GCE

Economics

Advanced GCE **A2 H461**

Advanced Subsidiary GCE **AS H061**

Examiners' Reports

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Advanced GCE Economics (H461)

Advanced Subsidiary GCE Economics (H061)

EXAMINERS' REPORTS

F581 Markets in Action

General Comments

This examination was taken by around 9000 candidates, the same entry as in June 2010.

The general format of the question paper was the same as in previous examinations, namely 36 marks for questions drawn from the first two sections of the specification and 24 marks for questions 6 and 7 drawn from the section on market failures and government intervention.

The case study was drawn from an article in the International Herald Tribune, with some additional material to cover other parts of the specification. The context was well understood and proved to be an interesting and accessible example of a market in action. Questions 3 and 6 drew upon parts of the specification from which questions had not previously been asked on this particular unit. Elsewhere, the questions were similar to those asked previously, although the focus and context were different.

The overall performance of the candidates was pleasing, particularly at the top end where there were some well structured essays on the extent to which subsidies might encourage the consumption of a good that generates positive externalities. More candidates than in previous examinations reached Level 4 on this question. However, there was still a tendency for prior-learned material of little or no relevance to be included in some answers.

Having said this, the weaknesses concerning questions with a 'comment' directive word were still very much in evidence in the answers to questions 2(b) and 4(b). These questions carried seven AO4 marks, with many seemingly able candidates struggling to appreciate what was required. This remains the main area requiring improvement.

The overall focus of the case study and questions was on the supply side of a market. Some candidates seem less at ease with this than when the focus is on demand.

Finally, it is very pleasing to record that most candidates appear to have grasped some, if not all, of the basic principles of how markets work and why markets fail. Teachers of the specification deserve credit for the way in which they have provided inspiration to many of their students.

Comments on Individual Questions

1   This was a straightforward opening question on factors of production. Most candidates scored four marks. By far the most common responses were in terms of 'land' and 'labour'. Some candidates struggled to give an example of land in this context, although, as the mark scheme indicates, examiners were asked to take a broad interpretation. Correct answers had to say rather more than just 'land'. Reference to farms on which tea is grown was accepted. Only a minority of candidates gave the technically correct answer of soil or tea bushes.

2   (a)   This part of the question was well answered, with most candidates scoring three or four marks. Not all candidates were able to illustrate the changes correctly – a lack of annotation on the axes or on the PPC itself was the main problem. No marks were given to the small number of answers where candidates did not to label the axes correctly.

(b)   This was a slightly different style of question compared to those set in previous examinations. Four marks were available for a correct diagram. There were three main aspects which prevented marks being awarded:

- not drawing an inelastic supply curve, in which case a maximum of three diagram marks was awarded

- an over-complication of the diagram by also shifting S or multiple shifts of D

- much more significantly, to explain what the diagram showed and to ignore making a comment on the extent to which an increase in demand might cause price to rise. This was not the question.

Those candidates who did comment invariably did not provide much of an elaboration in their answers. So, an unexplained statement that the rise in price depends on the extent of shift of D or on the price of elasticity of supply was awarded just one mark for each point. Only a small number of candidates scored full marks on this part of the question.

3   (a)   This was a new question with very variable responses. Some candidates confused allocative efficiency with productive efficiency. Others referred to the allocation of resources best matching production to customer satisfaction. Many candidates answered quite coherently in terms of 'maximising consumer satisfaction' or 'where consumer welfare is maximised' and gained two marks. A very small number of candidates correctly stated 'where price equals marginal cost'.

      (b)   This was an interesting question with much evidence in the case study that the market was not working efficiently. Although achieving full marks was not common, most candidates were able to identify at least one of the four examples of market inefficiency. Where the point was developed and finally linked to inefficiency, then four marks were awarded.

The question referred to 'efficiency' and not just allocative efficiency. A few observant candidates noted this and stated that there was no evidence of productive inefficiency. This point was credited.

4   (a)   This part of the question was generally well answered, although around one in three candidates just referred to 'supply' and not the 'quantity supplied' in their definition or formula. One mark was awarded in these cases. There were a small number of answers where the order of change was reversed – these gained no marks.

