

Economics

Advanced GCE A2 H461

Advanced Subsidiary GCE AS H061

Examiners' Reports

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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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Chief Examiner's Report

General Comments

Once again, it is pleasing to report a good overall performance from candidates taking the AS Level units. The case studies were accessible and, in general, were well understood.

For unit F582 rather more so than for unit F581, the early low tariff questions rewarded those candidates who had a sound, yet basic knowledge of the content. There were though two common reasons why some candidates might have under-performed. These were:

- a failure to appreciate the significance of 'directive' words, 'comment' especially;
- a growing tendency on the essay question to answer their own expected question rather than the one on the question paper.

As with any examination, and as stated in previous reports, the importance of good technique can make a big difference to the final mark awarded.

Similar comments with respect to 'directive' words are made in the report for unit F583. Elsewhere at A2, this issue does not appear as critical. A recurring theme, however, is that of diagrams; the importance of correct labelling and the need to show analysis by explicitly referring to diagrams in the body of the written answer.

Overall, Principal Examiners remain pleased with the quality of candidate performance as candidates and teachers become increasingly familiar with the subject content and the skills required to succeed at this level.

F581 Markets in Action (Written Examination)

General Comments

This examination was taken by around 9300 candidates, some of whom were A2 students.

The general format of the question paper was the same as those set for the 2009 and 2010 examination sessions, namely 36 marks for questions drawn from the first two parts of the specification and 24 marks for two questions, including an essay question, drawn from the section on government intervention and market failure.

The context of the case study, the market for exotic holidays and the issue of climate change, was accessible and, in general, well understood. The questions on market failure and government intervention were drawn from parts of the specification where no previous questions had been asked. Elsewhere, the topics were similar to those asked in previous examinations, although the structure of some early questions was new. Question 5 on cross elasticity of demand followed the same format as questions which had previously been asked on price elasticity and income elasticity of demand.

As I have clearly stated in previous reports, there is still an issue from some candidates with respect to the directive words of certain questions, notably where 'comment' is used in the short answer questions, in this case Questions 4 and 5(b). These questions carried a total of six AO4 marks. Once again, many knowledgeable candidates scored no marks on these elements, even though it was clear from their answers that they understood the economic concepts involved. This remains a persistent source of weakness.

A second area for improvement is on the 18 mark essay question where some candidates appear determined to incorporate prior-learned material into their answers irrespective of the question. It is stating the obvious to state that the wording of this, or indeed any question, is going to be one which examiners are required to mark, not the one which might have been prepared in advance of the examination.

Comments on Individual Questions

- 1 This question should have been accessible for all candidates. Most scored one or two marks for a definition of the 'economic problem', but there were many incorrect answers to the applied aspect. A very common error was to relate the economic problem to the Maldives and not to the family, as clearly stated in the question.

The clearest answers were those which saw the family's economic problem in terms of having sufficient (limited) income and whether an alternative use or alternative destination affected the choice of the Maldives as their holiday destination. In some cases, candidates did not equate limited resources with family income, merely repeating what they had stated in the definition. No additional mark was awarded for this. In more extreme cases, the answer referred to limited space on the Maldives and, given a choice, the Maldives were not attractive as tourists feared for their safety if sea levels rose.

- 2 (a) This part of the question was also accessible, and one that has been asked before. Whilst around half of the candidates scored two marks, there were many who were unable to clearly see a market in conceptual terms whereby buyers and sellers get together to trade and exchange goods and service.

- 2 (b)** In previous examinations, this question has also been asked but in the form of a diagram. Many candidates were unable to write in words what they might have been able to sketch in terms of a diagram. The obvious was invariably overlooked, with answers referring to what might happen to the price of holidays to the Maldives if holiday prices to competing destinations changed.
- 3 (a)** Virtually all candidates gained full marks for what was a typical question on this unit. Those who did not either labelled S and D wrongly or, more commonly, shifted S and not D on their diagrams.
- 3 (b)** This style of question has also been asked on previous examinations with mixed results. Required for this answer are three parts: a reason (determinant); an elaboration of the reason; and a statement of how there has been a change in demand.

