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Examiners' report

ECONOMICS

H460

For first teaching in 2019

H460/02 Summer 2023 series

Contents

Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates.

The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. A selection of candidate answers are also provided. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report.

A full copy of the question paper and the mark scheme can be downloaded from OCR.

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Paper 2 series overview

The paper discriminated well across the three sections. Candidates who were able to deploy their knowledge and understanding of the specification content were rewarded highly. There was some excellent understanding of international competitiveness issues in Section A and some technically proficient responses to questions requiring extended writing in Sections B and C. Diagrams in Section B were well known and better candidates were able to incorporate them into their analysis and evaluation. Chains of reasoning were evident in the best responses, for example explaining how an increase in consumer expenditure could lead to a fall in unemployment and linking this to derived demand for labour and the impact of the multiplier. The distinction between indirect and direct taxes as a form of government revenue is an area to work on. Contextual analysis was evident in the majority of responses, with candidates making good use of the stimulus material in Section A and the question stems in Sections B and C. The key discriminator in questions requiring extended writing continues to be the extent and quality of the chains of reasoning offered by candidates.

The features of responses that score highly are summarised in the table below, along with the common characteristics of responses which scored less well.

Candidates who did well on this paper generally:	Candidates who did less well on this paper generally:
• displayed strong understanding of key concepts and terminology from the specification content,	• showed imprecise knowledge and understanding of key concepts and terminology from the specification content,
• focused clearly on the requirements of the questions set,	• produced generic responses which did not fully focus on the requirement of the questions set or drifted from the question set,
• used fully integrated and accurate diagrams in Section B to illustrate the economic theory needed for analysis,	• produced inaccurate diagrams and/or did not explain diagrams offered in the body of their response,
• developed their points using chains of reasoning clearly showing cause and consequence,	• tended to assert rather than explain using chains of reasoning,
• set their responses in the context of the stimulus material in Section A and in the question stems in Sections B and C,	• ignored the context provided by the stimulus material in Section A and the question stems in Sections B and C,
• provided developed counter-arguments as part of their evaluation,	• produced summative conclusions which simply repeated what had been said in the body of the response.
• made and supported judgements at the end of their responses where required.	

Section A overview

This section of the paper provided an accessible context of international competitiveness which allowed candidates to use their knowledge and understanding of economic terms, concepts, and theories to good effect. Questions 1(a) and (b) enabled understanding of the key terms to be accessed from the stimulus material and a straightforward calculation, and generally were completed well. Questions 1(c) involved use of the stimulus and an understanding of the 'likely' relationship and 1 (d) involved data handling and interpretation skills, which were not always done as well. Question 1(e) needed use of the stimulus and an understanding of the multiplier, which proved difficult for many candidates. Question 1(f) involved use of the stimulus material and an understanding of the harm and benefits of inflation to consumers and firms.

Question 1 (a)

1 **(a)** Using information from the stimulus material, calculate the balance on the UK's primary and secondary income in 2019.

....

....

....

.... **[2]**

This was an accessible calculation with the stimulus material providing clear figures. Many candidates, while calculating the correct figure, did not acknowledge that it was a deficit (or use the minus sign) so many did not get the 2 marks.

Question 1 (b)

(b) Using information from the stimulus material, identify **two** causes of an increase in the money supply.

1 ....

....

2 ....

....
[2]

This question was answered well by the majority of candidates who used the stimulus accurately, quantitative easing and loans being the most common answers. Some candidates tried to offer other causes that were not in the stimulus.

Question 1 (c)

(c) Explain how a change in working hours is likely to affect productivity.

....

....

....

.... **[2]**

Responses to this question were required to explain the 'likely' relationship, which many did, although there were a minority who either did not know the relationship or confused production with productivity. They needed to selectively make use of the stimulus material.

Question 1 (d)

(d) Using **Fig. 1**, explain the relationship between international competitiveness and GDP per capita.

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....

....

.... **[4]**

This response required interpretation of the data to identify the relationship and explain it. Many candidates displayed a lack of understanding of rankings, referring to 100 being higher/better than 1. Candidates need to consider the axis carefully.

