seekers. The best answers could apply the concept to those new EU entrants which are introducing these schemes, or could otherwise illustrate understanding and knowledge of current debate in the labour market field.

Examiners’ Report 6355/02 Development Economics

General

Once more it is pleasing to report that there has been a great improvement in the standard of work that candidates have submitted. The mean mark continues to increase, this year increasing to 36.8 (up from 35.8 in June 2007). The standard deviation increased to 10.3 from 9.2 in June 2007, which is not outside acceptable parameters. Anecdotally there seems to be a fairly even spread amongst the two questions, although it appears that question 2 may have been marginally more popular. This improvement is reflected in candidates having greater confidence to answer the entire paper and displaying a greater level of understanding of the major economic issues facing the developing world. Many candidates were able to cite appropriate examples from their studies and apply these to the questions posed.

Centres and candidates seem to be well versed in the technique required to answer the questions set in this particular module; it is very pleasing to see more use of evaluation, which is now more often related to the point made, rather than appearing to be an afterthought at the end of the answer.

There are still a number of candidates that refer to the ‘country of Africa’, perhaps displaying a somewhat limited understanding of the developing world, and an even larger minority that seem unable to empathise with the circumstances of the developing world and therefore the potential constraints to economic growth. That said good economics will always be rewarded even where the candidate lacks any geographical understanding.
There are no plans to change the style or structure of the current examination in the future, with questions in future series continuing to focus on topical issues from the developing world.

Question 1

Most candidates were able to score well on this question, identifying and explaining four ways that foreign aid could be used. Many focussed on the use of aid to improve the supply-side of the economy, by improving health and education provision, whilst others focussed on improvements in infrastructure, disaster relief and the opportunity to reduce debt repayments.

It was pleasing to see that most candidates understood that aid took the form of both bilateral and multi-lateral aid and compared the effectiveness of these forms of aid. Others discussed the nature of tied and untied aid whilst others concentrated on comparing the effectiveness of concessionary loans and grant aid. All of these approaches were able to score full marks.

A number of candidates unfortunately confused foreign aid with foreign direct investment causing them to miss out on potential marks. Of course those candidates that were able to explain how foreign aid, through for example infrastructure improvements, could be used to attract FDI were rewarded fully.

Question 1 (a)

Candidates rarely established the premise in which they were working – very few defined what was meant by human capital so that they could then explore the role it plays in promoting economic development. Few candidates understood the meaning of economic development and therefore rarely put their answers in the context of development and consequently were capped at 4/6 for assessment objectives 1-3.

Candidates were able to discuss any number of ways that a better educated workforce could be used to promote development. These may have concentrated on better health provision or the attractiveness of the economy to foreign investors or the role that diaspora might play.

Evaluation was well done in this question as many candidates were able to focus their attention directly at the final two paragraphs, which clearly discuss the potential impact of a brain drain of medical practitioners away from Bangladesh.

Question 1 (b)

Many candidates found this to be one of the harder questions to answer on the paper, despite them having the MDGs and a number of regional indicators to hand. This question clearly required significantly greater levels of evaluation for candidates to score top marks.

Candidates had to be able to discuss the likelihood of success in different regions and offer explanations of why progress happens to have taken place at different rates.

Many offered excellent answers that suggested that the goals were arbitrary and that the target surrounding absolute poverty looked likely to be achieved but largely as a result of the growth in China and India whilst those in sub-Saharan Africa were likely to fail to achieve the target.

Few candidates offered plausible suggestions as to how the goals might be achieved in time for the 2015 deadline – perhaps some consideration of the willingness of the developed world to finance the achievement of the goals could have been discussed.

Question 1 (c)

Generally speaking most candidates could offer a wide range of reasons why Mali might want to concentrate on the promotion of agriculture. These ranged from improvements in the balance of payments, earning foreign exchange and exploiting the 3.5 million workers associated with agriculture in an effort to achieve the gains associated with comparative advantage. A number of candidates saw this as an effort to achieve progression through Rostow's five stages of development.