The most obvious reasons were that (disposable) incomes had fallen due to recession. This meant that the demand for exotic holidays, a normal good, would be likely to fall leading to a fall in demand for holidays to the Maldives. Such answers gained three marks for this linked explanation.

Another popular reason given was in relation to fashion and taste. As a result of media coverage, some tourists would be reluctant to go to the Maldives. A third possibility was to consider the price or availability of substitutes such as Goa or the increase in price of complements such as air travel.

The most common error was for answers not to go as far as explicitly concluding that the elaborated determinant would actually lead to a fall in demand for holidays to the Maldives.

No marks were awarded for the few answers where the candidate gave 'the price of a holiday to the Maldives' as the determinant.

- 4** Most candidates scored three marks for a correctly drawn diagram which showed a shift to the right of the supply curve. The subsequent explanation, referring to a fall in price, usually followed. The effect on quantity traded was in some cases lacking – an explicit reference to the diagram or to the quantity traded was required rather than just 'an increase in quantity'. Having said this, the modal mark was five out of the eight available.

As stated earlier, many candidates did not respond to the 'comment' directive word in their answers. At the same time, there was a tendency for over-elaborate analysis of the change in market conditions so that the space available in the answer booklet had already been filled. The need to identify and distinguish between directive words cannot be emphasised enough, as it is one of the main reasons why many candidates, who are otherwise seemingly well prepared, lose marks.

- 5 (a)** Most candidates were able to give a correct definition or a formula. As with other elasticity definitions from previous examinations, there were the usual weaknesses with respect to whether it was a change in quantity or a change in price which was the cause rather than the effect.
- 5 (b)** This was a new style of elasticity question. Candidates were given a clear instruction to include calculations (plural) in their answers. The following three tasks were required:
- appropriate calculations from the data provided in the case study;
 - an explanation as to what these meant;
 - a comment on their relevance or usefulness in context.

Rather more candidates attempted and scored marks on the 'comment' aspect than was the case on Question 4. Having said this, the modal mark was also five out of the eight available.

Surprisingly, a number of candidates who gave a correct formula or definition in part (a) then incorrectly inserted the data provided in the case study into the formula. The inverse was consequently provided, making it difficult for them to score many marks. A small number of candidates gave just one or two calculations. In other cases the explanation was in terms of price and not cross elasticity of demand.

On a positive note, there were some excellent comments made by candidates who clearly understood the concept and its relevance.

- 6 (a)** This is the first time a question has been asked on public goods. At least 90 per cent of candidates scored full marks for stating two characteristics: mainly non-rivalry and non-excludability.
- 6 (b)** This part of the question was not well answered with few candidates scoring full marks. A common mistake was to state that as beaches are free to use, they are public goods and no one can be denied use. Non-rivalry was more often understood and applied in terms of when a beach becomes so full that the enjoyment of users falls.

Some of the best answers saw a sandy beach as a quasi-public good, making the point that neither of the normal characteristics of non-excludability or non-rivalry really applied in full.

- 7** Following from my earlier comment, the problem with this question was that many candidates failed to appreciate that the specific focus was 'regulation', and whether regulation was the most effective way of correcting market failure arising from increasing carbon emissions.

Regulation is a direct non-market means used by governments to correct market failure. A wide range of regulations, standards and legal controls exist to limit the supply of carbon emissions. A simple way of showing their impact is by means of a shift to the left of the supply curve for activities which generate such emissions.

A very common error was to write about a tradeable permit, which is a market-based approach, as being a regulation. Having said this, a tradeable permit usually incorporates an approved standard. So, if an answer recognised this, and made clear that emissions would be restricted, it was taken as an acceptable example of regulation. In many cases, answers did not recognise this point. Especially if referring to pollution permits in a more general sense, then, this form of correcting market failure was treated by examiners as an alternative method for which a maximum of 10 marks could be awarded.

As also stated earlier, there is a growing tendency on this essay question for candidates to write all they can remember about how to correct market failure. Consequently such answers are invariably overlong and lack focus on the point of the question.