Assessment for learning

Centres could consider ways to help candidates develop data handling skills.

- check the axis,
- identify the relationship,
- give an example which shows the relationship,
- point out any anomalies/outliers,
- explain why the relationship exists.

Question 1 (e)

(e) Using information from the stimulus material, evaluate whether the size of Rwanda's multiplier is likely to have increased between 2010 and 2019.

....

....

....

....

....

.... **[8]**

This question differentiated well between differing levels of understanding. Those who had a strong understanding of the influences on the multiplier (MPS/MPM/MPT) scored well. Less successful responses to this question showed a reasonable understanding of the multiplier, but often lacked more detailed knowledge of the influences on the multiplier and how changes in them would increase or decrease the size of the multiplier.

Question 1 (f)

(f) Using information from the stimulus material, evaluate whether the changes in Rwanda's price level between 2010 and 2019 is likely to have harmed Rwandan households and firms.

....

....

....

....

....

.... **[12]**

There were some very good responses to this question. The best responses not only considered the effect internally but also the effect on the external economy, comparing Rwanda's inflation rate with that of other countries and thus considering the impact on exports. Good responses also distinguished between the effects of cost-push inflation versus the effects of demand-pull inflation. The less successful responses lacked critical thinking, and worked on the premise that a rise in inflation is bound to lower the standard of living for households, or considered households and firms as one, without making the distinction between them.

Section B overview

This section of paper requires candidates to use a diagram as part of their response. It is more usual for candidates to use a diagram to support their analysis. To be given marks in Level 3, the diagram offered must be predominantly correct and integrated into the candidate's analysis. Minor errors in the diagram will be ignored by examiners, but errors which impact on the validity of the analysis are likely to mean that responses are given marks in Level 2 at best. There are still some candidates who produce a diagram and simply say 'as shown in the diagram' without explaining it.

Question 2 was more popular than Question 3, although top marks were achieved in both.

Question 2*

2* Consumer expenditure rose in the USA in 2019. In that year, US unemployment fell to a 50-year low of 3.5%.

Evaluate, with the use of an appropriate diagram(s), whether an increase in consumer expenditure will always reduce a country's unemployment rate.   **[25]**

Good responses to this question analysed why an increase in consumer expenditure would reduce unemployment using fully integrated diagrams, and then went on to say why an increase in consumer expenditure would not reduce unemployment. Stronger responses considered that labour is derived demand and so would lead to a fall in unemployment. Also that the multiplier could lead to a greater reduction in unemployment. Less successful responses did not fully use a diagram and did not show developed chains of reasoning and some discussed other ways to reduce unemployment, rather than develop evaluation as to why an increase in consumer expenditure would not reduce unemployment. The stronger responses considered where the expenditure was being spent, such as imports and or the type of unemployment that could be reduced. Judgements were expected to focus on 'always reduce unemployment' which many responses did. Summative conclusions remain the norm, with few candidates taking a step back to offer a supported judgement on the question. Judgement could have considered that an increase in consumer expenditure would lead to a reduction in cyclical unemployment but would not solve structural unemployment.

Misconception

? | Some candidates in their evaluation were confused about the impact of inflation when trying to show that it caused unemployment. Many said that inflation would lead to a fall in AD (shift left) and hence cause unemployment.

Inflation on its own does not shift AD to the left (uncertainty due to inflation might).

Inflation doesn't cause unemployment to fall (as some argued using the Phillips curve).

Exemplar 1

On the one hand, yes, a rise in consumer expenditure to may reduce a country's unemployment rate.

