



GCE A LEVEL EXAMINERS' REPORTS

ECONOMICS A LEVEL

SUMMER 2018

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COMPONENT 1: ECONOMIC PRINCIPLES

General comments

In the second year of the new specification the Component 1 paper discriminated well providing a wide-ranging challenge to candidates. This paper provides an opportunity to test all the assessment objectives but in the multiple choice section particularly AO1 and AO2. There are also areas of the specification that can be tested most effectively in this paper. A few candidates did not attempt all the multiple choice questions in Section A which was rather strange. Candidates are reminded that they should always use the box to write their answers to the multiple choice questions; some used a different method to indicate their answers which examiners did allow despite instructions not being followed.

In Section B few candidates failed to attempt all the questions and there was no evidence that they were short of time. A number of candidates used the continuation pages at the back of the booklet but others used extra booklets when they should have used the continuation pages first! When diagrams are used in Section B it is important that they are integrated into the answer and contribute to the quality of the answer. In addition legibility of handwriting remains an issue for a few candidates. It is also worth remembering that this paper is well suited for the testing of quantitative skills in both Section A and B.

Section A

The mean mark on Section A was 11/20. Anecdotal evidence suggested that the most challenging questions were Q3, Q13 and Q19. In Q3 many candidates ruled out the correct answer D quite possibly because they felt that a rise in labour productivity would reduce the demand for labour and shift the demand curve to the left. Q13 was challenging and evidence from Component 3 in Q4(b) suggested that many candidates have a rather superficial understanding of the expectations augmented Phillips Curve. Q19 required a little mental gymnastics by candidates to deduce that UK firms' earnings in dollars or euros would convert to more pounds as result of a fall in the value of the pound. Evidence suggested that the questions which candidates found most straightforward were Q1, Q6 and Q17.

Section B

Q.21 This was a fairly straightforward question on price elasticity of demand. A few candidates became mixed up in their analysis confusing elastic and inelastic demand. Some candidates became involved in over-complex answers involving the theory of the firm although use of average revenue and marginal revenue analysis was acceptable showing how price elasticity of demand and thus revenue changed along the length of the demand curve.

- Q.22 Many candidates had a rather superficial understanding of government failure and some failed to use the data effectively to support their answer. There was plenty of material to support the view that government regulation had created a welfare loss – high entry barriers leading to an abuse of dominance. In their evaluation good candidates were able to reason that the pharmaceutical industry needed regulation on grounds of public safety.
- Q.23 (a) This was a straightforward question where a clear definition of price discrimination needed to be applied to the different prices for first class rail tickets. Some candidates gave rather clumsy definitions of price discrimination or failed to apply it correctly to the data.
 - (b) Most candidates were able to show that both producers and consumers could benefit from price discrimination. Often candidates failed to use the example given and provided other examples of price discrimination losing out on AO2 marks.
- Q.24 This was a challenging question in the pressure of an examination even though the diagram had already been partly drawn. There were 4 marks available for correct annotation of the diagram. Examiners did not penalise a shift in the marginal cost curve but the leftward shift in the average revenue curve had to be accompanied by a marginal revenue shift as well in order for full credit to be given. The final diagram needed to show falling output and higher profits.

The explanation was worth 2 marks and required use of the data to explain why average revenue and average cost had fallen. Few candidates gained 6 marks on this question which had a mean mark of 3.

- Q.25 This question was fairly straightforward requiring candidates to use the data to explain why the size of the Japanese national debt might be a problem and then providing some evaluation. Often use of the data and the evaluation was rather superficial and weaker candidates confused the national debt with the budget/fiscal deficit.
- Q26 This question proved to be quite a challenge for a large number of candidates. Many candidates struggled to provide a reason why employment could be rising while unemployment could be unaffected or even be rising itself. The best candidates were able to show clearly that a rise in the size of the labour force possibly through migration or more people becoming economically active was the key to the answer.
- Q27 Many candidates had a very shaky understanding of the Human Development Index (HDI) and failed to deduce that Zambia must have better life expectancy and a higher mean years of schooling than Equatorial Guinea given the latter's much higher GNI per capita. The best candidates used the data to demonstrate that political stability and good governance were key factors in Zambia's HDI better performance in education and life expectancy.

