



GCE A LEVEL EXAMINERS' REPORTS

**ECONOMICS
A LEVEL**

SUMMER 2017

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GCE A LEVEL ECONOMICS
Summer 2017
COMPONENT 1: ECONOMIC PRINCIPLES

General comments

There was no evidence that candidates did not have enough time for this paper, the first in the reformed A level. Many candidates used supplementary sheets and their answers gave no indication of being rushed. However, it should be noted that the attempt rate of questions fell a little towards the end of the paper. The handwriting of some candidates left a lot to be desired and centres could perhaps remind their candidates that examiners are, unlike class teachers, unfamiliar with the writing style of candidates. Legibility, good grammar, punctuation and style will benefit candidates in examinations. A calculator and a ruler are essential for this paper and some candidates clearly did not have the latter with them in the examination.

The use of multiple choice questions in the first section of this paper proved to be an effective discriminator, testing candidates' knowledge and understanding more precisely than other styles of questions. The mean mark on the multiple choice section was 12 and as would be expected there were some questions which candidates found accessible and others which proved challenging for most. Anecdotal evidence suggested that Q4 and Q13 were the most accessible questions and Q17, Q18 and Q19 the most challenging. Candidates are reminded that not attempting answers in the multiple choice section automatically penalises them. Some candidates did not attempt all of the 20 questions.

In the short answer section Q21, Q24 and Q25 proved to be the most accessible questions with Q23 and Q27 the most challenging. The latter questions were both testing quantitative skills and some candidates did find these types of questions difficult in both sections on the paper. Naturally this component lends itself more than the other papers to testing quantitative skills and centres could perhaps focus on this when preparing learners for future papers. Index numbers, which are not taught in GCSE Maths, are commonly used in the presentation of economics data but some candidates appeared unaware of them.

Candidates are reminded that it is not necessary to fill all of the space given to answer the question in the answer book just because it is there. Quality is better than quantity. Evaluation still remains a problem with too many 'throw away' comments which are undeveloped as well as drawing diagrams which are then never referred to in the text of the answer. However, it is pleasant to report that there were some excellent answers to even the more challenging questions on the paper. These candidates had been well prepared for the style and content of the new specification. They used data and diagrams effectively, and answered the question set.

On the whole examiners were generally pleased with the way in which the paper as a whole discriminated effectively across the range of candidates.

Section A

There are some points of reference from the multiple choice section which centres could perhaps note when using these questions for tests or mock examinations. In Q2 one centre raised the validity of B as the correct answer because the firm would not produce at X because they would make a loss. The firm would make a loss at output X because $AC > AR$ but this does not invalidate what was being tested – that sales revenue maximisation occurs where $MR=0$. In Q11 a centre raised the possibility that A could be the correct answer because selling newly issued government bonds will increase the size of the National Debt. However, in the UK the Bank of England is not responsible for selling newly issued bonds that falls to the Debt Management Office. Q14 tested a new area of the specification and there were indications that a number of candidates struggled with this question which related to the effect of deflation on real interest rates. Q17 tested understanding of the terms of trade and again evidence suggests that this was a challenging question as was Q27 which involved the same area of the specification. In Q18 many candidates chose the wrong area of welfare loss, VXY instead of UVX. Q19 challenged many candidates which is surprising when a correct answer could have been arrived at quite quickly by drawing a rough diagram. This was a question all about the extent of the shifts in the demand and supply curves. After some consideration examiners allowed either A or B as the correct answer for Q20 because as output increases it can be argued that increasing returns to a factor occur before diminishing returns set in.

