GCE AS EXAMINERS' REPORTS

**ECONOMICS
AS**

SUMMER 2022

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COMPONENT 1: INTRODUCTION TO ECONOMIC PRINCIPLES

General Comments

Component 1 appeared to be a relatively technical paper in line with previous versions of the paper with a combination of graphic response questions, data responses and diagram style questions.

This paper was less accessible than previous series as specific questions focused on relatively technical elements of the specification – wage differentials and price elasticity of supply. Whilst the concept of rationality was assessed in unusual circumstances. However these were balanced by more straight forward questions.

Timing proved to be difficult for some candidates and 60 marks in 60 minutes continues to be a challenge. Possibly candidates have had less opportunity for hand written responses over the last couple of years with a move to electronic learning and lack of opportunity for exam practice.

Having said this, there were a number of very high level responses that exhibited excellent understanding of economic theory and the ability to apply them in unusual circumstances. Though it felt that there were fewer excellent and high good responses on this component in comparison with C2 as a proportion of all responses.

Comments on individual questions/sections

Q.1   Question 1 was a multi-section question. Generally candidates recalled the two different parts of the opportunity cost definition accurately for 2 marks in part (a).

In part (b) the majority of candidates successfully calculated the opportunity cost for the required mid-rate, though at times candidates forgot to express the outcome in £. A minority of candidates calculated the opportunity cost using the incorrect data or compared the costs across the different columns of data. As such, it is important candidates follow the instructions in the question.

Part (c) proved a greater challenge for candidates in regards to applying rationality in an unusual situation which required some problem solving and lateral thinking in contrast to rote learning. Stronger responses successfully applied their understanding of rational decisions to both the numeric and text data to support each side of the argument before commenting on whether they thought it a rational decision to opt out or less so. Unfortunately, some candidates either were unable to recall the concept of rationality and apply it to the information provided, and left this part of the question unanswered, losing 6 marks out of 60 in the 1st question.

Q.2 Question 2 was a singular question on the extent the German government should be concerned by the protectionism taken by the USA. The candidates were presented with a short piece of text and then data on GDP, destination of exports and a breakdown of the components of aggregate demand. Stronger responses successfully combined the data and information from the text passage to support their arguments on whether they should be concerned or less so. The stronger responses applied the information to support their arguments on each side of the discussion. The strongest responses successfully interpreted the data, especially that of the aggregate demand component breakdown to realise that the German economy enjoyed a trade surplus/+ve net exports.

Some candidates focused too heavily on explanation of tariffs and diagrammatic analysis of how tariffs can protect industries in the USA economy when the analysis needed to link how tariffs could affect imports from Germany/German exports. Whilst a minority of candidates discussed if the USA economy would be affected macro-economically. Stronger responses consisted of clear detailed analysis was required on the impact or less so on the German economy in terms of the GDP, its components and considered wider macro-economic objectives. Weaker responses were AO2 heavy in comparison to AO3 and AO4.

Q.3 Question 3 was a two-part question on the UK economy in terms of price inflation rates and wage inflation rates in part one. Whilst in part two it focused on unemployment and whether it would continue to fall. Candidates found both of these question parts difficult.

Part (a) presented a challenge for candidates as they found it difficult to interpret the data to identify periods of real wage growth or decline. Stronger responses interpreted the data successfully and showed clear understanding of inflation being the rate (% change) of price increase and wage growth being the rate (% change) of wages and both were positive throughout the entire period. Weaker responses described the data and made the mistake of thinking prices fell or wages fell which was incorrect based on the data. This is a common mistake

Differences in % change can be also difficult for candidates but a require mathematical skill. There were some excellent responses which compared the difference in % change and calculated the difference to support their arguments on real wage growth or decline. In terms of the outcome of consumption, stronger responses exhibited detailed explanation of why real wage growth or decline would affect consumption, whilst weaker ones lacked the detail of reasoning.

Part (b) asked candidates to look to the future, based on the data and the text provided. Stronger responses used the 2019 data in terms of wage growth and price inflation to argue either in favour of the question or in some cases make a successful argument against. They also realised that the information from the text before the data would be useful to support arguments in this question with the use of the transition period for Brexit or the low unemployment but still a large number of vacancies suggesting a skills gap/shortage. Again, key for the higher bands was the quality of the explanation using economic theory in regards to why/how it could or less so affect the level of unemployment which was already low.

Q.4   This labour market question focused on the specific area of the specification of wage differentials. As such, although the question enjoyed 100% attempt rate, this was at times due to attempting the mean and median pay definitions and not attempting the 6 marker on wage differences using a diagram.