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COMPONENT 2: EXPLORING ECONOMIC BEHAVIOUR

General comments

As with last year's paper, although each of the data responses had a theme, the questions covered a wide range of theory; The 'development' question on Malawi tested an understanding of the link between interest rates and exchange rates, whilst the context of the rail industry was used to test an understanding of nominal and real terms as well as market failure. Hence, as with Component 1, the key to success is for candidates to ensure that there are no gaps in their knowledge; a solid understanding of the entire specification will generally lead to better outcomes than brilliance in a smaller number of topics; the absence of choice of questions makes the latter strategy extremely dangerous.

Although the two data response questions may have appeared on the long side at first glance, and the density of information is probably at the top end of what is possible, there was only limited evidence to suggest that candidates were unable to finish the paper – there were some strong answers to the final question on population growth, suggesting that most candidates timed their exam well. Generally, use of data seemed stronger than in 2017 with a higher proportion of candidates anchoring their answers in the context of rail (for which many seemed well prepared) and Malawi respectively.

It was also generally true that responses to directive words were stronger this year as well, with a comparatively low number of candidates failing to evaluate when asked (or evaluating when not asked), suggesting that the wording of questions allowed candidates to show what they could do. These questions covered a range of skills, from some highly technical (allocative efficiency and the interest rate/ex rate link), some anchored in maths and diagrams and some requiring a common sense response based on two years' study of economics. Hence most candidates were able to find something for which they could get credit, whilst the most able were able to show what they could do, with a good number of answers scoring well over 80% on the paper.

Looking across the gender divide, female candidates scored a mean of 44.74 raw marks against a male mean of 43.56. Female candidates performed better on average on both data questions but were further ahead on the Malawi data. Males outperformed females on questions 1b and 1c, whereas the reverse was true on 1d, 1f, 2b and 2e.

Question 1: The rail industry

As noted above, it was clear that many candidates were well prepared for this context, which is gratifyingly unsurprising given the prominence of the sector in the news over the last few years. Although there was plenty of information in the context, it was nevertheless the case that those candidates who had followed Jeremy Corbyn's views on ownership of the rail sector, or who were aware of recent timetabling fiascos were able to bring flair and colour to their answers that allowed them more easily to access the higher marks. It cannot be stressed enough that economics is not a subject that can simply be learned from a textbook, at least not if a true understanding is to be gained.

Individual questions:

- Q.1 (a) This was a gentle introduction to the exam and was the question that candidates found easiest. The role of the question was to settle candidates and to direct them towards the context. The mean score on this question was 3 with a standard deviation of 0.9 suggesting that it did discriminate but also allowing all candidates to get off the mark.
 - (b) By contrast, candidates struggled with this question. There was confusion over both the difference between real and nominal terms (with a substantial minority of candidates thinking that inflation was real terms) and also confusion over the fact that the graph showed rates of change rather than the absolute values of rail fares. This question discriminated well and was the heart of what we believe numerical skills should be – an important piece of real-world data that conveyed critical information about the nature of rail fares; this is exactly the type of information that economists should be able to play around with and the fact that it was one of the less well-answered questions on the paper was disappointing.
 - (c) Unlike last year, most candidates did attempt to draw a theory of the firm ("costs and revenue") diagram, but the majority appeared unable to manipulate it. The most common answer was simply to draw a monopolystyle diagram with abnormal profits shaded, but this did not answer the question. The most common credit-worthy incorrect response was to shift AR right without shifting MR, which gained 1 of the 2 diagram marks. Candidates who argued that the increased scale of the rail sector would reduce unit costs and increase profit that way were credited if their analysis matched their diagrams, although this wasn't the answer that we expected. The ability to use and adapt diagrams is a critically important skill for economists at A level and it is clear that only a minority of candidates understand theory of the firm diagrams sufficiently well to be able to do this.
 - (d) This was another question on which candidates struggled. A frighteningly large number of candidates seemed unaware that setting price equal to marginal cost would produce the allocatively efficient price and output and of those, only a minority actually understood what allocative efficiency really meant. More generally, there was widespread confusion about the difference between allocative and productive efficiency, which is surprising given the prominence of these concepts in the specification.