      (b)   This was the same style of question as asked in the January 2011 paper. The calculations and interpretation aspect was generally well done, with only a small number of incorrect calculations. Most candidates very clearly saw that supply changed from being price inelastic to price elastic. The comment part, however, was not well answered. A common error was to confuse price elasticity of supply with price elasticity of demand and, therefore, to consider the revenue implications for producers. Very few candidates recognised that the data had little or no relevance due to the nature of supply in the market. Most candidates who scored comment marks did so for commenting on the unreliability of the data estimates. The second part of this question was difficult, hence a modal mark of four.

5   (a)   Most candidates understood the concept, although their definitions were often not well expressed. Some answers did not recognise that producer surplus could only apply where the producer's price was above (and not below) the price which was acceptable. A common error was to see producer surplus in terms of over-supply.

(b)   Answers to this part of the question were very varied with few candidates gaining all four marks. Although most diagrams included a supply curve of some form, the identification of producer surplus was often wrong. Of those who were on the right lines, the new producer surplus and the change in consumer surplus were often indicated correctly, but there was no recognition of the original producer surplus. All three, along with the supply curve, were required for four marks.

6   (a)   This 'new' question was mostly well answered. In some cases though the 'benefit' aspect was lacking; the further use of 'positive' as an alternative to 'benefit' was not credited. The 'third party' aspect was usually recognised either explicitly or implicitly through a recognition that a positive externality occurs where social benefits are greater than private benefits.

    (b)   A common error in the responses to this part of the question was to see the private benefits (of drinking more pu'er tea) as a positive externality, which is incorrect. Having set out like this, many answers then went on to recognise the positive externalities for the health system or the economy through there being healthier people who were more productive. Cost savings to the health service and the opportunity cost of being able to divert funds to, say, education were relevant elaborations.

        Only a small number of answers recognised the spill over effects on the local economy as being a positive externality. One-off answers included less pollution as tea growers were not able to run their cars, less crowded cafés and less trees being felled to make wooden coffins as people were living longer.

7   The general view of the examiners was that the performance of candidates on this question was better than in previous sessions. Most candidates managed some form of analysis; this was usually in the form of a simple yet explained diagram showing the effects of a subsidy on the market in the form of a shift to the right of the supply curve. Given the question, this simple analysis had to then be extended to explicitly show the effects on the consumption of a product which generated positive externalities. Where this link was not made, then a maximum of ten marks could be awarded.

8   Once the link with increased consumption was recognised, most answers then produced a variable discussion of the case for and against subsidies. The best answers focused on consumption issues. For 16+ marks, some overall evaluation was required. A very relevant way in which this was achieved was through a consideration of alternatives to subsidies. The provision of information, given information failure, was a common way in which candidates were able to progress to the 'EE' (effective evaluation) level.

Although the question referred to positive externalities, an analysis of positive externalities in terms of MPB and MSB was not required. Some candidates who attempted this shifted the MSB line to right, increasing market price along with consumption. This of course is not the same effect as a subsidy which is designed to lower prices. Other irrelevant content was to analyse the effects of indirect taxation on de-merit goods.

F582 The National and International Economy

General Comments

The number of candidates sitting the examination continues to rise. This session there were more than 13,000 candidates. These candidates produced a wide range of responses. The strongest answers interpreted the questions correctly, examined and applied the information in the case study carefully and made good use of relevant economics.

Generally candidates coped well with questions 1(a), 1(b) and 7, but a number struggled with questions 3(a), 4(a), 4(b), 5(b) and 6.

Comments on Individual Questions

1 (a) This part of the question was usually well answered although a small number of candidates got somewhat sidetracked into distinguishing between free trade and protectionism.

(b) Again, this part of the question was generally well answered. A number of candidates, however, identified an embargo which does not appear in the case study and a few, inexplicably, referred to fiscal and monetary policy.

2 (a) There was a mixed performance on this part of the question. Some candidates provided a clear and relevant definition of the term, whilst others struggled. Two common confusions were that GDP is the amount of money in the country and GDP per head is GDP divided by the number of workers in the country.