Section B

- Q.21 Most candidates drew the correct diagram showing an increase in demand with a perfectly elastic supply curve. Some drew a double shift of demand and conventional supply curves to produce a constant price level and this was given limited credit. Bizarrely a few candidates drew diagrams showing perverse demand curves shifting to the right! Candidates were less sure with their explanation of why music downloads were in perfectly elastic supply. Many talked about infinite supply with no capacity limits but few raised the issue of constant costs.
- Q.22 Cross price elasticity of demand can be difficult for candidates and coupled with a test of quantitative skills this question was a challenge for many. As there were no marks for defining cross price elasticity many scored zero although some candidates scored 1 mark for progressing their calculation close to the correct answer.
- Q.23 This was a very challenging question and very few gained both marks for the correct answer (26.2%). A number of candidates gained 1 mark for an answer of 36.2% which was arrived at subtracting the % change in prices (38.7%) from the % change in GDP (74.9%).
- Q.24 Most candidates were on familiar ground with this question and a large number gained 6 marks from parts (a) and (b). In part (a) the main reason why candidates did not score 3 marks was the failure to show the area of loss correctly. In part (b) the 3 marks could be gained by indicating the exit of some firms from the industry which shifted the supply to the left and raised price so that normal profits were earned. A failure to mention a return to normal profits was often the reason why candidates did not score full marks.

- Q.25 Although a Laffer Curve was expected examiners also accepted an AD/AS analysis for the required diagram. Few candidates struggled with this question although very few earned full marks. Very often candidates failed to integrate the diagram into their answer – often drawing it without referring to it. Good candidates labelled their Laffer Curve with the tax rates mentioned in the data and then used the diagram effectively in their explanation. Evaluation was often rather superficial with most candidates mentioning that such a tax change would increase inequality and also that the revenue effects would depend on where 45% and 40% tax rates were on the Laffer Curve. These points needed development, and it is very important that candidates realise that in higher mark answers merely making assertions is not enough to gain good marks.
- Q.26 It was clear from many answers to this question that a large number of candidates had either not been taught or not revised $MV=PT$. A number of candidates failed to use the data effectively and often asserted that at certain times the money supply was falling when it was in fact rising at a slower rate. Those candidates who took an aggregate demand approach without reference to the Quantity Theory gained limited reward. There was plenty of scope for evaluation from questioning the theory itself i.e. it is a tautology and V and T are unlikely to be constant. Good candidates recognised that during the period shown in the data UK inflation had largely been subdued or could be blamed on cost push factors.
- Q.27 A number of candidates scored zero on this question because they misread the table and divided the wrong pair of figures. The weakest candidates were unable to attempt the question as they had apparently never heard of the terms of trade. Examiners accepted for 2 marks the separate calculations of the terms of trade for April 2015 and January 2016. Some candidates pleasingly went further and calculated the % change in the terms of trade over the two years (- 4.77%).
- Q.28 This was a challenging question for many candidates. The question illustrated how examining the new specification will involve questions that are less predictable than has been the case in the past. Good candidates who understood currency manipulation used the data well and unpicked the question confidently often using an exchange rate diagram to illustrate currency manipulation. A number of candidates argued strongly that if criteria 1 or 2 went with criteria 3 then this showed a country could well be involved in unfair currency manipulation. Evaluation was often good with candidates explaining that some countries were more competitive than the US and that Germany as a member of the eurozone could not manipulate its currency anyway.

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COMPONENT 2: EXPLORING ECONOMIC BEHAVIOUR

General comments

Each of the three components of the A level has a feature that distinguishes the most able candidates from the rest. On component 1 it is technical competence and on component 3 it is an ability to analyse and evaluate. Component 2, however, is the element that really highlights what Eduqas Economics is all about, which is an ability to apply economic theory and understanding to a variety of unfamiliar contexts. Whilst all three components have this to an extent, it is the data response paper that most requires candidates to think like economists.

As principal examiner, I get to see a very wide range of scripts from an array of centres across the country and there are two key features that mark out the most successful candidates from the field as a whole on this element of the assessment.

The first is a very strong command of the content and, whilst this includes knowledge, the best candidates have a deep understanding of why economic theory works the way it does, because they have clearly questioned their understanding on a regular basis to sharpen it. This means that they can use the theory that they have learned flexibly and can explain it in detail, rather than just having memorised some set pieces of explanation that only work in particular circumstances.