- (e) The question on renationalisation, however, was clearly very welcome. Apart from 1a, this was by far the best-answered question on the exam, with some very well argued and impassioned pleas on both sides of the debate. Pleasingly, candidates generally made an attempt to round off their answers with a direct view about the question, which if well done was a good route to high evaluation marks. The context was very well-used and the strongest candidates brought in their own information from wider reading (although this was not essential to score full marks).
- (f) Was answered less well. Drawing on what, for many, will be year 12 material it was clear that some candidates had forgotten all about welfare loss and tax diagrams. Although the pollution and congestion caused by private cars is essentially a consumption externality, diagrams to illustrate this were conspicuous by their absence. As a result, full diagram marks could be gained from a well-used production externalities diagram even though this wasn't really what was wanted nor was it actually correct. Only a minority of answers showed a good understanding of welfare loss and the correction of market failure, concepts which formed the heart of the best candidates' responses. Weaker answers tended simply to look at the effectiveness of indirect taxes from an elasticity perspective which, although relevant, didn't really answer the question fully.

Question 2: The IMF and Malawi

This was statistically the harder of the two data's. Part of the issue seems to have been the amount of time that candidates spent on 1(e), which then meant that they weren't able to get to the heart of the development data – use of the case was weaker here than on Question 1 even though there was arguably more here to use.

- Q.2 (a) This question discriminated well. Weaker answers simply used the data to agree with the statement, stronger ones picked out data points on both sides whilst the strongest were able to do this and to use their information to explain what was going on. Again, the point of this question was both to test the mathematical skills that are most important for economists as well as to give a steer for question 2(d).
 - (b) This question was generally well done and produced a range of answers which varied widely in quality with the best candidates making good use of both volatility and elasticity in their answers.
 - (c) This question was both the hardest on the paper in statistical terms and also produced the highest standard deviation, discriminating extremely well between candidates. The best saw immediately that something was wrong – that theory would have predicted a direct link between interest rates and exchange rates, but that this wasn't present here. They explained that this was so and then went looking for alternative explanations - poor weather damaging exports, low confidence leading to capital outflows and an inverse causation (a weak exchange rate pushing up inflation therefore forcing contractionary monetary policy) were all very plausible responses and generally pushed marks up close to 10/10. At the other end, candidates failed to realise that the Kwacha was weakening over the period, instead arguing that it was appreciating. Such answers gained little credit and this weakness just reinforces the importance of basic mathematical skills.

- (d) This question was quite well done. Having been directed to the policies by the question, most candidates were able to make some headway, although only a small number took the hints from questions 2(a) and 2(b) about the value of widening the tax base. There were some good debates over the value of fiscal tightening and weaker exchange rates in the context of less economically developed countries and the data was well-used in the majority of answers. Weaker answers did not understand what the IMF's policies meant and instead came up with their own solutions, generally focused on supply side investment in education and infrastructure. Although well-intentioned, such answers did not answer the question set and gained very little credit.
- (e) Although time pressure was beginning to be felt, most candidates made a fair stab at this question, which was statistically speaking one of the betteranswered. A good number of candidates used PPF/LRAS style arguments and had also picked up on the context, arguing that pressure on housing and other basic services would create problems. An encouraging number compared Malawi's economic growth with their population growth, observing the short run diluting effects of the increase in the population on GDP/capita. Few answers really had time to consider short-run and long-run effects, but it was pleasing that so many candidates were able to apply the economics that they had studied over two years to an unfamiliar context.

