

Economics

Advanced GCE **A2 7812**

Advanced Subsidiary GCE **AS 3812**

Report on the Units

June 2009

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

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Advanced Subsidiary GCE Economics (3812)

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Chief Examiner's Report

General Comments

This was the last session all of the units 2881-2888 were available. The A2 units will be available in January and June for candidates who have still to aggregate.

Overall, candidate numbers at A2 have continued to increase. For the first time entries for 2888 exceeded 5000 candidates; there was also a particularly large entry for 2886.

As the Principal Examiner's reports indicate, the overall performance of candidates remains good and is entirely consistent at the A and E grades with the QCA level descriptors. The synoptic unit showed there were a few candidates who struggled to go much further than comprehend the pre-circulated stimulus material; however at the same time there were also some particularly strong performances from candidates.

2881 The Market System

General Comments

The overwhelming majority of entrants sitting this unit in the Legacy Specification were re-sitting after more than one previous attempt; for some it could have been their fourth. Very many candidates answered questions with the depth of understanding and level of skills one would expect from A2 candidates who have studied Economics for two years. However, some candidates of obvious ability did not score as highly as they might have done, largely because they failed to focus their answers appropriately, for example producing complex answers on oligopolistic firms rather than addressing the market features on which the final question requested analysis and comment.

Despite its familiarity, most candidates addressed the topic (the holiday market) as economists using the data provided rather than anecdotally.

The majority of candidates were, by now, thoroughly familiar with the structure of the paper Questions (e) and (f)(ii), proved to be, as expected, the key discriminators, however question (d)(ii) also proved a discriminator in the field of elasticity of demand.

Comments on Individual Questions

- 1 (a) (i) Though many candidates scored the full two marks, a disappointing number, though referring to buyers and sellers, offered no observations on the activities of exchange or trade.
- (ii) To achieve full marks, some sense of the interaction between supply and demand, or of the concept of equilibrium was needed, and a substantial minority of candidates overlooked this, offering only a static answer rather than a dynamic one.
- (b) (i) Clear information in the data allowed many candidates to score full marks, so long as they made explicit reference to how a change in market conditions led to a reduced demand for package holidays.
- (ii) Candidates overwhelmingly scored full marks in this straightforward demand-and-supply diagrammatic question.
- (c) Most candidates secured at least four marks out of five, with only a very few making an inappropriate shift of supply or failing to support a correct diagram with a good explanation
- (d) (i) Almost all candidates scored full marks by supplying a succinct definition or formula.
- (ii) This question proved elusive to many candidates. A minority only addressed the issue of demand "BECOMING MORE price elastic, with most students simply giving descriptions of elastic demand. A number fell prey to the temptation to digress onto income elasticity of demand. Only a small percentage of candidates managed to follow the logic of market change or other reasons (such as improved consumer knowledge) leading to increasing price elasticity.

- (e) A discriminating question, this gave candidates the opportunity both to describe an alternative strategy to profit maximisation and to comment on some aspect of the strategy identified. The great majority of candidates named a relevant alternative and offered some explanation as to how this would function. Stronger candidates went on successfully to compare possible consequences in the short run and long run, or to evaluate the likely success of the strategy. These stronger candidates, who had knowledge far beyond the Unit syllabus, were able to answer succinctly and with appropriate focus on the question.
- (f)
 - (i) The data provided clearly stated that fuel is classed as a fixed cost in this industry, and most candidates took the hint, using appropriate examples to illustrate correct definitions. A minority were vague on the comparison between fixed and variable costs or gave incorrect examples.
 - (ii) Many high quality answers scoring 9 out of 12 or above were provided, pushing analysis through with reference to the importance of price elasticity of demand and offering comment on two or more aspects of changes to the market, including market structure. A small number of highly competent candidates wrote sophisticated but generalised essays that barely referred to the issues in or nature of the industry concerned.

2882 Market Failure & Government Intervention

General Comments

With this being the final sitting of the Market Failure exam just over 1,800 candidates sat the paper – a sizeable number given the fact that this was only a resit paper. Overall the standard was extremely pleasing and reflected the fact that once again students had been well prepared for this paper. Many individual scripts were a pleasure to mark, with candidates demonstrating an excellent grasp of topics covered, being able to apply the theory of market failure in a range of different contexts.

Comments on Individual Questions

- (a) (i) This was a straightforward question which the vast majority of candidates gained both marks for by stating the fact that an external cost was where there was a negative impact upon third parties. Very few candidates did not score any marks on this question.
- (ii) As with (a) (i) this question also proved to be very straightforward with most students gaining a mark here. In the small number of cases where no mark was awarded this was due to candidates failing to identify factors which had been raised in the article, as the question specifically required.
- (b) The responses to this question were very pleasing with candidates showing a very clear understanding of the characteristics of private goods and also being able to apply this knowledge very clearly. Whilst a few candidates made the mistake of identifying the characteristics of public goods, most gained two marks for correctly identifying rivalry, excludability, rejectability or diminishability.

In contrast, candidates often found the application of these characteristics to be more difficult with some not referring to air travel at all. Examiners were not looking for more than simple application in terms of passengers having to pay for flights and therefore those people who couldn't afford the tickets being excluded. Likewise, for rivalry, the simple idea that if one passenger takes a seat on a plane then there would be one less seat for others to use would have been sufficient for a mark for the application of rivalry.

- (c) (i) The majority of answers gained both marks for a clear definition of productive efficiency. The most popular answer was to state that this was achieved where average costs were minimised or that production took place where $MC=AC$. It is worth adding that a notable minority of candidates did not achieve marks where they could have, for instance stating that productive efficiency would be achieved where costs (rather than average costs) were minimised.
- (ii) Once again, this question was answered very successfully by the majority of students who were able to draw a clear production possibility curve. A surprising number of candidates ignored the instruction in the question and instead chose to draw a long run average cost curve, indicating the point of Minimum Efficient Scale. Given that the question clearly requested candidates should use a production possibility curve, this was a great shame and resulted in candidates not being awarded any marks.