The second characteristic is a desire to engage with the context given. It is this second feature that is really the widest variable in performance with some candidates literally ignoring both of the case studies and answering all questions purely from a theoretical perspective. Whilst this has been true for many years, I still find it baffling that with all of the data that is provided to assist candidates in coming up with a nuanced answer, a high proportion simply write out a set answer learned from textbooks or websites.

At the opposite end, there are candidates whose answers felt like they were consultants to Shell or had been born in Rwanda; they had read the case and really thought about the significance of everything there. These answers didn't aim to find bits of the case to use in their answers to support their theory, they were far more embedded than that – all of their answers used the case as the starting point every time and they used what they had learned as economists in terms of knowledge, analysis, diagrams and discussion to give insights into the case at hand. These answers, of which there were a small but significant number, truly understood what data response and economics more generally is about, which is the ability to use a body of theory to explain the world around them and it was clear that this had been embedded from an early point in their studies – in both data response questions they were able to contrast the cases themselves with other cases that they had come across in their studies – discussions of negative interest rates, oil dependent economies, successful developing economies not mentioned in the Rwanda case inside and outside of Africa. Such answers found it very straightforward to push their marks quickly into the 60+ range because of the level of sophistication that they showed.

A halfway house tended to be those who viewed the case studies as menus of examples where they could pick things to support their points. This works to an extent, but rarely leads to the very highest marks which tend to be earned by answers which are genuinely rooted in the context of the case.

Individual questions

Question 1

The data was a contrast between the oil market of the 1970s and that of the last few years, making the point that rapidly rising or falling oil prices each come with their respective difficulties. This data was able to test in-depth understanding of some tricky concepts from both micro and macroeconomics, together with candidates' abilities to understand causal relationships in correlated data.

- (a) This was a simple starter question and most candidates managed to understand that the difference was something to do with inflation for 1 mark. Only a minority were able to give a clear demonstration of the idea that \$12 in 1974 would buy the same as \$54 today for a second mark.
- (b) When this question was set, the expectation was that the discrimination between answers would be the extent to which they were able to explain whether oil would be a fixed or variable cost in their diagram; it wouldn't have mattered which, just that they justified what they said. In the real world, it turned out that the discriminator was between 3 types of answers. About a third of answers rather surprisingly drew supply and demand diagrams in spite of clear instructions to the contrary. Another third drew theory of the firm diagrams lacking key features such as MC and MR and made no attempt to do anything with them. The last third managed to draw a coherent theory of the firm diagram, but only a small proportion of them were able to actually adapt the diagram successfully to show how rising costs would reduce profits. Most of these answers simply shifted up the AC curve in an unquestioning manner, but given the low quality of other answers this approach could gain full marks if the commentary explained why profits fell. The ability to use diagrams dynamically is an important skill in economics, rather than the simple memorisation of diagrams as 'pictures' which generally means that understanding can't be shown.
- (c) This was one of the worst-done questions on the paper. It was clear that a significant number of candidates simply didn't know what the Phillips Curve was and that most of the remainder were unaware of the fact that the short run Phillips Curve might shift as a result of changes in (in this case) expectations or in supply side strength. Of those who were aware, a significant number simply wrote out what they had learned about the expectations augmented Phillips Curve, which although it didn't quite fit the scenario, tended to lead to a decent score. The best answers understood that the generation of inflationary expectations led to both rising inflation and unemployment and a vertical shift in the short run Phillips Curve, which meant that for any given level of unemployment, inflation was now higher, therefore showing that the trade-off had worsened.