In (a) part one and two, the strongest responses did a good job of showing they understood both mean and median and then placed in the labour market of potential wage differences between the male and female gender. Weaker responses just showed an understanding of mean or median which due to only 1 mark per question possible scored 0.

In part (b) the strongest responses did very well with an accurate labour differential diagram taking into account demand and supply differences and elasticity differences comparing male with female. They then supported these with two reasons for the difference and linked to the types of jobs/job roles that might occur in a university in comparison to any business. Weaker responses often drew the diagram or identified standard theoretical reasons for wage differentials.

Q.5   Question 5 was split into two parts, with part one able to be used in part two but not to be the only concept used.

In part (a), the majority of candidates successfully drew an accurate Laffer curve diagram and then indicated the original tax rate and what would happen if the tax cut was passed on. Weaker responses just drew the Laffer curve and did not correctly annotate it. A minority of candidates drew a curve inaccurately using incorrect axis/labels.

In part (b), a large number of candidates successfully identified the data that could be used from the data/table to support an argument on benefits or drawbacks (or both) or not passing on the cut tax. Strongest responses understood about the relative skills levels of the employees at these different wage levels and how their income would be affected by the passing on of the tax cut in contrast to not passing on the tax cut. Strongest responses also used the information from the text to support their argument(s). Often the level of analysis suffered a little due to overuse of the data/information and so the stronger responses effectively explained the possible impact on the Scottish economy of not passing on the tax cut or reversing the question and explaining the possible impact of passing on the tax cut. Strongest answers analysed the key impact in terms of the supply of labour and productivity, which went broader than the impact on the government finances/budget deficit. Some candidates preferred to argue to decrease tax vs not so, in contrast to focusing on the question of not passing on tax cut vs not so/infact cutting tax. It is preferable that candidates answer the question set in contrast to rewording it. In this case it still allowed access to the marks.

The completion rate of this question was the lowest on component 1 either due to time constraints or difficulty of the question.

Q.6   As question 6 was in similar fashion to question 4 on a specific concept on the spec with a great conceptual understanding required, candidates found this question more difficult.

In part (a): Elasticities and their use for % change calculations have been examined before and in the most part candidates coped well with it to calculate the % change in supply. However, some candidates forgot to show that as the price decreases, supply would decrease as well and forgot to express the outcome as a negative to show the direction of travel.

In part (b) there was some confusion with what was elastic vs inelastic from a minority of candidates. The majority of candidates understood that both commodities were inelastic in short run and then became less inelastic/more elastic. The strongest responses showed an indication that they realised sugar was still inelastic in the long run but less so than before but copper had become elastic. Factors that affect PES and why is one of the more difficult elasticity concepts for AS economists to understand. Thus the majority of responses offered one reason and how that may affect the amount of output if price was to rise but lacked detail/depth on how that factor determined the responsiveness of output to the increase in price to explain the differences in the PES figures. Stronger responses successfully identified two factors and explained how each affected the change/difference in elasticities according to the time frame.

The completion rate of this question was the second lowest on component 1 either due to time constraints or difficulty of question.

Summary of key points

- It was noticeable that on questions with a specific focus on a technical aspect of the specification such as rationality, wage differentials or Price elasticity of supply – both the completion rate and quality of response decreased. Questions can have a broad focus or narrow focus from topics on the specification and candidates could be presented with either.

- This C1 contained tables/graphs/data. At times candidates appeared to rely upon these too heavily which hampered their use of economic theory to explain the reason/impact/importance of this data in their arguments. The examination is academic and so strong use of economic theory applied to the unique situation as outlined in the data will be awarded.

- This C1 presented unusual situations and circumstances in which economics was in action. The strongest responses took a strong understanding of the subject/theory and used it in context in contrast to regurgitating pre-learnt statements/notes.

- Timing appeared to be a problem for some candidates. As such in some cases it may be more effective for some students to be more direct in their arguments using theory and avoid introductions to their extended answers.

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COMPONENT 2: EXPLORING ECONOMIC ISSUES

General Comments

Component 2 provided two relatively topical case studies to work with. Case 1 provided a combination of text and data whilst Case 2 a combination of text and graphics. The first macro-based case appeared a more difficult context than the second micro based case although completion rates for questions on the second case was slightly lower than the first, possibly due to timing in contrast to complexity. There were a greater number of high standard scripts on component 2, with a few of an exceptionally high standard evidencing high quality application, analysis and evaluation.

Handwriting and accuracy of diagrams this series did appear weaker than in previous years. This could be due to electronic learning throughout the last couple of years.