Price level ($)
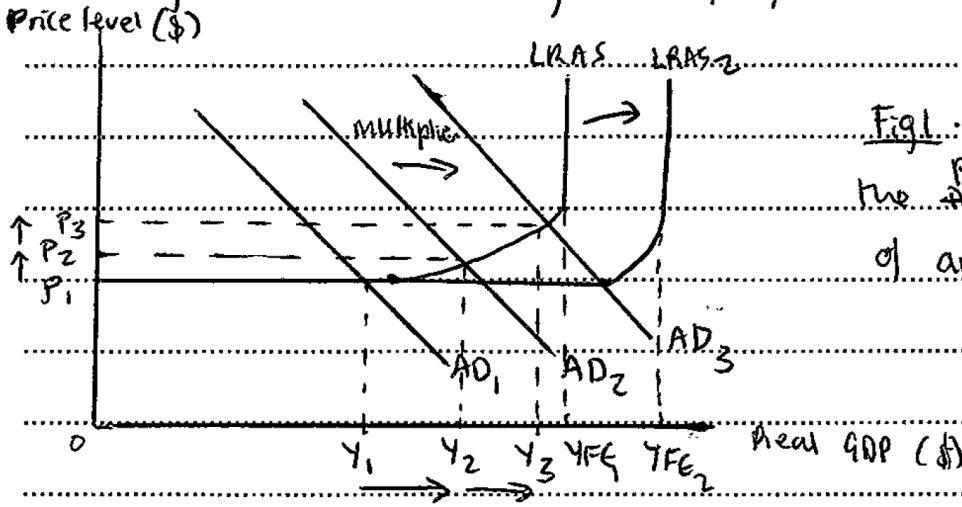
Fig1. A graph showing the potential impact of an increase in consumption.

Fig1. demonstrates that an increase in consumption, & which could perhaps happen due to increased ^real incomes in the economy which means the ^consumers have more confidence to spend, and that are Purchasing power of their income for could increase AD (as C is a component of AD). ^from AD₁ to AD₂ (shift). This economic growth is the increase in ^output from Y₁ to Y₂. As output is increasing, & ~~closer~~ and closing the negative output gap of Y₁ - YFE, making the economy closer to full capacity, there is increased pressure on existing factors of production, such as labour. Labour is a derived demand, therefore firms ~~will~~ could respond to an increase in demand for goods and services by employing more labour, therefore reducing the unemployment level — such as what happened to the USA in 2019. Furthermore, this initial injection [of]

This response is a good example of the use of the economists' toolkit, use of accurate diagrams, fully integrated with strong understanding of the specification, using developed chains of reasoning.

In this exemplar the candidate has fully integrated their accurate diagram using chains of reasoning and the economics toolkit of terms, concepts and theories to analyse why an increase in consumer expenditure will lead to a fall in unemployment. The response very clearly shows how one chain of reasoning links to another, utilising the labelling on the diagram and is fully focused on the question set and refers to the stem. This part of the response was given marks for strong analysis. Strength of analysis can often lead into a supported judgement and this response went on to develop counter-arguments as to why an increase in consumer expenditure would not always lead to a fall in unemployment and made a supported judgement using their original diagram and further development in that it depended on the output gap. Full marks were given.

Question 3*

3* Between July 2018 and August 2020, the value of the Turkish lira fell from 4.73 lira to 1 US dollar to 7.32 lira to 1 US dollar. The Turkish central bank spent much of its foreign currency reserves in attempt to stop the decline in the country's exchange rate.

Evaluate, with the use of an appropriate diagram(s), whether a central bank should try to stop a decline in a country's exchange rate. **[25]**

This question was not as popular as Question 2, but those who did choose it usually provided good responses particularly in terms of the analysis criteria. They focused on why a Central Bank should intervene to stop the devaluation and developed their responses in terms of the impact this would have on the economy using aggregate demand and supply analysis. For the evaluation criteria, in terms of the benefits of a depreciation to Turkey, they considered why a Central Bank should not stop the devaluation. Judgements considered the difficulty in reversing a depreciation in terms of its effects on currency reserves. The less successful responses did not focus on why a Central Bank should or should not intervene and usually only considered how a depreciation would occur and why it may not, or methods of how the depreciation could be stopped without considering why.