- (d) Generally, most candidates were able to get somewhere with this question given the striking similarity between oil prices and eurozone inflation. Weaker answers ignored the instruction to analyse and evaluate, simply regurgitating the figures from the chart. Better answers provided a narrative, explaining how oil prices would drive inflation or disinflation/deflation via cost pressures. The best answers questioned this relationship either by challenging the causation (e.g. falling inflation and oil prices after the financial crisis may well both have simply been caused by falling GDP in developed economies) or by pointing out (with reasons) that the correlation was much weaker towards the end of the period.
- (e) This was one of the better-done questions on the paper and the discriminator was really the extent to which answers really looked at the context of oil or simply treated it as any reduction in costs. Standard answers pointed out that falling oil prices would increase household incomes and would therefore simulate growth, but that this would depend on consumer confidence. Such an approach is fair enough and got some traction, but candidates often lost their starting point and argued that falling oil prices would be inflationary (via the impact on growth). Given that the whole context was worried about the deflationary effects of falling oil prices, this approach gained only limited credit. Better answers used the context effectively pointing out that household incomes were 6% lower than before the financial crisis, that the UK's oil and gas sector might be damaged, that falling oil and fuel prices might hamper the drive to energy efficiency and that there were risks of 'second round' deflationary effects. All of these points were in the data; all candidates needed to do was to look.
- (f) By contrast, this question was poorly done, primarily because the majority of candidates had at best a shaky grasp of how QE worked and at worst no idea of what it was at all. 10 years out from the financial crisis, this was pretty disappointing given that QE is in many ways the most significant development in monetary policy since the advent of inflation targeting. Misconceptions about QE abounded, including but not limited to: The government borrows money by issuing bonds and then spends it. The Bank of England lends money to the government by buying new bonds, therefore increasing the national debt. The Bank of England prints money and gives it to banks. The Bank of England sells government bonds and then uses the money to lend to banks.

On the other hand, a substantial minority of candidates did understand that (1) the question was about Europe and Japan and (2) that central banks created money and used it to purchase existing government and corporate bonds, thereby increasing the price of bonds, reducing their yields, increasing the liquidity of the banking system and making other assets more attractive (due to their relatively higher yields) creating a ripple effect across the liquidity spectrum. Therefore, with rising asset prices and increased liquidity, AD was likely to rise. The best answers then went on to justify why QE might be necessary in this case (conventional monetary and fiscal options limited, as outlined in the data) and then to discuss either the possible effectiveness or possible side effects of QE before coming to a final view as to whether QE was appropriate for the ECB and/or BoJ. Some well-informed candidates tried (successfully) to use what they already knew about the eurozone and Japan to distinguish between the ease with which monetary policy could be conducted and some contrasted with the US where (as outlined in the case) interest rates are rising, suggesting that, there at least, tighter monetary policy is the order of the day.

Question 2

This was a development question with a twist, because candidates needed to use what they knew about monetary unions in a European context to think about Sub Saharan Africa, as well as testing the knowledge of development indicators that is now in the specification. During the review process it became apparent that some centres appear not to be teaching development economics in any meaningful depth, which meant that a number of candidates struggled to access a high proportion of the marks on this question. The Eduqas specification isn't a large one relative to some of the other boards and this was a deliberate decision to allow for issues to be explored in depth. Given that two of the three components have no elements of choice, a decision to leave parts of the specification uncovered is an extremely dangerous one, especially given Ofqual's requirement that all sections of the specification should be examined over a number of years.