Comments on individual questions/sections

Case 1

Q.1 **(a)** Allowed candidates with a clear understanding of specialisation at a national level in contrast to a business level to show their understanding and then explain its benefit at the macro-economic level in terms of a narrow range of products helping to increase exports. Stronger responses successfully understood both and linked both. Weaker responses focused on the micro understanding of specialisation often using the division of labour and explaining the benefit in terms of productivity. Whilst some candidates only offered a definition, the minority of candidates did not have any content that could be credited.

(b) Allowed a spread of marks from full marks to 0. The minority of responses achieved the highest levels where candidates correctly interpreted the instructions in the question – plural diagrams and plural reasons meaning the strongest answers included 2 diagrams with inelastic S/D and then explained why changes in demand or supply could lead to prices changing greatly and unexpectantly. Weaker responses drew a singular diagram and missed the elasticity issue, whilst there were a larger number than expected of very weak responses where candidates drew a double shift on one diagram. The other surprising element was the number of responses that did not identify a volatile factor that would affect supply or demand, instead, just identifying a standard factor.

(c) Was another question where following the instructions in the question was important. Candidates often only offered one diagram to support one type of inflation type being caused, possibly as they could not ascertain why the other type of inflation could be caused. For those that did cost push inflation, stronger answers successfully explained why cost push inflation for the whole economy would be caused by higher oil prices with detail of how the oil could affect costs for firms, in contrast to relatively simple explanations.

For demand pull inflation for the net exporter, the explanation of why and how this could lead to higher prices levels in the economy was often underdeveloped and candidates would benefit from greater detail and complexity in their explanations. Weaker responses had not realised the question did not relate to Nigeria specifically. Nigeria could have been used but the question was focused on "a country". Stronger responses included a counter argument or developed qualification on the effect of higher oil prices.

(c)   Had the 2nd highest completion rate.

(d)   Was a question specifically focused on Nigeria and this proved a challenging question for candidates. In the past candidates have found questions related to exchange rate values and the impact on imports and exports challenging. In this case it was combining that level of understanding to an economy that specialised in oil exports, which was being sold for less dollars than before. As such the exchange rate was falling and inflation increasing. The strongest responses successfully focused directly on the question and focused initially on the benefits of increasing the value of the exchange rate back above its equilibrium level on the price of exports and price of imports. However, the number of responses that looked broader than the impact on net exports was limited. As such the strongest answers evidenced an excellent grasp of economic theory by analysing the impact of the higher exchange rate on price of exports and price of imports with the use of the value of exports and value of imports in contrast to volume. The strongest answers linked to the PED for oil being inelastic. Another feature of the strongest responses was consideration of the source of finance for keeping the exchange rate artificially high.

(e)   Had the lowest completion rate of the entire paper. It was a question on a specific topic which required specific subject knowledge. Although there was a hint given in the case to help candidates answer the question, it still appeared that there was limited understanding of the difference between GDP and GNP for a large number of the candidates. Though there was a minority of responses that exhibited strong understanding and the benefit of being able to recall precise definitions to then build upon if need be.

(f)   Appeared to be a question that candidates enjoyed, possibly as both fiscal and monetary policy are heavily engrained in the macro side of the course. However, the policy in this case was fiscal supply-side in contrast to fiscal demand side, which the strongest responses appreciated. Strongest responses again successfully interpreted the question and analysed each policy separately where they explained why and how that policy decision could or less so improve the economic situation in Nigeria. Weaker responses made assertions/statements that X policy would help achieve Y, for the analysis marks, an explanation of process drawing upon their economic theoretical understanding is what was evident in the strongest responses. There was plenty of macro-economic data to support or provide the outcome for the policies to improve but the strongest responses used the text and data to identify the key area for improvement was the supply-side. In this case there were also potential limiting issues that could have been analysed in the text/table which could have been provided via counter arguments. The strongest answers contained a justified end judgment in the context of Nigeria and the challenges it faced.

Case 2

Q.2 **(a)** Was a question that discriminated according to understanding quite well. The strongest responses recalled both definitions for market failure and property rights but then did an effective job of linking the two with an outline of how a lack of property rights could create an overuse of a common good and cause a misallocation of resources. The strongest responses then supported this with the misallocation of resources and social costs occurring due to a lack of a barrier/someone stopping the overuse of the common good. Strong responses that scored a lower end of the band 2 did so as they missed the lack of barrier to overconsumption issue as due to a lack of property rights there was no one to stop the overuse. Weaker responses often did an effective job on the market failure part of the question but did not show understanding or use of lack of property rights.