F582 The National and International Economy

General Comments

A smaller number of candidates sat this examination in January than in June. This session there were approximately 2,600 candidates. They produced answers of a wide range of quality. The strongest answers interpreted and used the case study in a perceptive and intelligent manner, wrote accurate answers to low tariff questions, picked up on the need to evaluate on the two comment questions and produced lucid and relevant answers to Question 7.

The weaker scripts contained some errors on the low tariff questions, failed to evaluate on the comment questions or did not underpin their attempts at evaluation with analysis. Some answers to Question 7 consisted of unsupported statements and inaccurate diagrams.

Most candidates attempted all the questions and wrote at an appropriate length. There appeared to be few, if any, timing issues.

As in previous sessions, in the case of the last question, a number of candidates sought to answer a slightly different question to the one set. It is important that candidates answer the question directly. In this case, other policy measures could be mentioned but their effectiveness needed to be compared and contrasted with a cut in government spending.

Comments on Individual Questions

- 1 (a) Most candidates were able to define unemployment but a relatively high proportion of candidates showed a lack of knowledge or confused awareness of the unemployment rate. A high number defined it in terms of the percentage of the population.
- 1 (b) This part of the question was generally well answered. A number of candidates identified crime and poor health but they needed to link these to an economic cost, eg higher spending on crime detection or higher spending on the NHS. Some also identified a fall in aggregate demand which might not be seen as a cost should the economy be experiencing demand-pull inflation.
- 2 Not all candidates identified policies from the case study. Some of those who did produced strong analysis, often making use of AD/AS diagrams. Others stated the policies and wrote that they would increase economic growth but did not analyse why.
- 3 (a) There appeared to be some uncertainty about the nature of the circular flow of income, although most candidates were familiar with injections and leakages.
- 3 (b) It was surprising that a number of candidates could not identify all three injections. A number identified leakages and some gave the three methods of measuring a country's GDP.
- 4 (a) This was the least well answered question with candidates not examining the data carefully enough.
- 4 (b) There was a range of information in the case study on which candidates could draw and there were some strong answers produced. A number of candidates, however, showed a tendency to exaggerate or did not provide an explanation.

- 5** Some candidates confused the budget balance with the current account balance. Even more candidates just described, on a year by year basis, what happened to the figures without any analysis or evaluation. Just stating, for instance, that the unemployment figure stayed the same between 2004 and 2005, whilst the budget balance increased, did not gain any marks.
- 6 (a)** This part of the question was generally well answered with some candidates providing good links between tariffs and price competitiveness. A small number did, however, confuse tariffs with quotas.
- 6 (b)** A small number of candidates did not attempt this part of the question but most coped well and produced accurate answers.
- 6 (c)** Again this part of the question was generally well answered with candidates providing a good range of evaluative points. The most common evaluative point explored was the influence of price elasticity of demand for exports and imports.
- 7** The strongest answers first analysed how a reduction in government spending could lower demand-pull inflation. The analysis frequently included an aggregate demand and aggregate supply diagram. The evaluation was underpinned by analysis and included comments on the need to consider what was happening to aggregate demand in total, possible harmful effects on other government objectives and a comparison of its effectiveness relative to other policy measures.

Some candidates mentioned that it would be better to use other policies but did not explain why. Indeed, a number made little reference to reducing government spending and concentrated on another policy measure, most frequently a rise in the rate of interest, without bringing out why it might be more effective. Some stated that a cut in government spending must be accompanied by either a rise in taxation or a cut in taxation without explaining why. A small number of candidates also tried to turn the question into one on the costs of inflation.

A number of candidates included micro diagrams and some drew inaccurate diagrams with, for example, the AD and AS curves transposed. Some sought to evaluate by stating that cutting government spending would be unlikely to be successful in reducing demand-pull inflation when the economy is operating with considerable spare capacity – a situation when demand-pull inflation would be unlikely to be a problem.

There were a number of answers which asserted points without explaining or analysing them. Only a small number of answers revealed a lack of understanding about demand-pull inflation and the nature of government spending.