Evaluation tended to focus primary product dependency and volatile nature of prices. Very good candidates were able to refer to the Prebisch-Singer thesis, although many pointed out that this was playing a less significant role as prices of agricultural goods in particular maize, wheat and rice continue their rise to ever increasing record prices.

Question two

Question 2 (a)

Many candidates answered this question by focussing their attention on an entirely unproductive workforce, without regard for the fact that the population could be getting older but still be working or be replaced by younger employees. Answers therefore concentrated on the PPF shifting to the left representing a fall in factor of production of labour.

Obviously in many parts of the developing world an ageing population means a greater population, but potentially, depending on what age ranges are being discussed, an increase in the workforce and therefore potential for economic development.

Clearly the focus of this question was on greater dependency, and reliance by the ageing population on family members and state systems to support them in the older years. But better healthcare, which underpins the ageing population, may be a significant indicator of economic development and may have additional spin-offs such as an increasing level of medical care for younger members of society. In addition an ageing population may have greater levels of savings and therefore contribute to investment through the banking system.

Candidates needed to be sure that they have related whatever issues they have raised back to the question in order to ensure that they score maximum marks.

Question 2 (b)

This offered a different spin on a popular theme. The text lead candidates to understand that an increasing population, as seen in East Asia, if used effectively can promote economic growth. This can be through a more educated workforce that is able to attract FDI or increase output and therefore the potential for export earnings. Many developed an argument based on an increasing population eventually driving wages down as supply of labour increases and therefore becoming more competitive on the international market. The increasing population may be seen as a drain on the provision of national resources – health and education, but can also be seen as a source of much needed tax revenues.

However many candidates were not able to see beyond the standard arguments that an increasing population was necessarily a bad thing, trotting out the well rehearsed points of view. Candidates should be encouraged to think more freely and taught to think like an economist and thereby develop the ability to apply their economics knowledge to a range of different economic scenarios.

Question 2 (c)

Candidates were able to answer this question with ease. Many good answers were offered focussing on improved healthcare and greater levels of nutrition as being plausible reasons for the decline in infant mortality. In addition candidates could have discussed the association of economic growth, cleaner water, better sanitation or better education with declining mortality rates.

Evaluation could have considered the spread of medical facilities throughout the country and the nature and quality of the data being presented. A number of candidates attempted to disaggregate the information to make some judgement on how widespread the apparent fall in mortality has been.

Question 2 (d)

Candidates often overlapped their answers with Q2a, but this did not reduce the quality of the economics that was being discussed and therefore the scores that were obtained.

Populations with HIV/Aids are often more dependent on their families and state provision. As they get increasingly ill they are unable to work and therefore domestic output declines. Firms' input costs increase as they may find they are training workers on a more regular basis as others fall ill. As deaths increase there is greater pressure on the family unit with the youngest often being cared for by the eldest as the middle generation is steadily wiped out.

Good evaluation considered the role that anti-retroviral drugs played – often prolonging an individual's life and providing them with the opportunity to work in later life and thus not reducing levels of output. In addition many highlighted the success of Uganda and Thailand in reducing their levels of HIV/AIDS which could be adopted in sub-Saharan Africa. Candidates could also have discussed whether there were other factors, which were more significant, in determining the level of economic growth, such as the level of capital uptake.

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Examiners' Report Paper 6356

General

Mean mark: 51.2; Standard Deviation: 13.9

This paper proved to be more challenging as that set in June 2007: the mean mark fell by 2.7% with little change in the standard deviation.

Nevertheless, there were some outstanding performances and it was a delight to read some excellent scripts reflecting a deep understanding of the subject, an ability to develop logical and accurate analysis supported by the appropriate application of economic concepts and theories. A further distinguishing characteristic of the best responses was an ability to use economic analysis effectively when answering questions requiring knowledge of recent economic events and trends in the UK and global economy.