- (a) (i) This provided a very wide array of responses, varying from answers that simply plucked things out of the data and hoped for the best to those who knew precisely how the HDI is calculated (geometric mean of the three sub-indices each scored 0-1 of GNI/capita@PPP, life expectancy at birth and the index of mean and expected years of schooling). A sizeable proportion of those who knew anything seemed to have learned the pre-2010 version (GDP/capita, literacy rates and school enrolment and life expectancy) which gained some but not all of the marks.
- (a) (ii) Obviously those candidates who didn't know what the HDI was struggled here as well. This was an unexpected problem, because both (a) (i) and (a) (ii) are clearly expressed in the specification (with a Rwanda link) to make life simpler for candidates. The idea that a sizeable proportion of candidates would simply not know what the HDI was given that the specification states clearly: "the human development index (HDI) – understand how the index is calculated and be able to discuss the extent to which the HDI can show differences in economic development" wasn't something that we had considered as a possible issue. Amongst those who did know what the HDI was there were two approaches that worked – the good and the excellent. The good approach used what they understood in theory about the strengths and weaknesses of the HDI and tried to use the context of Rwanda to illustrate. The excellent approach looked at what had happened in Rwanda over the last 25 years in terms of development and then tried to assess the extent to which the HDI could reflect/had reflected this. Weaker answers explained why Rwanda's HDI had improved rather than discussing whether it was a good measure of economic development or conflated economic growth with economic development. Those who didn't know what the HDI was generally managed to pick up a few marks for general observations about the difficulties with measuring development, but rarely made it to half marks.
- (b) (i) It was clear that some candidates had not arrived at the exam with a calculator in spite of the new requirement to test mathematical skills and therefore struggled on this question. Generally it was calculated correctly, although some struggled with the conversion from billions to millions and ended up losing a mark.
- (b) (ii) Many candidates had some idea of what PPP was, but only a minority really understood the idea of conversion into a common base currency using an internationally comparable basket of goods and services.

- (c) As a question with its roots in year 12 material, the expectation was that this question would prove straightforward, but in reality a high proportion of candidates got no further than supply volatility due to weather and disease, making no reference to elasticity. Supply volatility in and of itself isn't enough to explain price volatility and such answers gained only limited credit.
- (d) In spite of the data response giving a clear steer on industrialisation ("Rwanda is also industrialising with manufacturing growing at 5%") some candidates failed to understand what the term meant. The best answers explained how a sectoral shift from primary to secondary industry would be potentially beneficial in terms of the stability and levels of incomes, related it to Rwanda and then evaluated by linking to the growing service sector, the desire to become a knowledge based economy, the infrastructure issues that create difficulties for Rwandan industry and so on. Those who really understood development economics and the issues facing LEDCs scored quickly and easily here, with a number of references to the Lewis 2 sector model and the Prebisch-Singer hypothesis, which though not required to score full marks assisted candidates with structuring their thought processes.
- (e) The final question again provoked a wide range of responses, with the weakest conflating the customs union that Rwanda is already a part of with the proposed monetary union. This was a question where those who really understood the issues that the eurozone has faced over the last 10 years came into their own. There were frequent comparisons among the top answers between Rwanda and Greece/Germany, speculating about who Rwanda would be most likely to be like. Strong answers explained how a common currency would make free trade easier (due to reduced exchange risk and conversion costs) and that this might benefit Rwanda particularly given their growing financial services sector, but that infrastructure problems and the diverse nature of the economies in the EAC might make running a common monetary policy impractical. This was a classic test of the ability to apply concepts from one area to an unfamiliar one and is the essence of what data response papers are all about.

Summary

Taken as a whole, the compulsory nature of the paper meant that candidates who had gambled on revision, or those who aimed for memorisation rather than understanding, sometimes got caught out and this meant that the mean for the paper was lower than the old WJEC EC4 on which candidates had a choice of data response questions. On the other hand, those who had prepared thoroughly always performed at least quite well, racking up scores on every question, with the key determinant of their final success simply being how well they were able to think about the contexts given.

The key messages from this component are therefore:

- Memorisation is not a good route to success – understanding is key
- Intellectual flexibility is vital – the ability to use concepts from one area and apply them to another
- Rooting answers in the context of the data response, rather than simply using it as a menu of possible examples for theory, leads to stronger answers
- Candidates need to learn (and be taught) the whole specification.

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COMPONENT 3: EVALUATING ECONOMIC MODELS AND POLICIES

General comments

Writing three essays from a limited choice on three different areas of the specification is quite a challenge – especially as each essay is divided into two parts. Pleasingly there were some excellent responses from some clearly very able candidates who had been well prepared and had confidently mastered the demands of the new specification. Many candidates gained over 80 marks with full marks awarded to at least one candidate. The examination discriminated well and the less challenging part (a) of each essay gave the paper greater accessibility for the less able candidates. Time did not seem to be a problem with no real evidence that candidates had been rushed. Some candidates wasted time evaluating in part (a) and a few made a serious error by answering two questions from the same section. In those instances examiners will mark both attempts and give the candidate the mark for the better of the two essays.