- (iii) As with (c) (i) this question was well answered by the large majority of candidates, with the most popular response being to identify allocative efficiency as being where $P = MC$. Rather vague answers which clearly had some idea of consumers' wants being satisfied were rewarded a mark but failed to develop the idea that scarce resources were being allocated to produce these goods.
- (d) As with past sittings of this paper, the diagram question proved to be a significant source of marks with candidates often gaining up to half their total marks on this question.

Many accurate diagrams showing the supply curve shifting to the left were seen by examiners who were able to award up to 6 marks for the diagram. Nevertheless, as has also been the case in previous sittings, candidates often let themselves down on the explanations to their diagrams. Too often these lacked clear focus, sometimes developing reasons why taxation was needed rather than clearly stating what impact taxation would have on markets.

- (e) This was the first question on the paper which required candidates to introduce evaluation in to their answers and many gained full marks for excellent evaluation which built upon clear analysis of the impact of subsidies.

The majority of candidates did successfully introduce both elements here – namely clear analysis and good evaluation but unfortunately a significant minority failed to introduce any comment which the question clearly required. The best answers developed one or two points of evaluation in some detail and therefore gained full reward for what was often excellent economics.

- (f) The final discussion question this sitting offered candidates a choice of one of two forms of government intervention to discuss. Overall, the two approaches were equally popular with many excellent answers being produced for both regulation and also pollution permits.

As regards regulation, the best answers developed evaluation in terms of the need for there to be an international/global solution to avoid companies moving from one country to another, looked at the possible monitoring and policing issues arising from this and also the subsequent costs of successfully introducing regulation. Once again, a small number of candidates failed to elaborate upon the points which they raised and were therefore unable to gain the evaluation marks on offer which was a great shame.

For pollution permits, a common mistake which candidates made was to assume that the government would make revenue from such schemes, whereas in fact a key point of the system is that the firms themselves who sell the permits receive the revenue and therefore are rewarded for being low polluters. That said, some excellent answers were produced here which demonstrated excellent understanding of this particular method of government intervention.

Overall, the performance of candidates on this final 2882 paper was extremely encouraging. Teachers and students alike should be congratulated for their preparation and performance on this paper.

2883 The National & International Economy

General Comments

The June 2009 session produced a slightly reduced entry to that of January 2009. The general text of this question paper was very straightforward and easy to follow. The paper covered a wide range of relevant macroeconomic principles and up to date practical application. Questions tested a wide spectrum of the specification as well as combining an appropriate balance of knowledge, analysis and evaluation.

Overall there were relatively few candidates who appeared to find this paper overly challenging. There was no indication of any problems regarding the appropriate use of time management skills and very few instances of candidates failing to attempt all of the questions. Although there was evidence of weaknesses regarding language and communication.

Perhaps the main concern would relate to candidates not recognising and acting upon key command words. This was particularly apparent in relation to answers provided to questions (b) and (f). Candidates frequently gave information rather than using information to make an assessment, as required in question (b). Similarly few candidates actually 'commented on' question (f) but simply provided some explanation without any corresponding evaluative comment.

Like January 2009, marks varied more between Centres rather than within particular Centres. Questions (c) (i) and (c) (ii) as well as (e) (i) were answered most effectively, questions (b) and (f) least effectively.

Comments on Individual Questions

- (a)** This was a very straightforward question covering a mainstream part of the syllabus, however, a significant number of responses were incorrect. In some cases it appeared that many Candidates could not distinguish between a 'budget deficit' and a 'balance of trade deficit'.
- (b) (i)** This question required an ability to use data to assess economic performance. It was rare for candidates to be awarded the full five marks. The key command word 'assess' did not seem to have registered with regard to candidates subsequent responses. Centres should ensure that candidates are made aware that simply restating information taken directly from the data is not 'assessing'. A few noted that there were a number of major omissions which made the use of this data alone insufficient to make any clear conclusion.
- (c) (i)** The overwhelming majority gained both marks for this question.
- (ii)** It was clear that candidates had been well prepared for a question of this nature and it was pleasing to note that the majority gained the full four marks available. Exchange rate depreciation and the imposition of tariffs were the most frequently used explanations.
- (d) (i)** Most were familiar with the required AMD formula and therefore most gained both marks. Occasionally candidates did gain just one mark and this was invariably down to simple arithmetic error.

- (ii) Diagrams were usually accurate and clearly labelled. It was clear that many Centres had prepared their candidates well in this respect. As a result many gained five out of five marks for the diagram. Unfortunately many supporting explanations did not focus on the key requirement relating to understanding the impact of an increase in aggregate demand on real GDP when operating at a full employment level of output.
- (e)
 - (i) This was a relatively straightforward question and this was reflected by the significantly large number of correct responses.
 - (ii) Many candidates did gain both marks for this question although some failed to refer to evidence in the passage. This reinforces the need to read each part of each question carefully before responding.
- (f) There were a number of disappointing responses to this question. The average mark for this question was around 3 or 4 out of a possible 7. Most recognised that profits and investment would rise and that investment is frequently financed out of retained profits. Few introduced any more than the most cursory evaluative comment. Even basic comments stating that the effect would depend upon the size of the tax cut were not in any great evidence. Better candidates proceeded to raise other key issues relating to Business confidence, the current state of the economy or expectations.
- (g) This question was based on the topic of unemployment which, as well as being well known to candidates is currently a key macroeconomic issue. This undoubtedly helped candidates to provide some well informed, clearly structured responses. Also this question worked extremely well in relation to providing an appropriate degree of discrimination. Marks gained ranged from basic knowledge relating to definitions of unemployment through to some excellent detailed evaluative responses. To some extent this question allowed students to compensate for weaker responses to questions (b) and (f). Level three responses were often gained because students were able to link a fall in unemployment to an increase in disposable income, an increase in aggregate demand and ultimately an increase in output. Good candidates were able to build upon this basic analysis and raise issues suggesting that the outcome might not always be positive. The potential risks associated with the possibility of causing demand pull inflation were the most popular evaluation point. Although some proceeded to recognise the potential Balance of Trade problems and the need to be aware that some types of unemployment were more significant than others by suggesting that reducing structural unemployment would have more beneficial effects in the long run rather than frictional unemployment.