In contrast, weaker responses were poorly focused on the questions set, contained limited analysis and were littered with imprecision both in written communication and in diagrams. There was often a complete absence of evaluation in these responses.

A particular concern relates to knowledge and understanding of current economic issues. The questions are designed to have a degree of topicality so that students can relate the economist's toolkit to these issues. Therefore, it is hoped that students will be encouraged to engage more fully with recent economic events so that their responses will have a greater sense of realism.

Section A: Essays.

The most popular essay was question 1 on differing inflation rates in European countries and on factors which could improve the competitiveness of the UK's goods and services. It would appear that candidates did not recognise question 2 as one in which they could use their knowledge on globalisation. It was also rather surprising that more candidates did not attempt question 3 on commodity prices given that this has been much in the news over the last two years.

In general, candidates found the applied nature of the first part of the essay questions quite challenging perhaps because their understanding of current economic issues was rather limited.

Evaluation has improved with most candidates realising that this is required in both parts of the essay. However, to secure sound marks for evaluation answers need to explain the significance of the point raised or the reasons for it.

Question 1

Question 1 (a)

In March 2007, the UK's inflation rate was 3.1% whereas it was 1.2% in France and 1.7% in Italy. Assess the factors which might explain the differing inflation rates in these EU countries. (40)

Most candidates were able to identify at least one relevant factor. Lower unemployment and higher level of aggregate demand in the UK compared with France and Italy was often sited as a key factor. Better responses included aggregate demand/aggregate supply analysis to explain the significance of this factor for inflation and/or employed the Phillips curve analysis effectively. Another factor mentioned quite frequently was the differences in monetary policy in the UK and the eurozone. However, a large proportion of candidates were unable to state precisely the difference in the inflation targets used in the UK and in the eurozone.

Weaker responses tended to ignore France and Italy with the result that there was no attempt to contrast inflation rates between the three countries. Further, many answers discussed the possibility that interest rates were lower in the UK than in the eurozone countries although this has not been the case.

Question 1 (b)

Evaluate the factors which could improve the international competitiveness of the UK's goods and services. (60)

Many responses to this question were very good: they contained a range of possible factors which were explained, analysed and evaluated well. However, it was disappointing that many answers included factors such as devaluation of the pound (with the implicit implication that the UK has a fixed exchange rate); and tariffs and subsidies (which ignored the UK's membership of the EU and WTO agreements).

Question 2

Question 2 (a)

The value of world trade has been growing at a faster rate than world GDP. Assess the factors which might explain this trend. (40)

This question was intended to provide an opportunity for candidates to discuss factors influencing the growing interdependence between economies. Given its lack of popularity it seems probable that many candidates did not recognise the focus of this question. Those which did attempt this question identified and explained a variety of points including the reduction in trade barriers resulting from the rounds of talks organised by the WTO; the increased significance of multinational companies; the expansion of trade blocs; and the opening up of economies such as China. Some very good answers brought in concepts such as price and income elasticities of demand and the marginal propensity to import.

Question 2 (b)

Evaluate the disadvantages of further trade liberalisation to the UK or to a country of your choice. (60)

Better responses used aggregate supply and aggregate demand analysis to demonstrate the dangers of further trade liberalisation for an increase in imports which could depress aggregate demand. They then evaluated this point by explaining that the country might have more opportunity to sell its goods to other countries, so raising aggregate demand.

Other problems associated with implications for the balance of payments and unemployment often appeared in answers to this question. However, some responses spent too much time discussing the *advantages* of free trade including diagrams and not addressing the question set.

Question 3

Question 3 (a)

The world prices of commodities have increased by over 100% between 2000 and 2007 (with metal prices rising at a faster rate than agricultural product prices). Assess the possible causes of this rise in commodity prices. (40)

Many responses applied simple supply and demand analysis in answering this question, suggesting that an increase in demand combined with a decrease in supply were the main causes of the rise in commodity prices. Better responses used knowledge of recent developments to support their analysis, for example, the rapid rate of economic growth in China contributing to a significant rise in demand for oil, coal, iron ore and food. Some responses also discussed the significance of speculation as a possible factor in explaining price rises.