Exemplar 2

A significant strength of a fixed exchange rate is stable prices. Since fixed exchange rates are usually fixed against stable - low inflation currencies - It means little government intervention is required. Most currencies are set against the US dollar due to its low volatility - meaning the Lira is likely to need much government
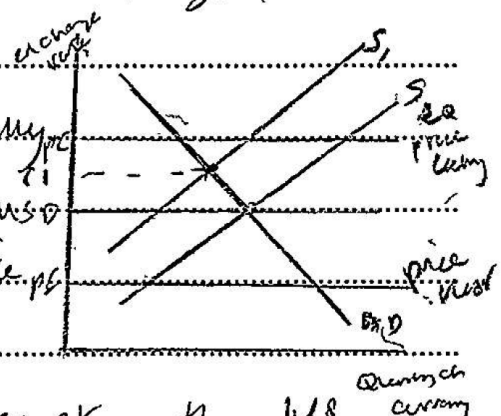
> Candidates who do not respond to the question set and perhaps try to alter it to a question that they would prefer, rarely gain many marks.
>
> In this response the candidate discusses the pros and cons of a fixed exchange with no reference to the question set. The economics in the response was extremely good, but it was not rewarded because the focus was not on what the question asked. The diagram was not used in their analysis either. Candidates should be reminded to reference the question after each paragraph they write to make sure they have not drifted from what is required and have answered the question set; using the wording from the question and the stem can help candidates to produce a stronger response.

Section C overview

Questions in this section of the paper do not require use of a diagram, in contrast to Section B. However, relevant diagrams integrated into the response can help candidates to develop chains of reasoning and will always be credited as part of the analysis or evaluation offered. In both questions, the key to a strong response was an accurate understanding of the concept referenced in the question and/or the stem to the question. Less successful responses to Question 3, for example did not refer to a particular supply side policy or only analysed one supply side policy. In Question 4 less successful responses did not consider government revenue. Strong analysis and good evaluation in Section C requires developed chains of reasoning. Candidates are advised to develop fewer points in greater detail rather than make more undeveloped points. Contextual analysis and evaluation can be considered part of these chains of reasoning. Summative conclusions do not hit the mark where examiners are looking for supported judgements related to the question.

Question 4*

4* Since 1978, more than 800 million people have been lifted out of poverty in China. In this period, the Chinese government has made increasing use of supply side policy measures.

Evaluate the effectiveness of using supply side policy measures to reduce poverty.   **[25]**

This was a popular and generally well answered question. Stronger responses made good use of diagrams, although they are not required in this section; they aided the analysis or evaluation. They considered at least two different supply side policies; the question does say 'measures' so more than one was required. Many strong responses made a distinction between interventionist and market-orientated supply side policies and developed their reasoning to show how they alleviated poverty. Judgements considered the type of poverty that could be alleviated. Less successful responses only considered one supply side policy; education was the most popular, but then also limited their evaluation because only one policy was considered. This then meant some candidates considered other policies to alleviate poverty, which was not answering the question set.

Exemplar 3

To conclude, supply-side policies are more likely to reduce relative poverty effectively than absolute poverty. They can increase workers skills and human capital, allowing them to earn more in the future, and more productive firms will reduce unemployment. These supply-side policies need to be targeted to those on low incomes in order to work.

This response shows a good example of making a supported judgement.

This response used clear chains of reasoning throughout, linked to the stem and the question set. This part of the response shows a supported judgement. They had discussed a range of supply side policies and also developed counter-arguments as to why they may not work or be as effective. This was not a summary or repetition of what went before; it was a judgement as to which type of poverty they would be more effective at reducing and where they needed to be targeted.

This response was given full marks.

Question 5*

5* In 2020, the Saudi Arabian government tripled Value Added Tax from 5% to 15%. It did not change the country's corporate tax rate.

Evaluate whether a government should rely more on indirect or direct taxation as a source of revenue. **[25]**

This was not responded to by as many candidates as Question 4 and was, in general, not answered as well as the other optional questions. A few candidates could not distinguish between direct and indirect taxes correctly. Other candidates distinguished the taxes correctly but did not respond to the question in terms of the reliability of the tax in providing revenue. Many candidates drew the Laffer curve, but many did not explain it. There were many candidates who only discussed direct taxes. The stem could have been made use of here. It clearly indicates a reliance on VAT rather than corporation tax, so candidates could have been guided to discuss how indirect taxes could be a better source of government revenue and then discuss the limitations of an indirect tax. While a discussion of the benefits and drawbacks of using direct taxes as a way of generating government revenue was valid, on its own it did not offer balance to the response.

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