Taken as a whole, the data response paper remains a challenging one, but one that discriminates well between candidates and forms the heart of what economics should really be about; the application of theory to real-world contexts. At the bottom end, some candidates simply copied out the case, which resulted in minimal credit, but the best candidates displayed a comprehensive range of data-handling skills and theoretical knowledge that was heart-warming to read; these candidates had the numerical, literacy, analytical and evaluative skills needed to excel and were able to use these skills to full effect in discriminating themselves from the pack. They understood the theory, they could interpret the numerical and written data and were able to apply the former to the latter. In the end, this is the purpose of A level economics exams and the data-response paper discriminated both well and fairly between candidates depending on their levels of skill and preparation.

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COMPONENT 3: EVALUATING ECONOMIC MODELS AND POLICES

General comments

The Component 3 paper is a challenging examination even though there is a degree of choice for candidates. There were some outstanding papers with one candidate gaining full marks. There were also candidates who struggled with the more complex concepts being examined. The poor level of knowledge and understanding of the terms of trade shown by many candidates in Q5(b) resulted in this question having the lowest mean mark of all the part (b) answers. Similarly Q2(a) proved to be very challenging for many candidates with the question having the lowest mean mark of all the part (a) questions.

In the three sections of the paper there was no single question which was clearly very unpopular. The least popular question was Q5 and even that had a 37% attempt rate. The highest scoring part (a) question was Q6(a) and in part (b) it was Q3(b). All in all the paper seemed to discriminate well giving all candidates the opportunity to do justice to their ability. Good candidates were able demonstrate their knowledge and understanding and evaluate strongly. The best candidates also integrated diagrams effectively, used clear chains of reasoning in their analysis and came to a reasoned judgement in part (b) of the essays. Candidates often looked to have rushed into print without due thought to what the question was asking of them. This resulted in answers which became at best 'off-centre' and at worst containing too much irrelevance.

It was pleasing to see some candidates using real world examples to support their arguments and applying them to theory. Some candidates do need to pay closer attention to their presentation and handwriting helping examiners who are seeing their handwriting for the first time.

Question specific comments

Section A

Q.1 (a) Most candidates were able to give a good or partial explanation as to why demand curves sloped down to the right. Some used the substitution and income effect, others marginal utility analysis. Marks were often lost when it came to explaining the slope of the supply curve. A large number of candidates confined themselves to stating that firms will supply more at higher prices because they will make higher profits. To gain a band 3 mark the concept of diminishing returns and rising marginal cost needed to be introduced.

- (b) Many candidates lost marks in this question because they failed to explain the process that causes a rise in demand to lead to a rise in price and quantity. Some candidates failed to use the term perfectly inelastic when challenging the notion that a rise in price always leads to a fall in quantity demanded instead they merely used the term 'inelastic' which is inaccurate. Examiners credited candidates who introduced perverse demand curves such as for Veblen goods in their evaluation. The best answers used perfectly elastic and perfectly inelastic supply curves in their evaluation using diagrams to good effect.
- Q.2 (a) This question was challenging, requiring candidates in two separate diagrams to shift average and marginal revenue following a rise in demand and to shift marginal cost following a rise in costs. It was expected that some reason for the rise in marginal revenue and marginal cost would be introduced. The question stated that the firms were profit maximisers and thus marginal revenue or marginal cost must have changed to bring about a rise in price. Most candidates struggled to reach beyond band 1 gaining limited reward for identifying characteristics of monopolistic competition and providing generalised reasons for a rise in price. Weaker candidates confused monopoly with monopolistic competition which they carried forward into part (b).
 - (b) Most candidates associated the word 'desirable' as being related to allocative and productive efficiency. Diagrams supporting this were much in evidence although not always integrated into the text of answers. The best answers went beyond assertions and explained for example exactly why allocative efficiency was desirable. Credit was earned by candidates who identified that a benefit to consumers of monopolistic competition is the variety of choice of the differentiated products available in this market structure. Examiners allowed candidates to interpret the word 'desirable' as widely as possible within the constraints of the specification and did not confine credit just to efficiency issues.