2884 Economics of Work and Leisure

General Comments

The candidate entry was considerably increased on that for 2008, to over 2000 for the first time. There was no evidence of any serious time constraint affecting candidates. Hardly any candidates infringed the rubric, and the general quality of written communication seemed to be in line with that in the recent past.

The data for Question 1 did not seem to cause candidates any difficulty, and it was again encouraging that there were fewer instances than has sometimes been the case of candidates allocating their time unwisely in answering the different parts of Question 1. It should also be said that the central topic of the data – employment, earnings and productivity in different EU economies – seemed to be one relating to which candidates showed considerable general awareness and to which they were able to apply economic understanding quite impressively. However, in spite of the attempt to help the candidates with the notes to Fig. 2, there was a significant amount of misunderstanding of the concept of productivity; many candidates seemed unaware that there is a distinction between productivity and total production.

The essays in Section B attracted rather uneven numbers of candidates, with Questions 2 & 4 being much more popular than Question 3. The most encouraging aspect of the majority of candidates' essays was that they again seemed to have grasped to a greater extent than used to be the case what was required of them when they structured an answer to the part (b) questions; it seems that "discuss" is now quite well understood. Unfortunately, this improvement was balanced to some extent by a rather mechanistic approach by quite a number of candidates in their answers to part (b) of essays; two sides of the issue were mentioned in such answers, without any real attempt being made to address the specific question being asked; these answers tended not to gain more than 12 out of the 15 available. However, it should also be said that there were also a significant number of answers at the top end, which showed excellent grasp of relevant Economics in (a), and were able to apply this understanding impressively in (b).

Comments on Individual Questions

- 1 **(a)** In (i), most candidates were able to identify two genuine differences between the labour markets in the UK and France, using the data in Table 1. Part (ii), however, caused more difficulty. Most answers identified the relatively low employment rate in Italy as a concern, though quite a number failed to explain the nature of the concern. There was more variability in candidates' ability to identify a second area of concern. Many made unjustified assertions – for example that Italy had 'too few employed in the tertiary sector', without giving any, or at least any convincing, explanation as to why this might be regarded as a 'concern'. The better answers, though, tended to identify the relatively high percentage employed in the secondary sector in Italy as a concern, with this being explained with reference to strong competition from China, etc. in this sector in particular.

- (b) These two questions together differentiated quite well between candidates. The best were able to explain an expectation of a direct relationship between productivity and earnings quite convincingly for (i), and then to identify the fact that the data in Fig. 2 was generally consistent with such an expectation, although with a few anomalous cases. Their explanation in (i) often used the concept of MRP of labour, as was appropriate. However, only a small number of answers attempted to explain why the anomalies might have occurred in their answers to part (ii). Further, a number of answers failed to make the important overall point about the link between productivity and earnings in general because they attempted to concentrate on making points about differences between the three 'sectors' – primary, secondary and tertiary. For example, such answers tended to make simplistic statements in (i) about tertiary sector workers being more skilled, therefore more productive, and perhaps earning more as a result, than workers in primary and secondary industries. Sometimes candidates then compounded their problems by having relatively little of relevance to say in part (ii).
- (c) Most answers were quite convincing in their arguments about the potential benefits of a significant increase in UK spending on skills training, and there were many Candidates who successfully identified and explained some possible areas of difficulty for such an increase to take place. Disappointingly, though, given that this is a data response question, only a small minority of Candidates made any relevant reference in their answer to the data provided.
- 2 The answers to part (a) fell into three distinct categories. The weakest demonstrated by their examples that they had no understanding of elasticity of supply relating to responsiveness of supply to a change in occupations' wage levels. Better were the many answers which identified relevant factors – often skill levels and/or extent of training required, sometimes non-pecuniary net advantages – and linked them to different occupations, though without quite then making appropriate links to the implications for elasticity of supply. The best, however, showed good such linkages, and often also considered the implications of the time period for values of elasticity of supply of labour.
- (b) In (b), most answers made some relevant points, though again there was considerable variation in quality. The weakest tended to confuse elasticity of demand with elasticity of supply, and so were not able to get very far. Many others associated wage differentials with differences in supply, rather than in elasticities; they gained credit for relevant points made, especially when they also – as many did – 'discuss' by explaining other factors which influence wage differentials. The most common such 'other factor' referred to was different levels of demand, which of course was perfectly valid. However, only the best answers actually attempted to respond to the 'extent to which' aspect of the question; this was required for an answer to be awarded more than 12 marks.
- 3 As has already been said, this was the least popular question in Section B. Among those who did attempt it, several were very unwise to do so, since their answer to (b) demonstrated complete failure to understand the concept of contestability, generally regarding it as synonymous with competition.