F583 Economics of Work and Leisure

General Comments

This was the third sitting of this paper and attracted a candidature of over 2000 candidates. There was a wide spread of performance on the paper and there was a pleasing increase in the quality of analysis and evaluation displayed within many scripts as both teachers and candidates appear to be more confident with both the specification and the assessment criteria.

However, candidates still fail to appreciate the significance of the directive words, "Comment on..." and are thus penalising themselves from achieving even higher marks. Moreover, the importance of producing accurately labelled diagrams within the context of the question needs to be reinforced to candidates as these often provide the platform on which evaluative discussions are based – and often result in the higher grades being awarded.

Comments on Individual Questions

Section A

- 1 (a) (i) This part of the question was well answered by the vast majority of candidates, although a small number of them gave an explanation of the term, marginal revenue product, or gave a vague explanation such as 'the demand for something else'.
- (a) (ii) A good proportion of candidates were able to state and explain two possible reasons for the fall in employment in manufacturing, such as the fact that advances in technology enabled firms to replace labour with machinery, or that outsourcing had meant manufacturing had moved outside of the UK. Some candidates however, either offered one reason or made an assertion that manufacturing jobs were simply unskilled and, therefore, unsuitable for graduates.
- (b) This part of the question offered some discrimination in candidate performance. Many candidates were able to accurately distinguish between the two terms in relation to individuals being either economically active or inactive. Those who did this scored two marks. Some candidates failed to recognise the importance of those actively seeking work as being part of the actual labour force.
- (c) Again, this part of the question discriminated well. A pleasing number of candidates were able to confidently provide a clear explanation, whilst others scored both marks for giving an accurate formula. Some candidates did not appreciate the idea that this is a rate and simply spoke of it being a number in absolute terms.
- (d) (i) This part of the question was also well answered by those candidates who used the data to describe two changes over the required time period. Those candidates that did not score two marks on this part of the question often failed to realise that the table gave percentage rates and not amounts.

- (d) (ii) This part of the question followed a similar format to that of previous sessions, but candidates still encountered problems with the directive word, “Comment” and, therefore, were unable to score more than two marks. Candidates that provided some evaluative content invariably accessed the higher marks on this part of the question.
- (e) Again, this part of the question followed the format of previous papers with the majority of candidates offering both perspectives (in this case, an ageing working population). Those candidates who went on to offer a conclusion based on their discussion were rewarded accordingly.

Section B

- 2 This was the least popular question in Section B and produced the greatest variance in performance.
 - (a) Whilst some candidates wrote confidently about both concepts and provided a detailed analysis of them in a leisure market context, the majority demonstrated limited subject knowledge on both concepts leading to some confused and superficial answers.
 - (b) There were a pleasing number of good responses to this particular question with clear discussions about whether or not firms in the leisure market industry seek to maximise profits. These were underpinned by good economic analysis of various models which provided the platform for clear judgements to be made. Weaker responses tended to simply run through the level of profit in different market structures, rather than focus on the thinking behind profit maximisation and the alternatives to this as an objective.
- 3 This was by far the most popular question and produced many excellent answers.
 - (a) Generally candidates directed their responses to the question set, giving a clear explanation of both transfer earnings and economic rent. This was built on by using either numeric or diagrammatic analysis in order to demonstrate the importance of the price elasticity of supply in an occupation in determining the relative proportions of the two terms.
 - (b) Again, this particular question was well answered with the majority of candidates being able to discuss the extent to which MRP was, or otherwise, the key determinant of wages. The best responses saw candidates provide a detailed analysis of MRP theory before analysing supply side influences and then providing a balanced judgement. A small number of candidates interpreted the question as requiring a critique of MRP theory – fortunately many of those candidates who interpreted the question in this way still managed to access a Level 4 response as they provided some consideration of supply side influences.
- 4 (a) This question discriminated well with a large number of candidates confidently analysing two appropriate policies – often via diagrammatic analysis although this was not necessary to achieve full marks. A number of candidates hindered themselves by a lack of understanding of the term ‘flexibility’ within a labour market context; whilst others simply focused on the advantages and disadvantages, rather than providing an analysis of how the policies worked. On a number of occasions this led to a degree of overlap in their answers for part (b) of this question.

