
AS

ECONOMICS

Paper 2 The national economy in a global context
Report on the Examination

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Section A

General

This is the first sitting for the new AS specification multiple choice questions (MCQ) and as such the results cannot be compared directly with any previous examination. The paper largely performed as intended. The level of difficulty overall was consistent with the required standard and the examiners' expectations.

The detailed statistical analysis of the results does not indicate any problems which would invalidate individual questions or the test as a whole. The statistical analysis indicates that the questions discriminated effectively between more and less able students and the discriminatory power of the test overall was correspondingly good.

The individual question test statistics indicate that students found questions 1, 2, 3, 4, 5, 8, 9, 10, 11, 16, and 20 easy. Questions 1, 3, 9, 16 and 20 were the five easiest questions in the test, with the majority of students answering them correctly. The three demanding or very demanding questions were 6, 12, and 17. The most demanding question was question 6 which had a prominent distractor. The other demanding questions, were question 17, which almost had a prominent distractor, and question 12, which also came close to having a prominent distractor.

The individual question test statistics show clearly that the test discriminated effectively between more and less able students. All the questions performed within acceptable limits and none were rejected from the test.

Individual questions

Question 2

The question had two rather than only one correct response. Either an increase in exports, response A, or an increase in the budget deficit, response D, would result in an outward shift of the AD curve. The notable majority of students selected response A, while others selected response D. All students selecting responses either A or D, or both A and D, were marked as correct.

Question 6

This question had a prominent distractor, option B, which was selected by a significant number of students, compared to those who correctly selected Key C. The question required students to apply knowledge and understanding of the meaning and calculation of per capita GDP in the context of a numerical data interpretation question. The required economics is not inherently demanding so the difficulty shown by students is most likely due to weakness in their ability to handle and interpret numerical data. In this instance the particular weakness is an inadequate understanding of how to calculate the percentage change using index number data. Distractor D states that between 2011 and 2013, GDP grew by 8% whereas population grew by 3%. The data indicates that between these two dates the index for GDP increased from 92 to 100, and the index for population increased from 97 to 100. A majority of students wrongly interpreted the numerical rise of 8 in the index value for GDP, and rise of 3 in the index value for population, as representing percentage changes. Basic understanding of how to calculate a percentage change should have made it obvious that $8/92$ is an increase of more than 8%, and that $3/97$ is an increase of more

than 3%. The only valid inference for the data in the question is that between 2013 and 2015 there was no growth in GDP per capita (Key C) because both GDP and population increased by the same percentage, 3%.

Question 12

This was the third most demanding question; an almost equal number of students selected distractor D compared to the correct answer, Key A. Response A and D involve a rise in business profits. The choice of one or other of these two responses by the majority of students demonstrates that they understood the implications of such an increase for the position of the short-run aggregate supply (SRAS) curve. However, the significant proportion of students selecting distractor D demonstrated their lack of understanding of the implications of a rise in the exchange rate for the position of the SRAS curve. An appreciation in the exchange rate makes imports cheaper and will shift the SRAS curve to the right rather than the left. A fall or depreciation in the exchange rate will increase the cost of imports and the general level of prices, which will shift the SRAS curve to the left. The correct combination of changes detailed in the question is the rise in taxes on business profits combined with a fall in the exchange rate.

Question 17

This was the second most demanding question in the test; an almost equal number of students selected distractor D as the correct answer (Key A), which made it almost a prominent distractor. The question deals with the relationship between an economy's long-run trend rate of growth and its output gap. Response D is unambiguously incorrect. An increase in the rate of growth from an underlying trend rate of 2.8% to an actual rate of 3.9% implies a positive not a negative output gap. Response B is also incorrect for the same reason. A rate of growth in excess of an economy's underlying trend rate of growth will result in a decrease not an increase in the amount of spare capacity in the economy. Similarly, response C is also incorrect because a fall in the rate of growth from 3.5% to the underlying trend rate of growth of 2.8% will lessen the capacity constraint rather than decrease the amount of spare capacity in the economy. In contrast, an economy growing below its underlying trend rate has, by definition, a negative output gap. This means that response A is the most likely of the four responses stated for the question.

Section B

General

The majority of students opted for Context 1 rather than Context 2 and although there were some highly competent responses on both, on average, students performed better on Context 1 than Context 2.