(b) A relatively high proportion of candidates provided relatively clear descriptions of two relevant economic costs, but did not provide sufficient depth of description. The question revealed that a significant number of candidates appeared to think that an increase in aggregate demand (AD) is synonymous with economic growth. Commonly, answers considered that, if there was an increase in AD when the economy is operating at full capacity, then there would be inflation without recognising that, in such a circumstance, economic growth would not be occurring. Stronger answers recognised that inflation might be a problem if AD increases more rapidly than aggregate supply (AS)/if economic growth results from an increase in AD occurring on the inelastic part of the AS curve/when full capacity is being approached. Some candidates described inflation as both the first and second cost and a few wrote about the benefits of economic growth. There were, however, some strong answers often focusing on demand-pull inflation explained in a relevant way and the possible detrimental environmental effects of rapid economic growth.

3 (a) This part of the question required careful reading of the case study. A number of candidates misinterpreted 'growth in spending by households started to slow' as a decline in consumer expenditure. Some focused on the latter part of the first decade of the 21st century rather than the early part. Others confused what happened in the United States with what occurred in Argentina.

(b) There were some good answers to this part of the question which recognised that a change in consumer expenditure would have an impact on the ability and willingness of firms to invest. However, a number of candidates appeared to confuse investment and saving.

4   (a)   As in some previous sessions, a number of candidates confused a fall in the inflation rate with a fall in the price level. Candidates need to be careful about interpreting both changes in inflation rates and economic growth rates.

    (b)   A relatively high number of responses were unable to include and apply economic knowledge and understanding. They wrote that the budget balance in Argentina went from a positive to a negative and the US's negative balance got larger without recognising that Argentina's budget balance went from a surplus to a deficit, whilst the US's budget deficit got larger. A few candidates referred to a trade deficit.

    (c)   This part of the question was generally well answered with some perceptive remarks. A number of candidates, however, confused the ILO measure with the claimant count.

5   (a)   Most candidates coped reasonably well with this part of the question, linking higher consumer expenditure with demand-pull inflation. Not many candidates, however, picked up on the rise in the income tax rate imposed on high earners.

    (b)   Unfortunately, a number of candidates confused a budget deficit with a trade deficit. Some sought to evaluate without any relevant analytical underpinning. Among those who interpreted the question correctly, there was a wide range of responses. The strongest answers analysed the possible effects on tax revenue in both the short run and long run and commented on the factors which might influence how a cut in tax rates would affect the budget balance.

6   Again, there was a wide range of responses to this part of the question. Some candidates made excellent use of AD/AS analysis to examine why the policy objectives might conflict by focusing on demand-side measures and their possible outcomes. They then went on to discuss the circumstances in which the measures might not conflict in the short run and how supply-side policies might enable both objectives to be achieved in the long run. A Phillips Curve was not expected, but a number of candidates drew one, only a few of whom made good use of it.

7   Generally, this question was well answered with a relatively high proportion of candidates providing clear analysis and relevant evaluation. Not all candidates, however, analysed why a lower interest rate would be expected to increase aggregate demand, whilst others did not analyse how higher AD may result in economic growth. Many candidates examined the effect of higher investment on AD but not all recognised that it would also have an impact on AS.

There were a pleasing number of answers which provided a good width of evaluation but sufficient depth was more commonly lacking. For instance, a number of candidates wrote that there would be a time lag involved without examining why this would occur and the implications of the delay.

Many candidates commented on how other policy measures might stimulate economic growth but only a small proportion discussed why these might be more effective than a reduction in the rate of interest.

F583 Economics of Work and Leisure

General Comments

The fourth sitting of the Economics of Work and Leisure unit attracted a candidature of over 2000 candidates with a number of them taking this unit for the second time. Candidates appeared to manage their time much better than in previous sessions with a reduction in the performance gap between sections A and B. Despite an overall increase in the quality of responses due to the increased availability of past paper materials and of teachers reading reports such as this, there still remain some gaps in subject knowledge. Whereas candidates were more confident in demonstrating some sophisticated evaluative discussions and acting on the directive word of the question, a disappointing number were unable to provide basic definitions nor handle and interpret simple data. Certain things need to be reinforced within the classroom. For example, despite being commented on in previous reports, productivity is not the same as production. Nor are wage rates the same as wage costs, or unit labour costs the same as average costs. Candidates who are able to accurately interpret the directive word and then recognise the content required by the question are likely to achieve a good mark.