Section **B**

- Q.3 (a) Most candidates used the CPI and the RPI as their chosen two measures of inflation. The methods of calculation used were explained with varying degrees of accuracy and clarity. To reach band 3 candidates needed to clearly distinguish the two measures of inflation using their different population base, commodity coverage or index methodology ie arithmetic or geometric mean.
 - (b) Deflation is new to the specification and highly topical with candidates drawing mainly of the experience of Japan in recent years. Most candidates were aware of the dangers of deflation to an economy but a more comprehensive range of problems associated with falling prices was often lacking. The problems of inflation were more familiar to candidates and a wider range of points were introduced. The best candidates qualified the demerits of both and came to a reasoned judgement. A sound approach was to talk about the benefits of supply side deflation and the widely held view that low and stable inflation is generally beneficial to an economy.

- Q.4 (a) Most candidates were able to provide a number of valid economic costs of unemployment but were less detailed on the social costs. Some candidates were also confused as to actually what constituted a social cost. Unfortunately in many cases social costs was treated as a brief afterthought or not at all. Examiners were expecting mention of increased crime, alcohol abuse, depression and relationship breakdown which impose costs on society as a whole. Candidates could not reach band 3 without introducing both economic and social costs into their answer.
 - (b) This was a challenging question which required knowledge and understanding of the expectations augmented Phillips Curve. Sadly many candidates' understanding of this concept was at best superficial. The best candidates used supply side policies to show how the natural rate of unemployment could be reduced and then used adaptive expectations theory to explain how attempts to reduce unemployment below the natural rate would lead to higher inflation and no long term fall in unemployment. Good evaluation used adaptive expectations theory to say that unemployment did fall in the short term below the natural rate. Some candidates challenged the whole idea of there being a natural rate of unemployment with others arguing that the UK economy is currently operating at an unemployment level below its natural rate and has been for some time.

Section C

- Q.5 (a) This was a fairly straightforward question but to score high marks candidates needed to show clear chains of reasoning. When asserting that a fall in interest rates could cause a depreciation it was important to demonstrate the process that brought this about. Well integrated diagrams were an important part of the best answers.
 - (b) Many answers to this question were very weak mainly because a significant number of candidates had no clear understanding of what is meant by the terms of trade. As a result some very low marks were awarded. Those who understood the terms of trade and discussed how it could affect the balance trade were able to score relatively easy marks – particularly when they used the Marshall-Lerner condition and often the reverse J-curve. Some candidates based an improvement in the terms of trade around an appreciation of the exchange rate which made it easier for them to chart a path through the question and build chains of reasoning.
- Q.6 (a) Most candidates found this to be a straightforward question using tariffs, quotas and subsidies as examples of protection. The best answers were supported by integrated diagrams showing the effects of each policy. Regulatory barriers were also used effectively by many candidates. Less convincing for examiners was the use of embargoes which some candidates explained as a form of protection. These are usually imposed for political, military and social treasons rather to protect domestic industries.

(b) Some candidates interpreted the title of this question to mean an evaluation of free market v state intervention approaches which is rather off-centre and was given limited reward. A number of candidates wrote confidently and extensively on external liberalisation (free trade, FDI floating exchange rates etc) but little or nothing on internal liberalisation. Inevitably this led to a cap on the mark that could be awarded. The best candidates gave equal weight to internal and external liberalisation evaluating both well and applying their answer to LEDCs using good examples from the countries they had studied and tying their discussion to living standards.

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