- (a) Only the very weakest failed to interpret 'monopolistic competition' correctly, although some used incorrect diagrams, and others confused short-run and long-run equilibrium positions. The main weakness, though, among those who answered this question reasonably well, was a failure to respond explicitly to the instruction to explain differences in price and output; thus quite a number produced entirely correct diagrams to illustrate the difference between short- and long-run positions, and also gave accurate explanations of why the diagrams were appropriate, but then failed either to identify or to explain the actual price and output differences.
- (b) The average quality of answer was rather disappointing, though of course there were also a number of superb answers. The latter usually began with a clear, succinct explanation of the meaning of contestability, and then explained how in theory variation in the extent to which different markets are contestable is likely to influence the level of profit within them, both in the short-run and in the long-run. They then moved on to their choice of at least two leisure markets – usually, though not always, two from those identified in the 2884 specification – and considered both the extent to which each illustrates characteristics of contestability and their different profitability. Finally, they responded explicitly to the 'extent to which' aspect of the question, often, for example, by considering non-profit-maximising objectives in one of their chosen markets, or by referring to recent changes which have tended to change the degree of contestability, and perhaps profitability too, in at least one of their markets. Much less impressive were answers which ignored the instruction 'in different leisure markets', and wrote either an entirely theoretical answer or one which made some reference to one or more non-leisure markets. Equally, other disappointing answers tended to demonstrate decent knowledge of their chosen leisure markets, but failed to link their description of them to the issue of contestability at all. Better, but still not quite what was required, were those answers which chose just one leisure market, and explored both contestability and profitability within it.
- 4 This was slightly the most popular essay question, and again answers to (a) fell into distinct categories, as well as those to (b) again showing generally good understanding of the implications of the instruction word 'discuss'.
- (a) The weaker answers tended to identify and to explain examples – e.g. occupational and/or geographical immobility of labour, information failure, trade union activity – without any attempt to link them to labour market failure, having begun their answer by no, or an unconvincing, attempt actually to state or develop what 'labour market failure' is. The better answers both attempted an explanation of the meaning of labour market failure in general, and also then gave at least a couple of examples to illustrate, with, crucially, the nature of the labour market failure involved in each particular example clearly delineated.
- (b) Most candidates identified and explained the working of at least two relevant policies, and also made at least some effort to identify limitations/weaknesses of their policies, although the very weakest merely described policies, or chose policies that could not in even the most generous interpretation be regarded as ones which addressed labour market failure. However, what made the better answers stand out was that they made clear the nature of the labour market failure which their policies were attempting to tackle. Further, the very best answers also explicitly addressed the general issue which the question raised, regarding intervention to correct labour market failure and whether it causes more problems than it solves, at least based on the examples used; this was required for an answer to gain more than 12 marks in (b).

2885 Transport Economics

General Comments

Once again teachers and candidates appear to be confident with the specification and the assessment criteria, although there was much disparity in performance between centres.

There were again very few examples of rubric error and time constraint. It appears that the vast majority of candidates divide their time between sections although some would be better advised to think more carefully about the question set and write less.

Section A, in particular, discriminated well. There were many good responses with most candidates familiar with the content if not the context of the data. However, it proved a more difficult question for some than in previous sessions. The main issue was applying economic A2 concepts such as the problems of both assigning and using monetary values of externalities.

Question 4 was by far the most popular choice in Section B with roughly equal numbers attempting the other two essay questions. Most candidates were able to make evaluative comments in part (b) but many lacked specific focus on the question set.

Again it is pleasing to note that a good number of candidates used appropriate diagrams to support their analysis in essay work. On the whole they were incorporated in the text but candidates should aim for greater accuracy, particularly in explanation.

Comments on Individual Questions

- 1 (a) Most candidates were able to achieve two marks although the weaker candidates simply recycled the statistics and did not make a comparison of the changes in casualties.
- (b) (i) This part of the question was answered reasonably well by most candidates who were able to identify and explain two economic benefits of the road improvement. Reasons included improved access for local residents, reduced congestion for freight traffic and the increased benefit to walkers and cyclists. Some identified reasons but did not explain whilst a number of candidates referred to the reduction in serious accidents and the travelling time saved despite the fact that the question asked for two OTHER economic benefits of the road improvement.
- (ii) This question was answered disappointingly by a large number of candidates. Some did not grasp what was required and wrote about various possible reasons for the deaths, such as drunk driving. Most recognised that it was difficult to measure the value of life because there was not a market price. The best answers elaborated on this by giving specific examples of problems of assigning a monetary value.
- (b) (iii) This proved to be the most difficult question on the paper. Many candidates only considered the problem of averages and many gave vague answers and were unable to develop the concept of opportunity cost to explain the different valuations and/or appreciate how the data could be used in appraisal to deduce which road schemes should have priority.

- (c) Performance on this last question of Section A was similar to previous sessions with many candidates not attempting an informed judgement. However it did discriminate well. Some candidates wrote very general and superficial answers, others offered an entirely one-sided answer, usually arguing that the improvements to the road network were not enhancing sustainability. Most did attempt to look at both points of view. The better answers offered a considered judgement addressing the 'extent' to which improvements could be considered a move towards a more sustainable transport policy.
- 2 (a) Many weaker candidates attempted this question and although most had some idea of the concept of derived demand they did not give adequate examples or develop analytical links.
- (b) The use of subsidies, privatisation and deregulation was considered by candidates with varying degrees of success. Some only covered one policy, despite the fact that the question referred to policies, and this limited the mark that could be awarded. Some answers were rather descriptive in approach and while they demonstrated a good knowledge of the policies, they did not always use analysis or address the issue of 'effectiveness'.
- 3 (a) This question discriminated well. Many who attempted this question found the concept of contestability difficult to apply to efficiency. Many simply wrote about competition and only the most able candidates could link the threat of entry and its impact on different types of efficiency.
- (b) A number of candidates simply offered descriptive accounts of recent developments in the air passenger transport market, but they often did not go far enough in linking these developments to the concept of efficiency. Better responses covered both the short haul and long haul air passenger transport markets and/or the relevance of barriers to entry in order to consider the extent of the impact on efficiency.
- 4 (a) There were some good answers with most candidates able to demonstrate a sound knowledge and understanding of the concept of 'road user charging' with the support of an appropriate diagram. The better diagrams were those that showed a divergence between MPC and MSC, but some candidates instead used a more basic demand and supply diagram. Many used with a diagram but failed to achieve beyond 8 marks because they did not show exactly where the road user charge was. Some diagrams although drawn appeared to be only of cosmetic use.
- (b) Many candidates achieved high marks once they assessed the level charge required to correct market failure. However, many of these candidates failed to achieve much higher marks by not recognising that the charge needed to be variable and/or the costs of introducing the charge. There were many 'blanket' answers lacking focus on correcting market failure, covering a whole range of issues and only frequently made relevant to the question set. For example elasticity concepts were frequently used to explain why road user charging would not correct market failure. Although this was rewarded for analysis (and is accurate if considering the fall in road use and the extent of congestion), the value of PED is irrelevant in correcting market failure as long as the correct level of charge is applied, as the full social costs will now have been covered. Motorists are willing to pay such a high price as a result of the benefits they derive from using roads at peak times.

