GCE A LEVEL EXAMINERS' REPORTS

ECONOMICS
A LEVEL

AUTUMN 2020

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COMPONENT 1: Economic Principles

General Comments

It was encouraging that virtually all questions were attempted by candidates, signifying the accessibility of the paper. Candidates were able to demonstrate their knowledge and understanding of a range of key concepts.

Candidates were generally able to reflect the demands of each question by responding well to the command words used, although there were specific instances in which there was little or no application or evaluation in responses that required these specific skills to be demonstrated.

Section A.

Multiple choice.

The mean mark on the multiple choice section was 11.3. Questions with the lowest correct responses were

question 4 (28.6%), question 10 (28.6%) and question 20 (14.3%). Question 4 was on exchange rates, question 10

was on elasticities and question 20 on the theory of the firm. The highest correct responses were from question 6

(78.6%), question 13 (78.6%) and question 14 (85.6%).

Section B.

Short answers.

Q.21   Most candidates were able to explain how a fall in the pound would lead to a rise in demand and that this would also lead to rising costs from imported raw materials. The diagram needed to show shifts in AR and MR to the right and the AC and MC curves to left. The challenging part was to arrive at the right price and quantity (MC=MR) before and after these changes. It was also a requirement that the diagram showed a fall in profit but a rise in revenue. Some credit was given for partially correct diagrams and on the whole candidates made a decent effort at a tricky diagram.

Q.22   The correct approach for this question was one which showed how market failure was corrected by a tax using the consumption externalities diagram. Many candidates drew a simple demand and supply diagram with the supply curve shifting to the left as a result of a sales tax. This only received limited credit. Data use was often limited and many answers lacked an overall judgement as part of their evaluation.

Q.23 Candidates could only get full AO2 marks if they used the data on both sides of the discussion. Chains of analysis showing how high or rising GDP can lead to economic development were often weak or unconvincing. Candidates often picked out Equatorial Guinea and Cuba for their evaluation. As with other questions in this section an overall judgment was often lacking as part of the evaluation.

Q.24 As with the previous question candidates were required to use the charts on both sides of the discussion if they were to get full AO2 marks - many did not. There were some good chains of analysis linking the data in the charts to the Phillips Curve but evaluation exploring why there may not be an inverse relationship between inflation and unemployment was often limited. An overall judgement was required for top band AO4 marks.

Q.25 This question was a good test of quantitative skills and many calculations were correct showing clear working. Chains of analysis were required to show that although revenue had risen profit had fallen and thus the cut in price was perhaps not a good idea. Some candidates produced some good evaluation suggesting the firm might have other objectives such as increasing their market share. As with other similar questions an overall judgement was often lacking.

2

ECONOMICS

GCE A LEVEL

Autumn 2020

COMPONENT 2: Exploring Economic Behaviour

General Comments

This was a very unusual cohort and therefore it is difficult to generalise too much from their performance on this paper. Nevertheless, it remained true that the skills needed to succeed on this paper are the same as those that have been needed since its inception and centre around four key areas:

- A strong understanding of underlying economic theory and an ability to explain why the theory operates the way it does, not simply knowing what it says.
- An ability to actually use the theory to answers real world questions.
- An ability to adapt and utilise diagrams.
- A willingness to think about the questions set rather than simply to repeat learned knowledge.

The strongest candidates were able to demonstrate these skills, and scored extremely well on the paper. The weakest could not and scored poorly. Hence, in spite of the low entry numbers, there was a satisfyingly wide range of marks.

In terms of the actual questions themselves, the cases this year did not draw on development economics, focusing rather on the fishing sector in the UK and the Turkish economy under President Erdogan. Insofar as it is possible to draw any statistical conclusions from the low entry numbers, the two cases seemed to prove equally challenge to candidates.

Question 1: The Codfathers

This data was centred around a debate over the extent to which the current set-up in the UK fishing sector is desirable and blended year 12 knowledge of market failure with year 13 understanding of market structures, hence providing a wide-reaching test of microeconomics.

a. The first question produced the usual range of precise and imprecise definitions of market failure, with almost all candidates having some idea. Part (ii) of this question was a good discriminator; the best answers showed a clear awareness of the tragedy of the commons/absence of property rights and were able to use figures 1 and 2 to show how regulation can deal with market failure; weaker answers simply talked generally about overfishing without linking back to market failure.

b. This question also discriminated well. There was no set answer to this, meaning that all candidates needed to do was to relate the evidence on the fishing sector back to their understanding of the characteristics of different market structures. Monopoly, Oligopoly and Monopolistic competition were all popular suggestions, with one of the more able candidates trying to compare the sector with Perfect competition as well. The strongest candidates knew the characteristics of all four markets structures and could pick a couple to compare, using the information on boat sizes and numbers effectively to support their case. Weaker answers either couldn't link back to the theoretical characteristics of any market structures or simply clung on to Oligopoly without really getting past the idea that the market seemed to be dominated by a few large firms.

c. This was another question that discriminated well. The most able candidates were able to use an imperfect competition diagram very effectively to show how both scale and access to larger quotas allowed larger firms to generate larger profits than smaller firms. Mid-range answers tended to focus only on the cost side of the debate, whilst the weakest answers resorted to supply and demand diagrams for limited or no credit.

d. Essentially this question tested candidates' ability to pick out relevant facts from the story. The best candidates were able to weigh up the environmental benefits of scale vs localisation and stack that up against the wider jobs and growth aspects. The question again allowed the best candidates scope to blend their understanding of economic theory with a non-trivial question as to how beneficial a reduction in the scale of the average player would really be. Weaker answers tended to trundle out standard arguments in favour or against monopoly power with only limited application to the context.

e. This answer proved challenging because answers tended to centre on only one of the two policies mentioned in the relevant section of the case, which was slightly disappointing given that the question clearly signposted the relevant lines in the text. Hence there were lots of answers on taxes internalising externalities, but very little on investment in recycling plants.

