A-LEVEL
ECONOMICS

7136/1 Markets and market failure
Report on the Examination

Specification 7136
June 2017

Version: 1.0

Further copies of this Report are available from aqa.org.uk

General

This was the first sitting of the new Linear A Level and Paper 1: Markets and Market Failure. The paper represents 33.3% of the A Level and assesses mainly the subject content found in Section 4.1, 'Individuals, firms, markets, and market failure', of the specification. Students should be reminded that the economic principles included in Section 4.2 of the specification can also enrich their responses.

In order to provide familiarity to centres, the structure of the examination paper is very similar to that of the legacy specification ECON 3 paper. Section A includes data response questions requiring written answers, and is worth 40 marks. Students have a choice of one from two contexts. Section B includes essay questions and is worth 40 marks. Students choose one from a choice of three.

The main difference lies within the approach to assessment and the greater use of the levels mark scheme. This has particularly affected the 9 and 15 mark questions, in Sections A and B respectively, and is intended to provide a more valid form of assessment to ensure students are appropriately rewarded. The responses are marked holistically. Examiners identify which skills students have demonstrated, knowledge, application, analysis and evaluation, and place the response in the most appropriate level in the mark scheme. This is contrast to the legacy specification, where students were able to accumulate marks when answering some questions simply by raising relevant issues. With the new mode of assessment more credit is given for 'sound' knowledge, 'good' application and 'well-focused' analysis.

The paper was taken by 11,675 students. In Section A, Context 1, 'Privatisation of Royal Mail', proved to be far more popular than Context 2, 'The gender pay gap', with just over 80% of students choosing this question. In Section B, Essay 3, relating to the overconsumption of sugary drinks and indirect taxation, was the overwhelming favourite, chosen by 77% of students.

Context 1

Question 1

Students were required to calculate the 3-firm concentration ratio in the UK parcels delivery market. It was pleasing to see that the significant majority was able to do so and earned 2 marks. Inevitably a few students omitted the '%' sign and earned only 1 mark. However, it was disappointing to see that almost 14% of students earned 0 marks. For some this was as a result of including the figure for 'Other' in the calculation, whilst others had simply added the % shares of the top three firms inaccurately. Students should be reminded that they are expected to have acquired competence in quantitative skills that are relevant to the subject content.

Question 2

For the new 4 mark questions (questions 2 and 6) students needed to demonstrate that they understand how the data provided supports a particular proposition. There is no set way to answer these questions, and generally it was pleasing to see that many students had been taught how to approach them.

Here students needed to explain how the data showed that the delivery market displayed dynamic efficiency. Whilst a definition of dynamic efficiency was not essential, it was helpful to support the data that the students chose to use, which might otherwise have suggested 'cost-cutting', for example. In addition to a definition or brief explanation of dynamic efficiency, the best answers

used the data effectively by identifying the general trends, and using a selection of supporting statistics. Occasionally the quoted statistics were incorrect, as the students misread the key and / or the axis. However, overall, many were able to explain that fewer employees, combined with a greater revenue per employee, suggested an improvement in capital / technology over time.

Question 3

In the new 9 mark questions (questions 3 and 7) students are instructed to use a diagram to help them to answer the question.

In this question students needed to use a monopoly diagram to help them explain how the UPS obligations were likely to affect Royal Mail's costs and profits. Most rightly assumed that the obligations would lead to an increase in costs and therefore a reduction in profits. The majority were able to include an accurate 'static' monopoly diagram to support their answer. It was pleasing to see that a few were able to use the diagram 'dynamically', and shift the AC curve and sometimes the MC curve, though this was not necessary to earn full marks. However, it was disappointing to see some elementary mistakes on diagrams, such as the so-called 'profit-maximisation' level of output not occurring where MR=MC, or the price not being taken from the AR curve.

In the best answers students had clearly used the data to identify the UPS obligations, they successfully integrated this and the diagram into their response to help them explain the impact on costs and profits, using well-focused, logical analysis. Whilst an 'unused' diagram represents application of economics to the given context, once it is explained and used in the response it forms part of the chain of reasoning.

It should be noted for this question that some students did not answer as anticipated. Rather, they suggested plausibly that delivering six days per week might enable the firm to benefit from greater economies of scale and would therefore lead to lower average costs. Such responses were considered to be valid and were rewarded accordingly.