- (b)** The full range of responses was provided for this question. There were a number of mature responses which clearly discussed the extent to which these policies had improved labour market flexibility. Other responses were able to demonstrate their understanding of the advantages and disadvantages of these policies, but failed to move beyond a Level 2 response due to the continued use of unexplained assertions, as opposed to providing a discussion underpinned by economic analysis.

F584 Transport Economics

General Comments

With just over 2200 candidates sitting the paper this session there was very little change in the entry compared to January 2010. The general standard of responses generated were very encouraging – very few candidates indeed failed to attempt every question and the standard of economic terms and concepts applied was, on the whole, extremely encouraging. As such, it appears that the 'new' A2 paper with an answer booklet has bedded down well with the large majority of candidates, who now respond correctly to key instruction words such as 'comment' and 'discuss'.

Comments on Individual Questions

Question 1

- (a) (i) The majority of candidates gained both marks on this part of the question for an accurate comparison of the direction of change followed by some idea of the magnitude. In a small number of cases, candidates re-produced great amounts of data and missed the point of the question which required a comparison between the two different modes to be made.
- (a) (ii) This part of the question was very well answered with most candidates receiving full marks. In a small number of cases, explanations linking the factor to changes in road traffic were not clear enough.
- (b) The responses to this part of the question were more mixed. In a number of cases, candidates confused quasi-public goods with pure public goods, whilst what was required was a simple definition that these are goods which do not always meet the twin characteristics of non-excludability and non-rivalry. That said, the application of different characteristics was better answered with most candidates picking up marks.
- (c) (i) This was a simple knowledge based question with most candidates picking up both marks easily for stating that road congestion involved a cost being imposed on an innocent third party or for stating that it involved a situation where social cost exceeded private cost.
- (c) (ii) It was very pleasing to see that candidates had been well prepared for the 'comment' questions with a clear majority of responses analysing the issue and then criticising/evaluating it. On this part of the question, the evaluation was usually very good, with the analysis often a little weaker.

In terms of analysis, better answers produced simple supply and demand diagrams showing the supply curve shifting to the left and, therefore, a rise in equilibrium price and a fall in equilibrium quantity. Otherwise, a simple written analysis was provided highlighting a contraction in demand with fuel prices now becoming less affordable for many households would have gained both marks. *It is important to emphasise to candidates the importance of analysing the policy before rushing in to criticism of it.*

The 'comment' part of the question was well answered with the majority of responses applying the concept of price elasticity of demand in order to look at why rises in fuel prices may not be effective. Where this (or any other) evaluative point was well developed, then all three evaluation marks could be gained.

- (c) (iii) With this part of the question requiring candidates to discuss the effectiveness of road charging – a seemingly popular topic amongst them – many lengthy and quite often excellent answers were produced, gaining full marks.

Once again, many candidates made very good use of diagrams in order to gain the three analysis marks. Otherwise, accurate written analysis focusing upon how charges would internalise externalities and make the polluter pay was also rewarded.

In terms of evaluating road charging, once again, price elasticity of demand proved to be the most popular route for many candidates with good development of this often witnessed in terms of necessity goods and poor quality substitutes being available. It is worth noting that in some cases, candidates gained two or three marks for identifying different, valid, factors and yet failed to develop these at all, hence not gaining all five evaluation marks for this question.

In only a small number of cases did candidates not offer any evaluation at all. This proved to be very costly for them, as they could gain a maximum of three marks out of a possible eight on this part of the question.

Question 2

Overall this proved to be a popular question, although often it was felt that candidates chose this on the basis of part (a) alone. It is worth reminding candidates that they should select an essay on which they feel that they can produce a good response to both parts of the question, especially part (b) which has a third of the marks for the paper.

- (a) There were many fine responses produced to this part of the question and the clear majority of responses were placed in the top level here (9-15 marks) for analysing the difference between the short and long run.