There were a few other issues which were in evidence across the paper in general. Diagrams were not always integrated into the text of the essays for which examiners could only give limited reward even if they were correct and relevant. Evaluation was in general better than was seen in the old specification with fewer examples of throw-away lines such as merely asserting that ‘it depends how by much interest rates are raised’. Good candidates made evaluation an integral part of their essay from the start and more encouragingly also produced a good overall judgment which included a balancing of arguments in a well-constructed conclusion.

Candidates are advised that making assertions alone is not enough and that examiners are looking for evidence of understanding when they read these extended pieces of writing. For questions that require extended writing it is always better for candidates to make a few points well rather than superficially cover every possible issue that could be raised in the question. This is particularly important now that assessment grids are a key part of the marking scheme.

Of the six essays on the paper Q1 and Q6 were the least popular and had the lowest mean marks. Many candidates were possibly put off part (a) in both essays. Q1 required knowledge and understanding of the elasticity of demand and supply of labour while Q6 tested the potentially challenging area of absolute and comparative advantage using numerical examples. None the less over a third of candidates did answer these less popular questions. Q2 and Q5 were thus the most popular questions on the paper. The highest mean marks were for Q2 and Q3 and the highest standard deviation was for Q5, an indication of a high spread of marks.

It is worth noting that although the paper is divided into separate essay sections covering different areas of economics candidates are encouraged to think synoptically in their responses to questions. Centres are presumably well aware that the assessment of the new specification gives the candidates no choice of questions in Components 1 and 2 and little choice in Component 3. Consequently leaving out any area of the specification from schemes of work will severely disadvantage candidates. In addition assessment of the new specification is now expected to show an element of unpredictability with examiners no longer able to replicate past questions in future papers.

Once again examiners were disappointed by the standard of hand writing and general presentation of some candidates. The hand writing of some was barely legible and a significant number of candidates might think it useful to bring a ruler to the exam and use it when drawing diagrams. Examiners are on tight deadlines to mark candidates' scripts and unlike class teachers have never seen the handwriting of candidates before. It is very important that overall presentation and the layout of answers is of a standard that does not detain examiners for unnecessary lengths of time trying to work out what a candidate is trying to say.

- Q.1 (a) In this question the weakest candidates wrote about price elasticity of demand for goods and others about the determinants of the demand and supply of labour not their elasticity. While there were some good answers to this question most struggled with the determinants of the elasticity of demand for labour. Candidates were more confident with the elasticity of supply of labour and used often diagrams to demonstrate their understanding.
- Q.1 (b) Candidates were in general quite confident with the subject matter of this question drawing and using an accurate minimum wage diagram and showing they were well versed on the pros and cons of a minimum wage. Sometimes the diagram was not explained nor used in any way which cost candidates marks. The possible macroeconomic effects of a minimum wage were given equal reward to the more microeconomic impacts.
- Q.2 (a) Many candidates ignored the first part of the question as to why firms may not aim to maximise profit. Candidates were expected to look at why some firms may be unable or unwilling to profit maximise. Revenue maximisation and sales maximisation were often used as examples of other objectives for a firm. Why these alternative objectives might be pursued by a firm was dealt with effectively by most candidates.
- Q.2 (b) In general candidates found this question quite accessible as they were familiar with the pros and cons of oligopoly and monopoly. The best candidates used economic theory well dealing with efficiency issues, economies of scale etc. Macroeconomic issues were also introduced with examples from the real world often making effective use of the firms mentioned in the question. Good candidates made much of how the effectiveness of regulation was important in determining whether economists should be concerned about these concentrated markets. Weaker answers were devoid of economic theory and produced a business style answer – an issue that was also evident in part (a). While such answers were worth reward they could not reach Band 3 in the assessment grid.