2886 Economics of Development

General Comments

In 1996, the first year of the Development option, there were 627 entries. By 2009, the last sitting before the new specification takes over, entries have risen to 4334. During this time candidates have shown a keen interest in development issues. They have improved their examination techniques, understood the importance of the directive words in the questions and have been able to show a sound mastery of higher skills. The ability to retain a relevant approach has also improved although there are always some who are determined to write about multinational companies. Often the data response section has presented the greater difficulty so it was pleasing to see the strong data handling and interpretation skills demonstrated on this occasion. There are now hardly any very weak entrants and all seem capable of offering some level of understanding of relevant material. The use of interesting and informative examples reflects the nature of the teachers' approaches.

An element which disappointed in this session was carelessness in reading the task set in the data response. Some candidates may be surprised to find that they identified the highest level of achievement when asked for the least and even offered the name of a region when asked for a Millennium Development Goal. Unfortunately they often answered their own question correctly but it was not the one set. Problems that persist are weak expression and barely legible handwriting.

As Principal Examiner for the whole life of the specification I trust that candidates have found the exams challenging and interesting and that they will continue to respond to development issues in the new specification.

Comments on Individual Questions

- 1 The data response concerned the achievement of the United Nations' Millennium Development Goals and the construction of the Human Development Index.
 - (a)
 - (i) This was done well. Candidates recognised the relevance of changes in real GDP per capita to the measurement of economic growth. Careless answers omitted the per capita element.
 - (ii) While most identified Southern Asia as the least developed region in 2002 only the stronger answers were able to apply rather than describe the data. The linkage between the indicators and the nature of development often earned the final mark.
 - (b) The most commonly cited influences were natural resources and government policies. While analysis of the influence was usually sound it was not always taken further to make a comment on or evaluation of the outcome. The case was made more clearly when there was an explicit contrast rather than the consideration of one region alone. Some candidates demonstrated extremely detailed knowledge of the regions in the data, Full marks were of course available to candidates who did not have specific regional knowledge. Some considered more than one influence, in which case the best was rewarded.

- (c) (i) For those who read the question carefully this proved to be a straightforward task. Although probably more accustomed to interpreting numerical data than textual to judge progress, candidates still made sound judgements. The best answers were also concise.
- (ii) In a way similar to that of (a) (ii), descriptive answers did not score maximum marks. While most opted for East Asia, some tried to make the case for South Eastern Asia. Many singled out the decline in access to improved water in urban areas as a significant indicator in reaching their decision.
- (iii) The first data response set in March 1996 was based on the Human Development Index. This session's answers illustrate both how far students' knowledge of the topic has advanced and how difficult it remains for teachers to get students to learn with precision. The latter comment refers to those who insist on attributing a much wider range of elements to the HDI than it actually contains. Against this were answers which gave the exact detail down to the use of purchasing power parity and the weighting of the education indicators. The answers by and large showed good knowledge of the composition of the HDI and the ability to discuss the appropriateness of the data for its construction. Weaknesses were that some candidates ignored Fig.2, that they finished with a vague 'all-weather' conclusion (it matches to an extent) or the question was treated as an invitation to discuss the adequacy of the HDI or the process of development. A final indicator of the extension of candidates' perspectives was reference to the data's greater suitability for the construction of the Human Poverty Index which would have been unlikely to appear in the first exam.

2 The limitations of Rostow's model and the relative importance of the different influences on development were the issues in this question.

- (a) Candidates were familiar with Rostow's model and understood its stages. However some treated it in a purely descriptive way and did not draw out the essential features. Limits such as its simplistic nature, its basis as a model of growth and its origin from western experience were known to candidates. A problem arose for some when in trying to explain the weaknesses of the mechanism of the model they really started to consider the problems which held back development and meant that developing countries did not move through Rostow's stages.
- (b) Economic forces of various sorts were analysed by most candidates. The stronger responses discussed these in association with the political and social influences stipulated in the specification. There were impressive answers which made reference to recent experience of developing economies. Natural influences also featured prominently, again with telling examples, and were given due credit. A feature of high-scoring responses was the ability to consider categories rather than simply examples of influences. A problem arose for some when they considered the role of government and had difficulty in distinguishing between economic and social motives for policy. The existence of government itself does not make an influence non-economic although the system of government may well be important. Those who considered either economic or non-economic influences alone gained limited credit. Arguments over whether economic growth was sufficient to promote development missed the central issue.