Question 3 (b)

Evaluate the likely economic effects of a sustained rise in commodity prices on the UK economy. (60)

The best responses used aggregate demand and aggregate supply analysis to illustrate the possibility of cost-push inflation arising from the global increase in commodity prices. These answers usually included some evaluative comment on the possibility of falling aggregate demand offsetting the inflationary impact of higher commodity prices (so raising the prospect of stagflation). Other issues discussed frequently included the effect on economic growth and unemployment. There were some interesting comments about the possible benefits to the environment of increasing commodity prices especially in relation to oil).

In weaker responses, there was often confusion between ‘commodities’ and ‘consumer goods’. A rather larger number of candidates confined their answers to a discussion of oil prices and failed to widen it to commodities in general.

Section B: Data Response

Question 5 (balance of payments and exchange rates) was slightly more popular than question 4 (public finance). Performance on question 5 appeared to be marginally better than on question 4 although this might be explained in terms of the quality of candidates attempting each question.

Question 4

Question 4 (a) (i)

With reference to column 2, Figure 1, calculate the percentage increase in the UK’s public expenditure at current prices between 1999-2000 and 2006-07 (2 marks)

This was generally answered well although some candidates used the wrong column. However, a significant proportion of responses do not appear to be able to calculate simple percentages changes.

Question 4 (a) (ii)

To what extent does your answer to (a)(i) accurately reflect the change in relative importance of public expenditure? (4 marks)

This question proved to be challenging with few candidates recognising that the data were in current rather than real terms and even considering the significance of changes in public expenditure as a proportion of GDP.

Question 4 (a) (iii)

Contrast the UK's public finances in 1999-2000 with 2006-07. (4 marks)

In contrast, this question was answered quite well with a recognition that the public finances has deteriorated from a fiscal surplus in 1999-2000 to a deficit in 2006-07. However, some candidates did not use the data to calculate the actual surplus or deficit.

Question 4 (b)

Evaluate the likely economic effects of the increase in the size of the public expenditure as a proportion of GDP for the UK economy. (12 marks)

A pleasing proportion of responses included aggregate demand and aggregate supply diagrams with appropriate supporting analysis. The best also included multiplier effects and discussed 'crowding out'.

The main weaknesses was that some answers focused exclusively on an analysis of second round effects of an increase in taxation rather than discussing the effects of a rise in public expenditure as a proportion of GDP. Further, a minority of candidates misinterpreted 'public expenditure' as expenditure by consumers rather than by the government while other responses focused exclusively on specific areas of public expenditure rather than on an analysis of the economic consequences of greater public expenditure. Evaluative comments were relatively rare.

Question 4 (c)

Assess the case for a significant reduction in the UK's rate of corporation tax.
(10 marks)

Most candidates discussed the possible impact on investment and foreign direct investment and then used aggregate demand and aggregate supply analysis to develop their answers. However, it was disappointing that many responses indicated an insufficient reference to the material provided. For example, many answers argued that tax revenues would fall even though the extract suggested that the reverse would be the case. Further, few candidates made reference to the different rates of corporation tax in the UK and Ireland. There was also confusion between corporation tax and income tax in some answers.

Question 4 (d)

Examine the likely economic effects of the changes in income tax announced in the 2007 budget. (10 marks)

Most candidates correctly analysed the effects of the 22% to 20% tax change and discussed the effects on incentives and on disposable incomes.

However, many did not always understand the 'abolition' of the 10% tax band, assuming incorrectly that this would mean no tax would be paid by low income earners.

Question 4 (e)

Evaluate the likely economic effects of a reduction in public sector borrowing on the UK economy. (8 marks)

This proved to be quite a challenging question and the marks scored were relatively low. As in previous examinations, a sizable minority of candidates misinterpreted the term 'public sector borrowing' as meaning borrowing by the public with the result that their answers were irrelevant.