Once again, whilst there was no requirement to produce diagrams, many candidates used these to great effect and gained Level 3 (nine marks) for producing two accurate diagrams. Some candidates were able to analyse the important role played by low barriers to entry in enabling new firms to enter the market and thereby compete away supernormal profits and often developed this further showing a leftwards shift of the demand curve.

- (b) Somewhat in contrast to part (a), the answers produced on this part of the question were more mixed. Whilst many candidates were able to identify and analyse reasons why firms should not pursue profit maximisation (for example, firms wishing to placate a wide range of stakeholders with differing objectives or the desire to avoid risks which may be inherent with pursuing a profit maximisation strategy), many fewer were able to analyse the reasons why firms would pursue profit maximisation in any detail.

Whilst examiners accepted correct theory of the firm diagrams for an analysis of profit maximisation, better responses were able to develop this in terms of the benefits gained by firms from abnormal profits in terms of dynamic efficiency gains and also the need to maximise profits in order to keep shareholders happy. With analysis of the reasons why firms would profit maximise often limited, many candidates received marks in the 11-12 mark range for a basic but unbalanced discussion.

Question 3

On balance this was the most popular question with many excellent responses.

- (a) Once again, the majority of responses gained Level 3 marks for analysis of the reasons why air travel had grown over the past 10 years. Whilst a few candidates failed to break the eight mark ceiling as they simply identified long lists of points without introducing any economic analysis, many answers included what was often excellent analysis.

The best answers analysed the impact of deregulation by a rightwards shift of the supply curve with resulting lower prices and increased equilibrium output. Often this analysis was developed further by analysing the impact of lower prices in terms of allowing more households access to flights (due to increased affordability). In addition to this, a number of responses correctly identified globalisation as a possible factor, with increased trade and business journeys causing an increased (derived) demand for air transport.

- (b) This part of the question required candidates to apply their knowledge of competition to the airline market. The best answers developed the benefits of increased competition in terms of economic efficiency and lower prices (again illustrating this with a simple rightwards shift of the supply curve). Economic analysis was rewarded where terms and concepts were applied in this context. Therefore, it was not sufficient to simply define what productive and allocative efficiency are but there was an expectation that candidates would explain why, with firms needing to lower prices, they would be under pressure to produce at minimum average cost.

Discussion was often provided with reference to the loss of economies of scale with competitive firms often being smaller. Many responses also highlighted the trend towards mergers and collusion within the airline market and where this was analysed as a drawback (in terms of predatory pricing) then clearly this was rewarded.

Judgement was often rewarded on this part of the question where candidates questioned how significant the rise in competition was or looked at different markets within the airline industry (for example, the domestic/EU or short haul market verses the international/long haul market).

Question 4

This proved to be by far the least popular question with only a very small minority of responses attempting this question.

- (a) Whilst most responses gained Level 2 marks for correctly identifying examples of integrated policies, too often there was no analysis of how these policies promoted or achieved improved links between modes of transport in reality. As such, a large number of responses were awarded between four and eight marks for factual explanations of the policies, rather than an economic analysis of how they may be deemed to be 'integrated'.
- (b) Once again, responses which failed to analyse how named policies promoted links between different modes of transport were limited to 10 marks here for a one sided analysis (of the limitations of the named policies). Whilst analysis of how policies may be deemed to be integrated was often very limited, the analysis of limitations was usually much more forthcoming and often very impressive. To reach Level 4, a two sided discussion underpinned by economic analysis was needed.

F585 The Global Economy

General Comments

This second February sitting of The Global Economy attracted an entry of nearly 1800 candidates, an increase of just over 14% from February 2010. Overall, the standard of responses seen was pleasing, particularly on the last question. The answer booklet was well used by candidates and, in the main, those needing to use additional space indicated this clearly. There were very few instances of candidates running short of time or misallocating their time. Responses appeared to be better structured than in previous sessions, which worked to the candidates' advantage when the levels of response are applied by examiners. It was good to see responses clearly identifying knowledge of key terms and concepts at the start of their answers.