- 3** The question concentrated on macro-economic instability and the role of international organisations in promoting it within developing countries.
- (a)** Macro-economic indicators were known by virtually all who chose the question. They then were able to proceed to consider issues such as the structure of the economy and the competence of the government as underlying influences on the macro-economic state of the economy. While some restricted their answer to the level of performance, stronger answers highlighted the instability of the performance. The instability of the agriculture sector often appeared as a major element.
 - (b)** In some ways answers to this part had a clearer concentration on macro-economic instability than the previous part. There was evidence of familiarity with the recent operations of the IMF and World Bank. The consideration of the effectiveness of stabilisation policies and structural adjustment policies featured prominently. Candidates did less well when they were unable to go beyond the description of the policies. There were some answers which ignored or briefly dismissed the role of non-government organisations or confused them with multinational companies. The stress of some responses suggested confusion with the role of the World Trade Organisation. There were impressive answers which evaluated the actions of the different groups for short-run and long-run stability. Those who dealt with the three organisations as though they were all engaged in the same way were less successful.
- 4** The focus of the question was on employment within developing countries and policies of increasing fixed capital stock and improving human capital.
- (a)** A wide interpretation of the term 'employment situation' was acceptable. Most concentrated on the level of unemployment and primary sector employment while others considered underemployment and the informal sector. Smaller numbers dealt with employment by multinationals and levels of state employment. Any of these approaches was able to lead to an explanation of the impact on development. A surprising number wrote in terms of the effect on economic growth rather than development. The causes of the position were not required.
 - (b)** It was disappointing to see within the first paragraph of some answers that the candidates had selected a question where they did not know one of the central concepts in the title. This was usually human capital where some wrote about simply increasing the wage. For those who knew the terms accurately this proved to be a question where they could score high marks. There were well-structured answers which discussed the merits and drawbacks of the two approaches and took into account the different circumstances where a particular policy was appropriate. The drawbacks of increasing human capital tended to get the least attention. Again some responses aimed more at economic growth rather than economic development.

2887 The UK Economy

General Comments

As with the January paper, the June 2887 examination produced very few poor scripts overall. The paper seemed to work well; with on this occasion a fairly equal degree of accessibility displayed by the data section answers and the essay section responses. A common feature was for candidates to perform less well on one section only to redeem themselves on the other section, with no common pattern between the data and essay parts of the paper. That said, only a few candidates scored less than 40% of the raw mark score on part A and I estimate even fewer scored in single figures on the essay question.

What was apparent and pleasing in a number of cases, was the depth of applied knowledge displayed and used in the correct context, concerning the recent macroeconomic trends that the UK economy has experienced over the last 18 months. Candidates once more took better notice of the instructions contained within the questions set, a pleasing response to last year's report, and consequently better directed their answers to the question set. However, fewer candidates than in January were able to provide the Level 4 section (b) essay answers by offering rounded conclusions based on their analysis of the question. The number of candidates attempting this paper was in line with recent sittings.

The main focus of the data question was fiscal policy, a deliberate choice following the last paper. The better scoring scripts on this section of the paper once again were those written by candidates who carefully read the information provided, focused on the question set and combined their answers, when relevant, with a good knowledge of the recent macro-economic history of the UK.

The essay section offered candidates an opportunity to write about the international dimension of the UK economy, the distribution of income and wealth or inflation. Pleasingly the choice of essay to answer was much more evenly spread than in January. On the whole the standard of answer was quite variable but once again there were a pleasing number of high quality answers along with the less successful attempts. Section (a) of the essays often provided the opportunity for candidates to secure marks in the highest level. Section (b) answers were, as mentioned above, handicapped more by a lack of synthesis rather than analysis, as the main reason for failure to achieve the higher Level 4 scores.

Comments on Individual Questions

- 1 (a) (i) A surprising number of candidates failed to offer accurate explanations of the cycle and consequently scored only half the available marks. Also, some answers made no mention directly or indirectly of the cyclical pattern of the varying rates of economic growth experienced by the UK economy.
- (ii) The vast majority of candidates scored only one mark on this question as they did not pick up on the significance of the term current budget. Some confused this with the balance of payments and consequently gained no marks for their answers.

(b) The whole mark range was used in marking answers to this question, but more than expected chose to shift the aggregate demand curve in the wrong direction. This proved to be an action that reduced their possible maximum score to 2 marks out of the 4 available.

(c) Most candidates who scored well on this question tended to focus their answers on the benefits of borrowing only for capital investment purposes and the positive impact this can have on productivity, capacity and international competitiveness.

Only a few focused on the benefit of fiscal discipline and its consequent lack of burden for future generations.

(d) This was the first of the two questions in this section which called for candidates to display some ability to evaluate a given situation. The “Comment on” directive phrase being the clear signal that this skill would be tested. Only the better candidates were able to score maximum marks by offering answers that gave a judgement as to how well the fiscal rules were observed over the cycle.

(e) The final question on this section worked quite well in that it successfully discriminated between candidates who could give a one sided answer, those who offered a discussion and those who did so concluding their arguments with an appropriately evaluated judgement. The biggest stumbling block for many was to focus too much on the problems of accurate forecasting and make only scant reference to the possibility of successful forecasting especially during periods of economic stability.

Section B Essays

Question 2

This was probably the most popular choice of essay and on the whole was well answered in that the vast majority of candidates were able to write about the question in a relevant way.

(a) Candidates generally answered the first part of the question quite well, with very few scoring marks below the Level 2 range. The most common deficiency was a lack of analysis shown in candidate’s answers. Too many made assertions as to the influences that affect the current account of the balance of payments, but failed to offer some clear economic underpinning.