It is pleasing to report that many students entered for this first examination for the new AS level Economics specification performed well. Students showed good knowledge and understanding of economic terminology concepts and principles were often demonstrated. However, for the weaker students in particular, the application to the context was often unconvincing. This was particularly true for the Context 2 questions on immigration. Students should be provided with as many opportunities as possible to apply their understanding in a wide variety of situations.

Some key concepts were not fully understood or applied. A particular point to note is that many students do not clearly specify which measure of elasticity they are referring to. This was often the case for the Context 1 question relating to the price elasticity of commodities. It is important that students have a strong grasp of basic economic principals if they are to be able to communicate clearly and to avoid mistakes that lead to invalid conclusions.

The use of diagrams is to be encouraged but these should only be used when they are relevant to the question being answered. Diagrams are sometimes not fully-labelled or labelled inaccurately. For example labelling AS as S. Inaccurate diagrams, or unexplained, are not given credit and students need to be fully aware of this.

The new AS specification requires that a minimum of 15% of the marks depend upon a student's ability to demonstrate quantitative skills. Although generally these were answered well, a number of students did not show their working. There are part-marks available for relevant working should the final answer be incorrect.

Selective use of the extracts should be encouraged. The extracts are there to help the students respond to the questions and can help to support their judgements. When answering the last part of each context, the quality of the evaluation is a key determinant of the final mark. Good quality evaluation requires that judgements are supported by sound analysis and/or evidence. The evidence used to support the judgement can be qualitative or quantitative. Some evidence is included in the extracts but it must be used appropriately.

Students should avoid simply restating the evidence in the extracts and ensure that they use sound, fully developed economic analysis to develop their points. Sound analysis will then enable students to provide good evaluation when required.

For the final part of each context, good students made evaluative comments as they worked through their answer. However, only the very best students provided a convincing, well-developed and supported conclusion. This is a skill that students will need to practise and develop throughout their studies.

Context 1: Falling world commodity prices give the UK economy a boost**Question 21**

The question asks students to define 'expansionary monetary policy'. To achieve full marks students also had to state how a particular monetary policy tool, such as the interest rate, money supply or the exchange rate could be used to increase aggregate demand in the economy. For example, 'expansionary monetary policy would involve the central bank or government cutting the interest rate to increase aggregate demand.' Some students stated it was 'using' the interest rate which is not sufficient to gain full marks. Likewise, students would need to explicitly explain that increasing the money supply would boost aggregate demand.

Question 22

The majority of students answered this question well, but some students did drop marks for omitting the '%' sign or minus sign. Likewise, it was disappointing to see that some students did not give their answer to two decimal places, as the question specifically asked for. The second question on each of the contexts will be a calculation and the specific quantitative skills that students may be required to demonstrate are listed in the specification.

Question 23

Most students seemed well drilled in how to answer a question asking for significant comparisons. It is important that students remember to state why their comparison is significant. For example, stating that the index for energy price was highest in September 2014 at 116.62 whereas the index of food prices was highest in November 2014 at 103.3. It is clear that the significance is the fact that these were the highest figures. Some students lost marks as they tried to compare the peak of one to the trough of another, which is not a valid comparison. Better students made sound comparisons by comparing peaks with peaks, troughs with troughs, and general trends over the time period. It should be noted that the date, the data and the unit of measurement are all needed to score full marks.

Question 24

This question required students to draw a bar chart for the index of world energy prices. Generally, this was answered well and the best students used a ruler to draw accurate bar charts; disappointingly, some students lost marks for inaccurately drawn bars or missing labels. The axes must be labelled and include the unit of measurement, in this case the vertical axis needed clear reference to the fact that it measured the 'Price Index' and the horizontal axis the months needed to be clearly labelled, eg September 2014. In the event that a student started their vertical axis at a value other than zero, they must have indicated the discontinuity appropriately.

Question 25

The question required students to analyse the impact of how an appreciation of the pound sterling would affect the inflation rate. The strongest students clearly analysed the impact of an appreciating currency upon both imports and exports, explaining how a stronger currency makes exports more expensive in terms of the amount of foreign currency needed to purchase UK exports, and allowing UK importers to purchase more with the same amount of sterling. The best answers went on to examine the impact on both aggregate supply and aggregate demand and used the context material well. For example, stating that extract C mentioned that manufacturers are paying 13% less for raw materials, linking this to cost-push inflation and a shift to the right of the short-run aggregate supply curve. Similarly, they linked the appreciating pound sterling to a rise in imports and a fall in exports and its impact on aggregate demand and demand-pull inflation. Weaker answers tended to write about 'net exports' or failed to fully analyse how the appreciation links to the changes in short-run aggregate supply and aggregate demand. Better answers also included accurately drawn and labelled diagrams to illustrate the impact of an appreciating currency.