Question 4

Here students needed to use the extracts and their knowledge to assess whether the benefits outweigh the costs when organisations such as Royal Mail are privatised and markets are opened up to competition. This question was clearly very accessible to many students who were able to identify the costs and benefits of privatisation, though not all dealt with the 'opened up to competition'. However, it was generally well-answered. Many students recognised the need to use the data in the extracts as part of their application skills, but in the better answers the data prompts were effectively integrated with the theoretical analysis. This helped to bring the theory to life, and to support valid and sensible conclusions. Some of the best answers picked up on the words 'such as' from the question, and brought in their own examples and context from, say, the railway and water industries to support their evaluation. In the context of Royal Mail, a small minority was able to distinguish between the parcels and letters delivery markets.

As always, in the very best answers, students demonstrated their evaluation skills throughout the response, for example by making judgements on the significance and importance of arguments as they progressed, before coming to their final judgement. Generally with the 25 mark questions, in order to achieve a level 5 response, the evaluation should be supported by theoretical analysis and also by the use of data from the extracts and the students' own examples and contexts. The latter is really only obtained when students take an interest in real world issues, and this plays a huge role in enriching their answers.

Context 2

Question 5

Students were required to calculate the mean female labour force participation rate for the five countries listed, and most were able to do so accurately. However, a greater number than with question 1, over 16%, compared to 4% on question 1, earned only 1 mark as they failed to include the '%' sign. Fewer earned 0 marks, and this was usually as a result of a calculation error, though some used the OECD average as part of their calculation. Students should be reminded that there are no marks available for workings on the calculation questions.

Question 6

Generally this question was well answered, and most students were able to explain how the data showed that the degree of inequality between male and female workers was falling. A number of students explained the meaning of the degree of inequality to help them answer the question, though overall they appeared to find the link between the data and the proposition easier to explain than those answering question 2. In order to earn 4 marks students were expected to use relative differences from the data rather than absolute figures.

Question 7

Students needed to use a diagram to help them explain how the difference between male and female MRP might account for the lower average earnings of women. Good answers began with an explanation of MRP and often explained its relationship with the demand for labour and productivity. There was a number of prompts in the data to help students answer the question, however, it was perfectly acceptable for them to bring in their own factors, and then to develop one or more of these. As before, in the best answers the diagram was properly integrated into the response and formed part of the chain of reasoning. Some students strayed from the focus of the question and discussed supply factors which were not relevant. It was clear also that unfortunately, some students had attempted this question without having an understanding of MRP. This led to a greater number of level 1 answers than was seen on the corresponding Context 1 question.

Question 8

In this question students needed to use the extracts and their knowledge to evaluate policies that government might use to reduce the gender pay gap. The best answers discussed at least two policies in depth, where the students drew from the data and successfully integrated this with economic analysis. This helped to provide sensible, supported evaluation and allowed students to reach realistic conclusions. In weaker responses there was a tendency for students to merely 'list' policies suggested by the prompts in the data. Here they appeared to find it difficult to develop their answers, and consequently some responses lacked theoretical analysis. Hence there was a number of rather 'general' responses, where the students had been unable to demonstrate their knowledge and understanding of economics.

Essay 1

Question 9

In this question students needed to explain how price and output were determined for a firm in a monopolistically competitive market in both the short and long run. For students who had been taught and had learned this new area of the specification this was a very straightforward question.

However, given that only 12% of students attempted Essay 1, we can assume that many felt less confident about this topic. That said, of the three 15 mark questions, the greatest proportion of students earned a level 3 mark for this question. Good answers began by explaining the characteristics of monopolistically competitive markets, which gave students the opportunity to develop sound knowledge and understanding. They went on to use both the short run and long run diagrams, and this helped them to develop their analysis further, and move into the highest level on the mark scheme. As is always the case, answers were enhanced by real world examples of monopolistically competitive markets, but few students included examples. Unfortunately, some students confused monopolistic competition with monopoly and were therefore unlikely to be awarded marks.