(b) This was also reasonably well answered with many students gaining marks in the level 4 range. The biggest problem here was candidate’s inability to fully and correctly analyse the process by which a depreciation of the currency would positively impact upon the balance of payments position. Lots of answers made reference to the key economic concept, the Marshall Lerner condition, but too many displayed a confused understanding of the theory. Consequently they failed to yield the mark return that was available from a good use of this vital instrument in the economist’s toolkit. Equally many made reference to the J-curve effect but again loose analysis produce a lower return than a well explained answer would secure.

Question 3

This was the least popular essay selection but only marginally so, and it did produce a number of excellent answers.

- (a) The focus of this question was on the measurement of income and wealth distribution. Unfortunately a considerable number of candidates chose to concentrate on measures of living standard rather than the question set. Better answers made good use of the Lorenz curve and Gini coefficient and some in addition made reference to deciles in a thoughtful and relevant manner.
- (b) In answer to this part of the question candidates were expected to cover a range of policies to address the problems of income and wealth distribution in the UK. These policies were to be clearly analysed using the economist's toolkit; then an evaluation should be made as to their ability to influence the distribution and the potential side effects of such steps. Many candidates successfully identified relevant policy steps that the government might take but once more were handicapped by poor explanation and analysis and made the perennial mistake of writing everything that they could think pertinent to the question rather than focusing on the actual point of the question.

Question 4

This was probably the second most popular essay choice, and again many candidates were able to score well on both parts of the question.

- (a) Economic circumstances have changed radically since the original setting of this question, but this did not appear to at all handicap the performance of the candidates. Many wrote about the common causes of inflationary pressure that the UK economy has faced over the past 10 years and scored the full range of marks for these appropriate responses. Others chose to focus on the very recent experience of the UK economy and direct their answers to the growing insignificance of inflationary pressures. This was an equally appropriate approach to take and again was rewarded the mark commensurate with the quality of answer offered.
- (b) This was the most challenging element of the essay section as it was inviting candidates to consider the whole range of macroeconomic policy issues. The quality of answer was in consequence wide ranging. However, some excellent responses were to be found. The better candidates were able to concisely explain how the control of inflation could set a solid foundation for the achievement of all the key policy goals, they then offered a discussion of circumstances when perhaps inflation as a target may be eclipsed by a more pressing short term problem such as unemployment or a balance of payments crisis. The highest Level 4 answers followed all this up with an evaluated conclusion as to the extent to which inflation was the most important goal.

2888 Economics in a European Context

General Comments

The last full sitting of the synoptic module attracted an entry of 5,279 Candidates, an increase of 16% over the same session last June. Resit opportunities will be available in January and June 2010.

Despite the increase in the mean mark over last June, the performance of Candidates was markedly variable, both between and within Centres. There was evidence of a good level of understanding of the pre-released stimulus material and real engagement with the issues. What distinguished candidate performance was the extent to which this understanding was developed using economic analysis previously studied at AS or in the optional A2 units. Weaker Candidates tended to paraphrase the stimulus material whereas the best related the issues to economic concepts and theories which they had encountered in their studies over the previous two years. So, the release of intervention stocks was analysed using demand supply analysis, the case for price controls set in the context of the regressive effects of food price inflation, the case for subsidies explained by reference to the characteristics of merit good and/or positive externalities and the effectiveness of pollution permits by reference to the nature of market failure and a comparison with other methods of internalising negative externalities. Data handling skills were less confident than in previous sessions, partly because of the reluctance to quantify trends in the data presented.

Overall, examiners were struck by the extent to which the performance of candidates was determined by the ability to focus on the requirements of the question set. Much interesting material was introduced by candidates, often of common origin, but what characterised the best responses was the ability to address the question set.

Comments on Individual Questions

- 1 **(a)** This question discriminated well, marks awarded covering the full range available. The weakest responses made no attempt to compare the world wholesale price of butter with that in the EU but instead compared prices between the two time periods. Some candidates who attempted comparisons did not always focus on the trend in prices, but instead engaged in month by month regurgitation of the data in Figs. 1.1 and 1.2. Given that prices were expressed in different currencies the mark scheme required some quantification in terms of percentage changes. This requirement was not always fulfilled by many candidates. Simple comparisons, often in bullet form, were able to score marks efficiently. For example, a statement that both prices were relatively stable during 2006 but that both fell in the first half of the year and increased from July would have been awarded 2 marks. Similarly, a clear statement that both prices increased in 2007 but that the EU price, unlike the world wholesale price, did not rise continuously could have gained two additional marks. Descriptions of the trend in farm input costs tended to describe changes in the price of feed wheat and fertiliser rather than stating that costs had risen. Valid quantifications of each input, however, were rewarded in the mark scheme. The ability to succinctly compare and describe economic data remains a skill that Centres need to enable candidates to develop.

- (b) Most candidates were able to score in Level 3 of the mark scheme by accurately drawing and labelling a demand and supply diagram showing a rightward shift of the supply curve, a fall in the equilibrium price, a rise in the equilibrium quantity bought and sold and a simply descriptive statement of what was shown in the diagram. Frequently, candidates then digressed into an analysis of why the release of EU intervention stocks did not have the anticipated effect on the market for butter in the EU. Given the focus on the question this analysis could not be rewarded, although some of it was exemplary. What was required for the highest marks on Level 3 of the mark scheme was either an analytical explanation of the mechanism by which the market price and equilibrium quantity might be expected to change or an explanation of the significance of the price elasticity of demand of butter in terms of the changes in market price and quantity. This was rarely seen, perhaps because candidates had focused on the broader issues in their preparation of the stimulus material. It is worth recording that the term 'elasticity' tends to be used rather vaguely by candidates – a statement that the demand for butter is inelastic lacks precision and could refer to price or income elasticity of demand. In addition, analysis of the price elasticity issue requires some consideration of cause and consequence which was not always offered by candidates going beyond the basic Level 3 response.