However, better responses discussed the implications for public sector net debt and interest payments on debt as well as the effect of lower public expenditure on infrastructure and on health and education. Analysis also included the impact of these changes on the long run aggregate supply curve.

Question 5

Question 5 (a) (i)

With reference to Figures 1 and 2, calculate the value of imports of goods as a percentage of GDP in both 1999 and in 2006. (3 marks)

This was generally answered well although as with question 4(a)(i) a significant proportion of candidates do not appear to be able to calculate simple percentages changes.

Question 5 (a) (ii)

Examine two possible causes of this change in import penetration for the UK economy. (8 marks)

Most candidates scored highly on this question and included relevant factors such as the high value of the pound and the increased availability of cheap imports from low wage countries. However, a particular weakness in answers to this question was the absence of evaluation.

Question 5 (a) (iii)

With reference to the data and other information, discuss the likely economic effects of the increased import penetration on the UK economy.
(10 marks)

Many responses referred to a balance of payments deficit on current account but not all communicated a sense of worsening and a surprising number made no use of the data provided in Figure 1. The best answers employed aggregate demand and aggregate supply analysis to show the effects on real output, employment and the price level.

One weakness apparent in several answers was a discussion of the causes of increased import penetration rather than on the effects. Other problems arose because of confusion between a balance of payments deficit and a budget deficit.

Question 5 (b) (i)

What relationship might be expected between a country's interest rate and its currency's exchange rate? Explain your answer. (4 marks)

The vast majority of candidates knew the positive correlation between interest rates and the exchange rate and explained it convincingly using supply and demand analysis. However, a few answers implied that a change in exchange rates caused changes in interest rates.

Question 5 (b) (ii)

To what extent do the data in Figures 3 and 4 support this relationship?
(3 marks)

Again this was answered fairly well and most candidates were able to support the positive correlation between interest rates and exchange rates by reference to Figures 3 and 4. However, only a minority of candidates identified periods when the relationship was weak.

Question 5 (b) (iii)

Evaluate two other factors which might influence a currency's exchange rate. (10 marks)

Most responses managed to identify two other factors with the balance of payments position and inflation rates. However, only the best responses discussed *relative* inflation rates and purchasing power parity. Another factor frequently mention was speculation but this was rarely explored convincingly.

Unfortunately, some candidates penalised themselves by discussing interest rates, a factor specifically excluded by the question. A particular weakness was an absence of any evaluative comments.

Question 5 (c)

Evaluate the significance of an increase in the external value of sterling for the simultaneous achievement of the government's macroeconomic objectives of low inflation, economic growth and full employment. (12 marks)

This proved to be a challenging question for many candidates. However, the better responses used aggregate demand and aggregate supply analysis to link the increased value of sterling to a rise in exports and a fall in imports and, in turn, to a fall in aggregate demand. They went on to explain the implications for growth, employment and inflation.

Relatively few candidates evaluated convincingly by considering the possibility of achieving the macroeconomic objectives simultaneously.

Statistics

Unit 1 - 6351

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	40	28	25	22	19	17
Uniform boundary mark	90	72	63	54	45	36

Unit 2 - 6352

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	40	24	20	17	14	11
Uniform boundary mark	90	72	63	54	45	36

Unit 3 - 6353

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	40	30	26	23	20	17
Uniform boundary mark	120	96	84	72	60	48

Unit 4 - 6354

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	80	54	47	41	35	29
Uniform boundary mark	90	72	63	54	45	36

Unit 5 - 6355/01

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	60	37	33	29	25	22
Uniform boundary mark	90	72	63	54	45	36

Unit 5 - 6355/02

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	60	41	37	33	29	25
Uniform boundary mark	90	72	63	54	45	36

Unit 6 - 6356

Grade	Max. Mark	A	B	C	D	E
Raw boundary mark	100	58	51	44	38	32
Uniform boundary mark	120	96	84	72	60	48

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