Comments on Individual Questions

1 (a) This proved to be a straight forward knowledge based question and many candidates scored both marks. However, a common approach was to rely on relationships between AC and AR rather than define the concept, particularly in case of normal profit.

(b) (i) This part of the question proved to be far more problematic for candidates than had been expected. Incorrect calculations of a percentage change for the Championship created weak answers, and some responses did not include a calculation altogether. The level of wages and change in wages was often confused. However, it was pleasing to see that some candidates could do this quickly and efficiently.

(ii) As stated in the general comments above, candidates need to be able to identify the content required by the question. This was evident in this part of the question where many candidates did not grasp the focus of wage costs. This led to a disappointing set of responses with the majority of them simply looking at supply and demand factors which impacted on wage rates but not going on to relate these to wage costs. Partial credit was given for such an approach.

(c) The responses to this part of the question were pleasing in so far as that more candidates acted upon the directive word of 'command'. As a result, more candidates, who commented on both profit maximisation and alternative theories, were able to access the higher marks than in previous sessions. Information from case study was interpreted in a variety of ways and was used well.

(d) (i) This part of the question was generally well answered. However, a significant number of candidates continue to demonstrate confusion between monopoly and monopolistic competition.

(ii) Despite the occasional candidate confusing monopolistic with monopoly, the majority were able to discuss the market in terms of different market structures. Better responses focused more on the discussion element and clearly used the concepts of sub markets and dependant factors to go beyond basic factors such as number of firms and barriers to entry.

2   (a)   Despite being the least popular essay selected, there were a number of pleasing responses. Those candidates who recognised the difference between productivity and production were able to produce some excellent answers using both prose and numerical development. Unfortunately, a significant number of candidates did not recognise the difference and offered little more than some basic demonstration of subject knowledge.

     (b)   There were many excellent responses to this part of the question with many candidates offering sound evaluative discussion underpinned by good economic analysis. It was pleasing to see candidates adopting a two sided approach, introducing relevant macroeconomic considerations, such as the exchange rate, in addition to the relevance of non-price factors, such as the availability or quality of the goods/services that might be traded.

3   (a)   This was the first occasion on which the supply of labour has been explicitly examined and this proved to be a popular question with candidates. A very pleasing number analysed the question through the backwards sloping supply curve for labour in the short run and made clear references to both the income and substitution effects. It was, however, disappointing to see only a limited group make reference to the importance of the relative size of the positive substitution effect and negative income effect.

     (b)   This question provided a number of interesting responses, with the majority of the candidates offering discussion by considering the relative importance of various non-pecuniary factors. The very best answers went on to build on this in order to discuss the idea that pecuniary factors were more likely to be important so long as people needed to go to work. Many candidates referred to the relevance of long summer holidays and attractive pensions as affecting the supply of labour to the teaching profession.

4   (a)   This was another popular question which enabled candidates to demonstrate a quite sophisticated understanding of labour market failure. A pleasing number of candidates were able to provide good analytical development of two market failures and the immediate consequences. Candidates are reminded to read the question carefully, as a number offered more than two examples, whilst some did not consider the consequences.

     (b)   Candidates responded well to the invitation to consider the wider consequences of labour market failure and included several appropriate macroeconomic concepts in their discussion. There was a broad interpretation of a two sided approach and it was encouraging to see some very good and interesting evaluative points being made.

F584 Transport Economics

General Comments

With this being the fourth occasion on which the new Transport Economics specification was sat, it is pleasing to see that candidates were very well prepared for the examination, particularly with respect to the use of command words on different questions. Many of the scripts which were produced were of an extremely high standard and centres should be congratulated on their students' performance on this paper.

Overall, just under 2400 candidates sat the paper and, as with past sittings, there seemed to be little difficulty with timing with many responses being incredibly detailed.

Comments on Individual Questions

Question 1

As is now the practice, the data question combined text with data. Only a small number of candidates made the mistake of referring to the text when reference to the data table had been specifically required on one of the questions.

(a)   Whilst the majority of candidates were clearly well versed with the textbook definition of sustainability, fewer were able to apply this to transport. This was most easily done by referring to a relevant transport policy which could be deemed to be sustainable, such as road pricing.