Some candidates tended to lack the detailed and accurate knowledge required to approach the questions with confidence and focus. This was particularly true of the lower tariff questions. For example, candidate performance on Questions 1(a) and 2(a) was less strong than on the rest of the paper. In part this was a reflection of the knowledge requirements of these questions. Candidates who did not know with accuracy the nature of the terms of trade in Question 1(a)(i) struggled to make headway on Question 1(a)(ii). Candidates who did not know the components of the HDI struggled to explain why the HDI growth rate for the Dominican Republic was lower than that for Guatemala. It was also the case that candidates appeared better prepared for the more open-ended questions on the paper than for those questions which required more traditional data response type skills. As stated in previous reports and in INSET to centres, the pattern set on this paper of questions requiring use of the data in the pre-issued stimulus material is one which will be repeated in future sessions.

It is also worth centres noting the way which the mark scheme for this unit differentiates between Level 4 responses in Questions 1(c), 2(c) and 3. On Questions 1(c) and 2(c) examiners can award full marks for evaluation which is focused on one comment if what the candidate writes is well developed, well reasoned and is well supported by economic theory. Alternatively, two points of commentary with some elaboration is sufficient for the award of the top mark. On Question 3, however, a distinction is made between discussion based on good supporting analysis (Level 4, Band 1), discussion which provides context to the economic theory (Level 4, Band 2) and discussion which, through context, provides reasoned judgement on the relevant issues (Level 4, Band 3). Access to Level 4, Band 3, is not possible unless candidates have provided the context required in Band 2.

It is hoped that the advice contained in this report will be useful in improving candidate performance in future sessions.

Comments on Individual Questions

Question 1 (a) (i)

For a large minority of candidates this part of the question posed a difficult opener to the paper because they had no knowledge of the terms of trade. Of those who did understand the concept not all appreciated that it was the average price of exports and imports which was measured by the terms of trade or that it was measured using indices. The question, therefore, discriminated well.

Question 1 (a) (ii)

Candidates scoring zero marks either did not understand the terms of trade or incorrectly identified the terms of trade as declining. Those scoring one mark correctly identified that St Lucia's terms of trade had increased. Only those who used Fig. 2.1, in addition to Fig. 1.1, were able to score two marks, by referring to the significance of banana exports for St Lucia, as well as the trend in the world price.

Question 1 (b)

Many candidates did not score well on this part of the question because of incorrectly labelled diagrams. To access the four marks for the diagram, candidates had to label the axis correctly. Many did not, labelling the vertical axis 'price level' and the horizontal axis 'real GDP', 'quantity demanded' or 'output'. Such inaccuracies limited these candidates to a maximum of two marks. In the textual analysis, examiners rewarded reasons why the demand and/or supply of primary commodities might be volatile and a recognition that they were price inelastic. The latter point was not always explicit in candidates' responses.

Question 1 (c)

Despite the difficulty of this question the majority of candidates were able to analyse the case for preferential access to the EU market for bananas from ACP states. There were two distinct ways in which candidates did this and, therefore, two routes into Level 3 of the mark scheme. One of these was to analyse the impact on ACP states of higher exports of bananas through the impact on AD and economic development. The other was to analyse the impact of preferential access using an adapted tariff diagram. The latter was done well by a good number of candidates but others produced flawed analysis based on preferential access reducing the price of bananas in the EU. Given the context provided by the Extract, such responses were awarded marks in Level 2 of the mark scheme for some understanding of the case for preferential access. The best candidates built on their analysis of the case for by considering arguments against preferential access, including the impact on EU consumer surplus, the impact on other banana exporters, the promotion of inefficient production and the impact on the economic structure of ACP states. To gain full marks it was necessary for candidates to produce one well developed comment or to make two points of elaborated commentary.