- 2 This question required candidates to explain analytically the reasons why governments might set limits on market prices and then comment on the case for such government intervention. Many candidates did not appreciate this requirement and, instead, merely stated the reasons for intervention before analysing the problems of maximum prices such as those on foodstuffs in Russia. Such responses could only be awarded marks in Level 3 of the mark scheme because of the one-sided nature of the analysis offered. Statements such as that price controls were introduced to help low income families or to control inflation simply applied the material in Extract 3 and offered no analytical development. In comparison, better candidates were able to explain the regressive impact of rising food prices due to the larger percentage of expenditure on foodstuffs by low income households or the inflationary impacts as a result of the composition of the price index. Other valid approaches included the adverse impacts of inflation on resource allocation, investment incentives, income and wealth distribution and competitiveness although this kind of analysis was rare. Analysis of the impact of price controls on the market food was generally well developed, although for some candidates the focus tended to be rather narrow – mainly concerning the excess demand identified from a diagrammatic analysis of maximum price controls. Issues related to changes in consumer surplus were not handled accurately, confusing the fact of a lower price with the limit on consumption resulting from a reduction in the quantity supplied to the market. There was, however, some good analysis of the implications for rationing and black markets.

- 3 As with Question 2, discrimination related to the extent that the case for subsidies to encourage the production of 'energy crops' was considered analytically rather than descriptively. Without analysis of the case for such subsidies, candidates were only able to be awarded marks in Level 3 of the mark scheme. Better candidates went beyond the stimulus material to explain that the case for subsidies could be made if 'energy crops' were merit goods or generated positive externalities. The distinction between the two justifications was not always accurate. Merit goods were often seen as exhibiting positive externalities when, in fact, they are best viewed as being subject to information failure. This distinction was not a substantive issue in the marking of scripts, but it might be an issue which Centres reflect upon in the teaching of market failure. The best responses were able to show how, if the social benefits of 'energy crops' exceeded the private benefits subsidies to farmers could be justified economically. The mark scheme allowed other justifications of subsidies including the analysis of issues related to farm/rural incomes, non-renewable resources or to the mechanics of how subsidies would encourage production. Analysis of the problems of subsidies was generally covered well and tended to focus on the impact of re-allocating resources away from the production of food in terms of reduced supply and consequently higher food prices, the possible negative externalities from the production of 'energy crops' and the opportunity costs of expenditure on subsidies by the EU. In marking responses, examiners were conscious of the extent to which candidates analysed the issues on both sides of the case as opposed to simply paraphrasing the extract material – without it, much of what Candidates write could be considered general knowledge.
- 4 This question elicited some excellent analysis of the advantages and disadvantages of pollution permits. The best Candidates set this in the context of the correction of market failure created by negative externalities, explaining clearly how pollution permits increased the cost of production for some firms thereby internalising external costs leading to a more allocatively efficient allocation of resources. This was done by explaining the nature of market failure in terms of over-production and under-pricing. Weaker responses tended to pay little attention to this aspect of the question and, consequently, were awarded marks at the lower end of Level 4 of the mark scheme. Within Level 4 examiners made a distinction between responses which discussed the effectiveness of pollution permits in tackling market failure and those responses which made judgements on the issues raised. Supported judgements were awarded marks in Band 2 of the mark scheme and exhibited an ability to assess the effectiveness of pollution permits. It was not necessary for this to be done by comparison with other methods of correcting market failure, but this was an approach taken by some of the best responses. Others mentioned alternative approaches but did not make the comparative assessment which characterised the responses of the strongest candidates. Weaker candidates showed some confusion about the mechanics of pollution permits. Such responses believed that, under the ETS, permits were sold or auctioned to firms by the EU and focused entirely on the allocation of permits or believed that the EU was responsible for the price of permits. Nevertheless, there was some good commentary on the impact of the global recession on the market price of permits. Stronger responses made much of this by comparison to the taxation of emissions which would provide a more consistent incentive to reduce carbon emissions. As in Questions 2 and 3, descriptive and narrative treatment of the issues resulted in Candidates being awarded marks in Level 2 of the mark scheme, though examiners were able to credit analysis of one point with a Level 3 mark.

Grade Thresholds

Advanced GCE Economics (3812/7812))
June 2009 Examination Series

Unit Threshold Marks

Unit		Maximum Mark	A	B	C	D	E	U
2881	Raw	45	33	30	27	24	22	0
	UMS	90	72	63	54	45	36	0
2882	Raw	45	35	31	27	23	20	0
	UMS	90	72	63	54	45	36	0
2883	Raw	45	34	30	27	24	21	0
	UMS	120	96	84	72	60	48	0
2884	Raw	45	29	26	23	20	18	0
	UMS	90	72	63	54	45	36	0
2885	Raw	45	31	28	25	23	21	0
	UMS	90	72	63	54	45	36	0
2886	Raw	45	33	29	26	23	20	0
	UMS	90	72	63	54	45	36	0
2887	Raw	45	28	25	22	19	17	0
	UMS	90	72	63	54	45	36	0
2888	Raw	60	46	41	36	31	27	0
	UMS	120	96	84	72	60	48	0

Specification Aggregation Results

Overall threshold marks in UMS (ie after conversion of raw marks to uniform marks)

	Maximum Mark	A	B	C	D	E	U
3812	300	240	210	180	150	120	0
7812	600	480	420	360	300	240	0

The cumulative percentage of candidates awarded each grade was as follows:

	A	B	C	D	E	U	Total Number of Candidates
3812	37.5	63.1	81.8	92.8	98.5	100.0	1912
7812	34.5	63.1	82.5	93.9	99.1	100.0	6216

8128 candidates aggregated this series

For a description of how UMS marks are calculated see:

http://www.ocr.org.uk/learners/ums_results.html

Statistics are correct at the time of publication.

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