(b)   This part of the question was very well answered with the clear majority of responses gaining both marks for accurately interpreting Fig 1. Only a small number of candidates did not focus on the data, instead referring to the passage which was not needed.

(c)   (i)   The majority of responses to this part of the question gained at least two marks through being able to correctly identify two factors which the government would take into account when forecasting the future demand for road use. That said, only a minority of candidates went on to gain full marks as most did not explain why that factor would be relevant. In some cases, responses simply stated that increased population or income would raise the demand for road use without explaining why. Clearly such responses were unable to gain more than half marks. Better answers to this part of the question developed the concept of derived demand in explaining why higher incomes would increase demand for road transport or considered how increased population figures may well increase the demand for cars.

        (ii)   In contrast to the previous question on forecasting, this part of the question was less well answered. In some cases, responses developed the same point twice (for example, illustrating the issue of uncertainty) and, therefore, gained a maximum of two marks. Better responses often looked at uncertainty issues and then went on to develop the problems of data collection and how such forecasts could be flawed as a result of errors in sampling techniques.

(d)   (i)   The majority of candidates gained two marks on this part of the question for a clear, accurate, well labelled diagram. In only a small number of cases were marks lost on the diagram for labels not being fully completed. The penultimate part of the data question is regularly a comment question and it was a significant surprise that so many candidates did not 'comment' on the impact of subsidies, as the question required. Where this key work was ignored, a maximum of two marks was gained on

this part of the question. Centres would be well advised to remind their candidates of the importance of addressing this command word. In contrast, it appears that candidates were well versed in responding to the word 'discuss'.

(ii)   Whilst there were some excellent responses to this part of the question, a small minority of candidates discussed the impact of growth in the private sector. Where such an approach was taken then a maximum of three marks was awarded for analysing why the private sector was good or bad. The better answers to this part of the question were able to justify the growth of the public sector with reference to the natural monopoly argument, often developing economies of scale with reference to productive efficiency gains. A wide range of relevant points were accepted for evaluation, including possible diseconomies of scale, *X* inefficiency/possible complacency, lack of profit maximising motive and lack of competitive pressures.

Question 2

(a)   With around a third of candidates answering this question, this was the second most popular essay question on the paper. The majority of candidates gained a Level 3 response to this part of the question for introducing some relevant analysis. The most basic statement – that low barriers to entry enabled firms to enter the market and, therefore, led to increased competition – gained nine marks. In order to gain full marks, candidates were required to apply two barriers in a transport context and then analyse these in terms of restricting entry to the market and reducing competition levels. Overall, the responses to this part of the question were very pleasing.

(b)   In contrast to part (a), candidates often used this part of the question as an opportunity to describe the current state of the UK bus market without actually analysing whether or not the market is contestable. Candidates who took what was simply a descriptive approach to this question gained a maximum of four marks. Better responses looked at the situation post-deregulation and observed that the low legal barriers (the need to obtain a licence and to pass health and safety tests) meant that it was relatively easy for new firms to enter the market and, therefore, that the market was contestable. Such an answer gained a Level 3 mark. With an appropriate analysis of why the market may not be contestable (for example, brand loyalty and other barriers which make it harder for new firms to enter the market) candidates immediately reached a Level 4 mark for a direct, accurate response to the question set. Relevant judgement was often made with reference to the fact that the level of contestability in the bus market varies from one part of the country to another.

Question 3

(a)   This proved to be the most popular essay question with around 60% of candidates selecting this essay. For part (a), an accurate diagram alone would gain nine marks. Whilst some candidates were unable to distinguish between MSC/MPC and MSB, others did not completely label what was an accurate diagram. However, the vast majority of responses were able to identify several relevant externalities arising from the growth of air travel and a large number of these candidates were then able to analyse these by explaining who the third party was and what was the exact impact upon them. The best responses often developed the issue of noise pollution by looking at the impact on local residents who had to fit double glazing due to the noise from aircraft or the loss in value of house prices for those in the nearby area.

(b)   With two policy solutions provided here, candidates often reached Level 4 marks by analysing how taxation could be used and then analysing the limitations of this policy. Relevant diagrams were credited with analysis marks as long as these were referred to/explained in a very basic manner. Whilst candidates often produced very good analysis of taxation and the limitations of regulation, fewer were able to analyse how exactly

regulation could work in order to reduce the negative externalities arising from air transport which limited their mark in the Level 4 band.