Question 2 (a)

Most candidates knew something about the composition of the HDI and included this at the beginning of their response. A sizeable minority of candidates, however, lacked the knowledge necessary to access any of the marks on this part of the question and there were inaccuracies in knowledge from other candidates. The mark scheme accommodated the change in the composition of the HDI made by the UNDP in 2010. It was expected that candidates would be able to recognise that the lower rate of growth in the Dominican Republic's HDI could be explained by a lower growth or a fall in life expectancy or a lower growth or fall in adult literacy, or educational enrolment. As a result of gaps in their knowledge, some candidates were unable to make this deduction. Other candidates were able to make valid inferences but sometimes confused levels with rates of growth. For example, some would argue that the lower rate of growth of HDI in the Dominican Republic resulted from a lower level of literacy or enrolment rates. As a result, the question discriminated effectively between the responses produced by candidates.

Question 2 (b)

Performance on this part of the question was pleasing with the majority of candidates scoring four or more marks for the analysis of the consequences of the global economic crisis on Caribbean economies. The question was an open one and, as expected, the focus of responses

varied. The key to a good response was a recognition from the stimulus material that Caribbean economies had common characteristics which resulted in a similar consequences from the global economic crisis. The mark scheme allowed candidates to be awarded two marks for a recognition of the dependence of Caribbean economies on exports of primary commodities, tourism, offshore banking and remittances. Most candidates were then able to produce a basic analysis of the consequences of the global downturn by explaining how key macroeconomic performance indicators would be affected. The best responses made use of an analytical framework such as AD/AS analysis, the multiplier or the multiplier/accelerator relationship to add depth to their analysis and score up to six marks. The whole range of marks was awarded, but only the best candidates were able to frame their answer appropriately and gain the higher analysis marks in the mark scheme.

Question 2 (c)

A pleasing number of candidates were able to access Level 4 of the mark scheme for this question on the impact of government debt on economic development. Some candidates did not fully grasp what government debt was and confused it with a fiscal deficit. Others understood the various constraints on economic development caused by high levels of government debt and were able to explain them analytically. The most common ways in which this was achieved was through use of the concept of opportunity cost, AD/AS analysis and the likely impact on the components of the HDI. Comments were either stated, in which case marks at the bottom of Level 4 were awarded, or developed and were wide ranging. Better responses recognised that the extent to which debt constrained development depended in the main on what the debt had been used for and were able to give examples of how high levels of debt might generate higher levels of economic growth in the future thus reducing the burden of debt. Other good responses made reference to other constraints on development and the differences between internal and external debt. As on Question 1(c) full marks were awarded where there was one well developed comment or two points of elaborated commentary.

Question 3

The vast majority of candidates were able to approach this question using the economists' toolkit of theories and concepts which enabled them to score in Level 3 or Level 4 of the mark scheme. There were few responses which wrote about the regional economic integration in general terms and got trapped in Level 2. There was good knowledge of the different levels of integration, though some candidates described the different levels in great detail, rather than explaining what the consequences might be for a small, Caribbean economy. Candidates who analysed the benefits and costs of regional economic integration were able to access marks in Level 4 of the mark scheme. Trade creation and diversion were common consequences for analysis, though neither was done well diagrammatically because many candidates did not recognise that they arose from the effects of a customs union rather than from simply tariff elimination. Better responses took a macroeconomic perspective on regional integration and explained how AD and AS would be affected by different levels of integration. The mark scheme differentiated between responses which analysed the theoretical advantages and disadvantages of regional integration (Level 4, Band 1), those which provided some context to the discussion which focused on small and/or Caribbean economies (Level 4, Band 2) and those that, based on the context, provided an overall judgement on the extent of the benefit of regional economic integration (Level 4, Band 3). The most common judgement was one rooted in a good understanding of the context provided in the stimulus material: that Caribbean economies have little to gain from regional integration, aside from insulating themselves against the negative aspect of global integration, as their economic structures are too similar as a result of their factor endowments. As on Questions 1(c) and 2(c), one developed judgement was sufficient for full marks to be awarded in Level 4, Band 3. It is worth centres reminding candidates that a good grasp of the economic concepts underlying the final extract is a necessary condition for good marks in Level 4. Top

marks, though, come from an ability to recognise how the theoretical frameworks apply to the context provided and to make reasoned judgements on the issues raised. It is this ability to reason through a judgement, rather than simply paraphrase what has gone before, which makes the best conclusions stand out.

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