It was not necessary to include a diagram to achieve full marks for this question but students should appreciate that, where appropriate, the use of a diagram can be useful in supporting their analysis. Diagrams are an important part of an economist's toolkit and it is up to the student to decide when and how they might be usefully employed.

Question 26

As with all context-related questions, the most successful students use the data and the extracts to exemplify the points that they are making. That being said, some students quoted parts of the extracts without analysing or evaluating their relevance which limited their response. Stronger responses started by outlining the four main macroeconomic performance indicators with good responses, including current data about the UK economy. This is to be encouraged and will allow students to give supported evaluation. For example, 'a fall in world commodity prices may reduce cost-push inflation and given that the UK currently has an inflation rate of around 0.4% this could lead to deflation...'

Unfortunately some students found it difficult to link falling world commodity prices to the impact on the balance of payments. Arguments were often unconvincing as to whether it would make the deficit worse or better. A key point that was often missed was that it is world commodity prices that are falling, not just those of one country. The best students related falling prices to price elasticity of demand in relation to the impact on UK producers of commodities. The introduction to the question stated that, 'not everyone benefits.' If commodities are price inelastic then falling prices would reduce total revenue, which then may lead to falling profitability and consequently job losses.

At every stage students should be urged to read questions carefully. Some students quickly moved away from the impact of falling commodity prices to give a more general response on how the UK economy is affected by issues such as low interest rates which meant that they did not link back to why interest rates are low in relation to falling commodity prices and low inflation, rather than just the fact that interest rates are low.

Context 2: How has immigration affected the performance of the UK economy?**Question 27**

The definition of labour productivity produced a broad range of responses, although many students missed the opportunity to relate productivity to a time period.

Question 28

Students were required to add all the figures together for the population change in order to calculate the total population at the end of the period. A few students missed key details in the question and rather than using the 2006 figure given, calculated the percentage change using the start figure in Extract D.

Question 29

Many students took a successful approach to the comparison question, using a simple comparison of high against high, and low against low. However, less successful students over-complicated their answer by calculating percentage changes. As noted on question 23, students must remember to include dates, data and the unit of measurement in their answers.

Question 30

As with question 24, the bar chart was generally well answered. The best students used a ruler to draw accurate bar charts; disappointingly, some students lost marks for inaccurately drawn bars or missing labels. The axes must be labelled and include the unit of measurement. The best students remembered to indicate the discontinuity in the data, where relevant. Less successful students used the wrong data.

Question 31

It is worth re-emphasising that this question and the equivalent question 25 are assessed using a level of response mark scheme; marks are not awarded for each point that is made. It is the overall quality of the response, with reference to the standardisation scripts, that determines the mark awarded.

The best answers focused on the impact of immigration on the budget deficit from the outset, using the data to show how the budget deficit might be increased or decreased by immigration. Weaker answers confused the budget deficit with a deficit on the balance of payments. It was a shame to see a number of students repeat material from extracts, without accompanying analysis, which limited the level they could be awarded. Good students were able to discuss particular types of taxes and make the distinction between direct and indirect taxation.

Question 32

Successful answers used the extract material well and looked at both demand side and supply side implications. Stronger students picked up on the high level of qualifications that many immigrants have and discussed how these may complement our existing skills base, and drive-up productivity and wages in those sectors affected. Likewise the reverse would happen in sectors where immigrants bring in skills that may act as substitutes and the dampening of wage rises in those sectors.

There were some very general discussions focusing often on only the negative impacts of immigration on the performance of the UK economy and some students' answers had been influenced by the media. Students should remember that they are required to use the economic principles that they have studied and avoid making any political comments.

Many students would benefit from including supported evaluation throughout their response, as well as a well-argued conclusion with a supported final judgement. An example of supported evaluation might be as follows: 'There is a significant correlation between immigration and labour productivity (Extract F). Improved labour productivity will help to reduce average costs of production which would allow UK firms to lower prices and thus become more competitive on the international stage. This would help to boost exports and help to improve the current deficit on the balance of payments which is currently 6% of nominal GDP. These improvements are likely given that migrants from the EU are better educated and a substantial proportion of them having a degree than people born in the UK.'

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results Statistics](#) page of the AQA Website.