Question 4

(a)   The few candidates who chose this question, for the most part, were able to answer it well. On part (a), most candidates were able to identify and explain several benefits arising from the construction of new trunk roads and motorways and, hence, accessed Level 2 marks. A large number were also able to develop these points by analysing the benefits and, thereby, reached marks in Level 3. A common response was to state that new roads would reduce congestion (Level 1) and then reduce journey times for motorists who had to spend less time stuck in traffic jams (Level 2). When this was developed in terms of increased worker productivity or benefits to the wider economy as a whole due to increased output then this gained Level 3.

(b)   Whilst candidates seemed to be well versed with the limitations of COBA, often the analysis of how COBA actually works as a decision making technique was less well understood. Candidates who referred to the different costs and benefits included in COBA and then, crucially, developed this in terms of how a decision would be made gained analysis marks. For example, projects would be undertaken which had the greatest net social benefit. In addition to this, some candidates seemed to be unsure of the difference between COBA and CBA generally which was unfortunate for their responses to this part of the question.

F585 The Global Economy

General Comments

The context provided by the stimulus material was accessible and topical. Most candidates seemed to have had sufficient time to complete the examination and to have devoted appropriate amounts of time to each question. Candidates performed over the full mark range, suggesting that the paper discriminated well.

It is important, on this unit, that candidates demonstrate the full range of skills being tested. Questions 1(a) and 2(a) tested the candidates' knowledge and understanding of terms and concepts from the specification. Success on these lower tariff questions comes from accurate and precise knowledge. All of the other questions on the paper required responses which were underpinned with economic analysis. The best responses displayed this skill through the selection and explanation of theories and concepts from the specification and the development of clear lines of reasoning. Weaker responses tended to write in very general terms or to offer a series of unsubstantiated assertions. Responses which focus on cause and consequence and use the economists' toolkit of terms, concepts and theories inevitably scored well. The absence of analysis means that candidates' marks are capped in Level 2 of the mark scheme. Three questions on the paper required candidates to demonstrate the skill of evaluation. This must be supported by economic analysis and is not just a case of included phrases such as 'however' or 'it depends' in a response.

The assessment of this unit identified a number of issues which centres might draw to the attention of candidates in order to improve future performance. These include:
- the labelling of diagrams and the distinction between macro and micro labels – it is important that diagrams are fully and accurately labelled
- the explanation of diagrams – weaker responses included diagrams but left them unexplained and then failed to integrate them into their response
- understanding and adherence to the directive words – many candidates did not access Level 4 of the mark scheme for Question 1(c), in particular, because their responses did not include a commentary
- the nature of index numbers and their interpretation – on Question 2(b) the description of the data was incorrect
- the importance of engaging with the question set – in particular by careful identification of the precise focus of the question.

Responses were well structured in the main. It was pleasing to see key terms defined at the beginning of responses which provided a clear focus for many responses. It is important that introductory remarks do not dominate a response, especially on the lower tariff questions where candidates need to get beyond Level 1 responses quickly.

Comments on Individual Questions

Question 1 (a)

This was a straightforward test of knowledge. For two marks, the candidates were expected to show an accurate knowledge of the four stages of the economic cycle. For a further two marks, a description of the characteristics of any two of these stages was required. Good responses dealt with both requirements clearly and succinctly. Weaker responses did not display the accuracy of knowledge expected.

Question 1 (b)

The best responses to this part of the question focused from the start on the reasons why economic convergence is important in a monetary union. Often they identified more than one reason and offered some basic elaboration providing examples from the stimulus material. The highest marks required developed analysis of the reasons offered. The best answers explained the impact of interest changes on AD or on the economic performance of economies at different stages of the economic cycle. This enabled such candidates to justify why the convergence of economic cycles is important. However, some candidates spent too much time defining the features of a monetary union and making a distinction between real and monetary convergence. The result was that analysis was not fully developed and the response offered was general.