- Q.3 (a) The weakest candidates confused consumer debt with public debt. Some candidates wrote about the fiscal (budget) deficit not the national debt and this was accepted by examiners as an alternative approach because many of the issues are the same for both. Many candidates raised the issue of crowding out but this was not always clearly explained. As evidenced with other questions candidates often made assertions but did not follow this up with a clear chain of reasoning.
- Q.3 (b) This was a fairly straightforward question but many candidates failed to explain exactly HOW a particular supply side policy could reduce unemployment. Once again candidates (and some economists?) were divided as to whether a minimum wage was a supply side policy or not. Well-argued answers were rewarded whichever side of the debate they were on. Good candidates took their evaluation of supply side policies beyond the cost and time lag issue raising the importance of demand side policies as an alternative and the danger of government failure.
- Q.4 (a) This was a seemingly straightforward question although it posed problems for some candidates. Some candidates confused savings with investment while others felt that hot money flows into paper assets constituted investment when they should really have been talking about FDI. Some candidates produced some rather roundabout but nonetheless valid policies to increase investment i.e. lowering the exchange rate via QE so that FDI then increases because it is cheaper for foreign firms to purchase UK assets. Examiners accepted that investment had quite a broad meaning and did not just mean plant and machinery; consequently investment in human capital was a valid approach. Most candidates generally suggested lower interest rates, reducing Corporation Tax and QE as possible policies to boost investment. Often a well explained link as to how the policy would increase investment was not obvious. A large number of candidates missed the last part of the question; 'in the UK economy at the present time'. Good candidates who had raised the issue of interest rates went on to say that lowering rates was not a realistic option with bank rate at 0.25%. QE was questioned as having had no major impact on investment since its introduction during the financial crisis. Reading the question carefully is very important.
- Q.4 (b) Examiners were expecting candidates to write about actual and potential economic growth leading to an explanation as to how investment can influence both via AD and AS. This was an opportunity for good AD/AS diagrams. Candidates often failed to develop the distinction between these two types of economic growth and struggled with evaluation i.e. that other factors could influence growth such as consumption or net trade (actual growth) and labour market participation (potential growth). That investment might be ill-directed and have no beneficial effect on economic growth was rarely mentioned.

- Q.5 (a) This was a fairly straightforward question although some candidates confused the fiscal (budget) deficit with the current account deficit which they then carried forward into part (b). Commonly mentioned as causes of the current account deficit were an over-valued exchange rate, a lack of price or non-price competitiveness and low levels of aggregate demand in export markets. Candidates often lost marks because they failed to explain HOW an overvalued exchange rate for example led to a deficit. Some candidates were unsure as to what was included in the current account of the balance of payments.
- Q.5 (b) There were some good answers to this question with many candidates examining issues such as a structural v a cyclical deficit, the impact of a deficit on employment and output linked to negative net trade and how a floating exchange rate might self-correct a deficit. Good candidates made effective use of the Marshall- Lerner condition as part of their evaluation to the latter point. The weakest candidates were often confused as to exactly what was included in the current account and in the worst cases wrote about the fiscal (budget) deficit.
- Q.6 (a) This was not a popular question with many answers suffering from varying levels of confusion. Many candidates could not effectively distinguish absolute advantage from comparative advantage and got into serious difficulty with the opportunity cost ratios. Candidates often used a grid or a straight line production possibility frontier to illustrate their numerical examples. Some candidates confused the examiner and possibly themselves by using a grid which was labelled Countries A and B producing goods A and B! As might be expected of a question like this the most able candidates often scored full marks.
- Q.6 (b) There were some very good answers to this question with candidates looking at the pros and cons of trade and aid and then writing a well-balanced judgment as a conclusion. The best candidates used good examples from countries they had studied to help support their arguments. Weaker answers were more superficial and lacking in economic analysis. This was a question about increasing economic development and anchoring their points to this was important for candidates to score a high mark.



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