(b) Was one where candidates focused on micro arguments, possibly as the case was more micro focused than macro. It can be the case that one case has a greater focus on one part of the specification than the other, but the questions are generally a mix. As such candidates struggled to apply subsidies which is often taught on the micro part of the course to macro-economic outcomes. Thus, there was a smaller number of high marks awarded on this question as micro analysis was awarded as limited analysis. Given the cross linkage the diagram was also required to be integrated, which due to the difficulty of cross linking a number of diagrams sat on the page unfortunately unused. Candidates should be advised to link their arguments to the diagram using annotations to ensure their diagrams are integrated. The other difficulty that candidates encountered was that the question focused both on businesses and technology, adding another level of complexity. The strongest responses used a diagram, often the micro subsidies diagram but sometimes a macro AD/AS diagram and then analysed the benefits of both environmentally friendly businesses in terms of sustainable or environmentally friendly GDP with linkage to unemployment and then analysed technology in terms of productivity and potential GDP with linkages to greater UK exports of either cheaper goods or more environmentally friendly goods due to higher international competitive advantage. In regards to evaluation, the strongest responses avoided generic subsidies disadvantages and debated/qualified how likely the benefits for the economy were likely to occur.

(c) Was another question that candidates performed well on and enjoyed. A strong base understanding of asymmetric information was required/beneficial to answer the question which the majority of candidates appeared to have. The strongest answers here then applied their understanding to the information in the case to outline how and debate the extent that information asymmetries existed before the ban. A few candidates appeared to not follow the instruction in the question and used the UK 2018 ban as part of their argument, which could not be credited as the question specifically asks for answers prior to the ban. Strongest answers offered a brief overall judgment.

(d) **(i)** Was a percentage change calculation which the majority of candidates successfully completed. However in similar vein to C1 some responses failed to note that it was a negative % change, -92.85% and expressed there answer as a positive which was not precisely accurate. Question 2(d)(i) enjoyed the 3rd highest completion rate.

(d) **(ii)** Was a double instruction question asking candidates to discuss the nature and then the strength of the relationship. Candidates were required to make two judgments on the nature of still being linked and the strength being strong in the past, less strong now and regarded overall as a weak relationship now. The strongest responses successfully used the information provided to support their justifications of these relationships. However weaker responses became confused and started to use cross elasticity of demand with the price of the bags impacting the demand for shopping. The question was focused on joint demand and the strongest responses used this understanding effectively to answer the question.

(e) **(i)** Specifically focused on external costs in contrast to market failure and the strongest answers here were where candidates showed a strong understanding of external costs to a 3rd party and then outlined how that was occurring in the context of case 2. Often the most effective responses used the definition of external costs as the basis for their answer and then outlined the harm/damage being caused on a 3rd party and how they counted as a 3rd party. The weaker responses used externalities in contrast to external costs. As such precise understanding of the theory being assessed in this case was useful.

Q.2 **(e)** **(ii)** Allowed candidates to analyse how at least two of the actions proposed in the case could or less so solve the market failure. Strongest responses here successfully focused their answer on the question and analysed two of the proposed actions with why and how they would overcome plastic pollution overconsumption/overproduction and decrease welfare loss. Weaker responses only focused on decreasing demand or use of plastic and failed to then link their analysis to either overconsumption or overproduction in order to maximise welfare for society. The key to higher responses was the quality of their explanation using technical theory. The strongest responses made pleasing use of the data presented with excellent use of the sources of plastic pollution both in terms of types of products and geographic locations. Weaker responses relied on information from the text to support their analysis. Stronger responses looked to qualify and judge the extent each step/action would be to work effectively in contrast to using for and against arguments. In the strongest responses there was a great degree of critical thought evident with an appreciation of the global nature of plastic pollution creation or the necessity of use in their sources.

Summary of key points

- Although one case may appear more focused on one aspect of the course, micro or macro, questions can be mixed with some of the questions focusing on macro content, some questions focusing on micro content, some may cross link micro with macro or vice a versa. It is important candidates successfully assess the requirements of the question before planning their answer.

- Requirements of the question are often identified in the question. If the question is plural then it requires that to achieve the higher bands of the mark scheme. It is important that candidates follow the instructions as outlined in the question.

- Precise recall of key terms and theories enables access to both the questions applied to the case and the "open" questions.

- Both cases require "thought" and the application of theories in unusual circumstances but a strong recall and understanding of economic theory is the starting blocks. Strong recall and understanding of economic theory allows access to the question and provides the basis of their reasonings within arguments.

- Explanations of why and how X could lead to Y (or not) using economic analysis to highlight process/steps is key for achieving the higher band levels. Superficial statements of X will lead to Y without detail of why and how, achieves limited outcomes.

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