Question 1 (c)

To achieve good marks on this part of the question, candidates were expected to analyse and comment on two implications of the rapid economic growth experienced by Ireland from 2000–2007. Many responses focused on the period after 2007 or on analysing the reasons for Ireland's rapid economic growth. Neither of these approaches fully engaged with the question set and so some candidates did not access many of the marks in the mark scheme. Strong responses recognised that rapid economic growth was likely to have created inflationary pressures and a lack of competitiveness and analysed this using the AD/AS framework. This allowed commentary to focus on the determinants of the consequences, the most popular of which was related to the inadequacies of the supply side of the economy in the face of rapidly rising AD. Few answers, however, developed analysis into an evaluation of the consequences.

Question 2 (a)

The directive word on this part of the question required the candidates to go beyond knowledge of the concepts of short and run long economic growth. The highest marks went to those candidates who provided an accurate definition of the two terms and then distinguished between them in terms of their different causes. Some candidates, however, confused macroeconomic and microeconomic time periods. Others lacked the precision of knowledge required to, for example, distinguish between changes in short run and long run aggregate supply.

Question 2 (b)

Many candidates were able to use economic analysis well to answer this part of the question. They dealt succinctly with the trend shown in the data, identified a number of consequences and analysed these to good effect. A common approach was to show the impact on the demand for exports and imports and build an analysis through the AD/AS framework. Consequences for economic growth, employment and the current account of the balance of payments followed logically. A significant proportion of the candidates misinterpreted the data in the stimulus material and assumed that competitiveness was improving. Others examined the causes of Spain's lack of competitiveness, rather than the consequences. Focusing on the requirements set is a prerequisite of success, and candidates would do well to be reminded of this.

Question 2 (c)

This was a well answered part of the question. The direction to consider one policy approach to improve Spain's competitiveness was followed in the best responses. Some candidates, though, spread themselves thinly by covering too many policy options. Most candidates, however, understood the context provided in the stimulus material and were able to access Level 4 marks. A popular choice of policy was investment in education and training. The best responses included an explanation of how this would improve competitiveness. This link to competitiveness was missing from weaker responses. There were some excellent analyses of labour and product market reform, with some impressive use of market structure models in a few cases. The reform

of benefits was less confidently tackled, although the best responses related this to the supply of labour and the impact on wage rates. Commentary often focused on time lags and other impacts of the chosen policy. For example, education and training was considered to be a policy measure which would not bring immediate improvements in Spain's competitiveness and would have an adverse impact on the government's fiscal position.

Question 3

This proved to be an accessible question for many candidates, whilst also discriminating effectively. Most candidates approached the issue of openness by considering the pros and cons of international trade. Supporting analysis on both sides was sufficient to allow candidates to access Level 4 of the mark scheme. The quality of this supporting analysis was variable, with the best candidates developing lines of economic reasoning well and linking them to a recognisable development context. Many candidates were able to recognise the relevance of comparative advantage, but only a few were then able to explain how specialisation according to comparative advantage would improve economic and human development. Weaker responses needed to do more than assert that it did. The diagrammatic explanation of tariff removal proved a powerful tool for the analysis and evaluation of the gains from trade in better responses. There was some good discussion of the relevance to development of changes in consumer and producer surplus, the loss of tariff revenue and gains in economic welfare. Linkages to economic and human development were strongest when the candidates considered the problems of greater openness in relation to international trade. The infant industry and Prebisch-Singer arguments were use to good effect in better responses to show how greater openness to international trade might not bring the expected benefits. The very best answers were able to go beyond an analytical discussion of the pros and cons of international trade in the context of development. Such answers tackled explicitly the extent to which openness to international trade is the key to economic and human development. In doing so they identified and explained the role of savings and investment, institutions, markets and good governance. Such responses were awarded marks in Band 3 of Level 4.

Weaker responses needed to go beyond a statement of valid points in order to provide supporting analysis. Identifying terms, concepts and theories which underlie the Extract material is an important part of preparation for this examination. There were a number of candidates whose responses were capped in Level 2 of the mark scheme because there was no recognisable economic analysis to support the assertions made about international trade and development. One sided analysis was rare, although it was sometimes possible to spot a hint of analysis in otherwise descriptive responses. In Level 4 most responses provided the development context required to lift responses from Band 1 to Band 2. The distinction between economic and human development improved many responses, as did reference to case studies of developing economies which brought theory to life.