Question 10

Here students needed to evaluate the view that regulation of monopolistically competitive markets was unnecessary, and that regulative policies should focus entirely on oligopolies and monopolies. Students were able to use a number of approaches to successfully answer this question. Many began with an explanation of monopolistically competitive markets in both the short run and the long run, and of these a significant majority suggested that regulation was indeed unnecessary. A few picked up on the ‘stem’ to the question and suggested that excessive advertising spending might be considered a waste of resources, yet this still did not require regulation. Their focus then switched to monopoly and oligopoly markets and they suggested why regulation might be necessary. As before, the best answers integrated real world examples and contexts with well-focused analysis to support their arguments and evaluation. For example, some students suggested that whilst oligopoly markets such as energy might need regulation others such as the supermarket industry do not. In respect of oligopoly some students included the kinked demand curve seemingly as a matter of course without questioning its relevance or purpose. Students should be reminded that in order to be effective, diagrams need to be explained and properly integrated into their responses.

Essay 2

Question 11

This question required students to explain the main causes of poverty, and it should have been a very straightforward question. It was perhaps surprising that Essay 2 was only attempted by 11% of students. However, whilst many students started well and defined absolute and relative poverty, few were able to develop each of the causes they identified sufficiently to achieve a level 3 answer. Often their responses became little more than a ‘list’ of the causes of poverty, and at best were ‘reasonable’ answers rather than ‘good’ which is required for level 3. Students should be reminded of the importance of demonstrating sound knowledge and understanding of economic terminology, which some failed to do in answering this question. Similarly, the use of diagrams helps to develop their chains of reasoning and leads to higher level analysis.

Question 12

Here students needed to consider to what extent the problem of poverty in the UK can be solved through the operation of market forces. Many students decided to treat this as a 'what's the best way?' question and ignored the crucial reference to market forces. Whilst such answers could include good analysis and real world examples, the evaluation was limited in respect of its focus on the question. In some instances it was disappointing to see that some students did not understand the concept of market forces. That said there were some excellent answers that dealt with market forces, and the idea of 'trickle-down' economics. Better answers considered the actual cause of poverty, and discussed the extent of government involvement that might be required, whilst others suggested that leaving the problem to market forces might make poverty worse.

Essay 3

Question 13

In this question students needed to explain why sugary drinks may be overconsumed in a free market. Most students found this to be a straightforward question and was extremely popular. That said, in terms of mean mark it was not answered as well as might have been expected. Many students were able to identify a sugary drink as a demerit good, and went on to use the negative externalities in consumption diagram to support their answer. The best responses integrated the diagram effectively to develop their chains of reasoning, but many students simply drew the diagram and failed to make any reference to it. It has to be said also, that there was a number of errors in drawing the diagrams, ranging from the hugely significant curves in the wrong places, to the less significant inaccurate identification of the deadweight welfare loss triangle. A fairly significant number of responses were spoiled due to inaccurate diagrams, and students should be encouraged to learn and practise these. Whilst the negative externalities in consumption diagram was expected, students were not penalised for using the negative externalities in production diagram. Basic demand and supply diagrams were also rewarded where appropriate.

In addition to the externalities theory, many students developed other chains of analysis such as information failure leading consumers to undervalue the long term costs of consumption. Answers were also enhanced by behavioural theory.

Question 14

Here students needed to evaluate the view that imposing a tax was the most effective government policy for reducing the market failures arising from overconsumption of unhealthy food and drink. Most students found this to be a very straightforward question, and it was not surprising that it elicited the highest mean mark of all of the other 25 mark questions. It had by far the highest percentage of level 5 responses, 23% of students achieved a level 5 mark, compared with the lowest percentage of 13% for the poverty question. Students produced some excellent responses.

A typical approach was to discuss the effectiveness of the imposition of a tax and at least one other policy. Many students were able to include relevant diagrams and successfully integrate them into their answers to develop their analysis further. Good responses were definitely further enriched by behavioural theory, which was alluded to in the 'stem' to the question, in addition to traditional theory. It was pleasing to see that so many students had embraced this new area of the specification, and that they were able to use it appropriately. Students made use of the relevant behavioural economic terminology, and often developed a few of the numerous real world examples. The combination of theoretical analysis and context helped many students to demonstrate good supported evaluation in their responses.

Summary

Centres should be reminded that in addition to the Report on the Examination there is a range of exemplar materials, such as students' responses and examiner commentaries available on the AQA website to assist them in preparing students for the examinations.

Use of statistics

Statistics used in this report may be taken from incomplete processing data. However, this data still gives a true account on how students have performed for each question.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the Results Statistics page of the AQA Website.