    Perhaps because it was the last question, there was also a weaker ability to apply to the context and market failure tended to be treated in a rather abstract way. Combined with a tendency to draw only one diagram when the question asked for diagrams, this was one of the less well-answered questions on the paper.

Question 2: Turkey in economic turmoil

The case on Turkey was a wide-ranging look at some of the issues that President Erdogan has faced in recent years, covering micro and macro factors as well as linking back to the EU. As a result, candidates' performance on this case was more uneven, depending a lot on their own areas of strength as to where they scored well. Overall though, the mean was similar to that of the Codfathers.

a. As is usually the case with PPP questions, answers tended not to be able to outline very clearly how using an internationally standard basket of goods and services makes a difference to GDP figures in $. Of the small cohort, all answers were scored at 0 or 1.

b. This question on the increase in Turkey's minimum wage discriminated better than might have been expected. Surprisingly, it was only the best candidates who could draw accurate minimum wage diagrams, which have been a staple of year 12 economics for many years. Although it is difficult to draw firm conclusions from this series, it does perhaps suggest that candidates should make sure that they are able to use all of the slightly trickier year 12 content at the end of year 13; In other series, questions on primary product price instability and PPFs have also produced similarly slightly disappointing responses. The best answers were able to think about what had happened to the minimum wage in real terms as well as just nominally and were able to link back to the unemployment and labour force participation data in Figure 1.

c. This was fairly standard fare and any candidate who understood exchange rates was able to score well. The main weakness was a tendency to simply write out an analysis of the advantages and disadvantages of exchange rate depreciations without applying it back to the context of Turkey. Nevertheless, there were well argued analyses linked back to key policy objectives with some good evaluation looking at elasticity and short/long run effects.

d. This question performed extremely well in terms of discriminating between candidates. Weaker answers couldn't really link interest rates to inflation at all. Mid-range answers understood how an increase in interest rates would help to control inflation. Only the strongest answers could get to the heart of what President Erdogan appeared to be arguing and talk about the cost-push effects of interest rates, using AD/AS diagrams effectively to demonstrate demand-pull and cost-push inflation.

e. This answer was also fairly standard and was generally well answered by candidates who weren't struggling for time. Much like question (c), the familiarity of the material meant that answers didn't always use the context very well, producing some run-of-the-mill advantages and disadvantages of EU membership answers, which therefore struggled to hit the highest marks.

This was a paper that tested wide ranging economic knowledge from across the whole of the two years; labour markets, market failure and regulation, market structures, inflation, exchange rates, PPP and the EU provided a genuine test of the two years that candidates had studied the subject and allowed the best candidates to write some sophisticated answers which were both well-grounded in economic theory and fully applied to the real-world scenarios in the two datas.

5

ECONOMICS

GCE A LEVEL

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COMPONENT 3: Evaluating Economic Models and Policies

General Comments

Section A

Q.1   In part (a) most candidates were able to define allocative and productive efficiency and also to draw diagrams to demonstrate when a firm is operating efficiently. There is often a problem that candidates cannot progress much beyond assertions in these type of questions and that there is a degree of understanding missing ie exactly **why** is price=marginal cost allocatively efficient? Part (b) gave candidates the opportunity to choose from a large range of types of government intervention to answer the question. Analysis and evaluation of two or three forms of intervention with links to efficiency of resource allocation were required. As with all part (b) questions an overall judgement was required to reach band 3 evaluation.

Q.2   A few candidates had problems with part (a) of this question and were unclear as to how to explain the change in price elasticity of demand along the length of a straight line demand curve. Using marginal revenue was the best approach. Candidates that merely stated that elasticity is elastic in the upper section and becomes more inelastic as price falls were given only limited reward. Part (b) answers often lacked accurate diagrams showing the impact on producer and government revenue of a rise in price or the imposition of a sales tax. Integrated relevant diagrams are often essential components of a top grade answer.

Section B

Q.3   Part (a) of this question was potentially very straightforward for candidates that could explain MV=PT and there were some encouraging answers. Part (b) was quite topical given the current economic situation with QE being extended and its reversal seemingly a long way off. Candidates attempting this question found part (b) very challenging with marks generally only in band 2.

Q.4   Some candidates produced very sound answers to part (a) using either PPF or AD/AS diagrams to show the difference between actual and potential growth. The best candidates explained why the rightward shift in either the PPF or the LRAS curve occurs when there is potential growth. Part (b) was a fairly straightforward question with good answers focusing on the benefits and costs/disadvantages of economic growth and then coming to a reasoned judgment as a conclusion.

6

Section C.

Q.5   In part (a) good candidates considered more than one factor when explaining the negative effects on an economy of an overdependence on primary products. The best candidates introduced the Prebisch-Singer hypothesis. In part (b) the best answers considered the importance of FDI to primary product dependent countries (mainly LDCs). A narrow focus on the general advantages and disadvantage of FDI to an economy was limited to band 2.

Q.6   This was not a popular question but while in part (a) knowledge of the workings of ERM II was not required candidates struggled with the issue of currency stabilisation and supporting diagrams were weak. Part (b) was more straightforward and quite topical given that some EU members (Bulgaria, Croatia and Denmark) are going through the pre-membership process at the moment, and the euro zone itself is under some stress.

7