
A-LEVEL ECONOMICS

7136/3 Economic principles and issues
Report on the Examination

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General

The overall standard of students' answers to the questions in Section B of this paper was pleasing. There weren't many very weak responses and most students demonstrated that they could apply a selection of economic concepts and principles to the context. Most responses were well organised; good use of paragraphs helped to provide a clear, logical structure but some introductions were too long. The majority of students recognised the importance of the command words used and responded appropriately.

The data in the extracts were often quoted and used liberally by most students. The best students built on the clues in the extracts by developing the material and constructing a clear logical argument; they were able to weave quotes from the passages and carefully selected statistical data seamlessly into their answers. Weak responses quoted from the extracts but often failed to add to the quotes or showed that they had little appreciation of their significance in relation to the question.

Many students drew accurate diagrams and used them effectively to support their analysis. However, some students drew diagrams and failed to use them. Little credit can be given for a diagram unless it is employed effectively to help answer the question. Also, too many students used a micro diagram when a macro diagram was required and vice versa. The weaker students muddled macro and micro diagrams by inaccurate labelling of curves and axes.

It was apparent that some students were not confident in using numerical and statistical data to support judgements. Terminology was not always used correctly, units of measurement were often wrong and inferences drawn were sometimes unconvincing. These weaknesses were apparent in the answers to all three questions but it was particularly noticeable in the answers to Question 31. This suggests that students would benefit considerably if they were given more exposure to statistical and numerical data that is frequently used by economists. More opportunities to use such data in discussion and written work would improve their ability to express economic data correctly and to draw valid inferences.

Question 31

Students who answered this question well were able to demonstrate their ability to use quantitative data effectively to support their judgements regarding the extent to which the UK manufacturing sector has been in decline since 2003. All four assessment objectives were considered when determining the overall quality of a student's response.

The best answers were well organised and often started by indicating how it might be possible to assess the extent to which UK manufacturing industry has declined. Only a small minority of students stated that it could be determined by looking at changes in the value of the output of UK manufacturing industry or by looking at the change in manufacturing output as a proportion of GDP, i.e. whether it has declined relative to the rest of the economy. Good answers recognised that Figure 1 provided the key data but also used data from the other Figures to back up or modify their conclusions. Strong answers appreciated that it was essential to look at the overall trends shown in the data but also understood that other patterns in the data might be significant. For example, they might state that the index of manufacturing output was slightly lower in 2015 than in 2003 but also recognised that the major decline occurred between 2008 and 2009 and that there has been a recovery in output since 2009. Quoting figures accurately to support their analysis of the data was also a feature of these answers. The best students realised that the 2008-09 financial crisis was a major cause of the decline in manufacturing output and some stated that what

happened at this time produced 'outliers' that obscured the overall trends. Data taken from Figure 4 was sometimes quoted to support this conclusion. Most of the good responses also used the data from Figure 2 and argued that superficially, the significant fall in employment lent support to the conclusion that manufacturing had declined since 2003. However, they qualified their judgement by stating that, considering the trends in Figure 1, productivity in manufacturing, perhaps due to high levels of investment and improvements in technology, had increased. Some also made use of Figure 3 by stating that the value of exports had risen by over 50% contradicting the view that UK manufacturing is in decline, but modified this judgement by quoting figures showing the larger increase in imports or the growing deficit on the balance of trade in goods.

To achieve Level 3, it was not necessary for students to use data from all four Figures, but they had to use sufficient data to provide a robust, supported overall judgement regarding the extent to which, if at all, the UK manufacturing sector has been in decline. Typically, Level 3 responses made provisional judgements as they worked their way through the data and provided a final conclusion based on their overall findings.

Whilst many students attempted to assess the limitations of the data, only a very small minority was able to make any meaningful comments. It was only rarely recognised that the data in Figure 3 might be misleading because it was quoted at current prices and hence didn't accurately indicate what has happened to the volumes of exports and imports. Also, very few students realised that some goods, e.g. oil and other commodities, are not manufactured. However, some erroneously stated that the figures were misleading because the increase in exports might have resulted from an increase in the sale of services abroad. When using data from Figure 4, some commented on the grouping of the data but very few understood that the main problem was that the group showing average growth rates between 1993 and 2007 made it impossible to isolate what happened after 2003. Another mistake was that some students believe that the data in Figure 1 were unreliable because they were shown in index number form.

Weaker students made very limited use of the data in Extract B and some tried to explain why the UK's manufacturing industry might have declined since 2003 rather than using the data to assess whether or not it had declined. A common weakness was quoting the data inaccurately, e.g. omitting 'thousands' when using Figure 2; some stated that employment in manufacturing had fallen from around 3650 in 2003 to 3000 in 2015. Other weak answers trawled through the data without presenting any indication of the general trend or significant patterns. Weak responses such as these, did not make any attempt to provide an overall judgement of what the data showed.

Some students did not focus on the extent to which UK manufacturing has declined since 2003. Too many discussed long-term trends, going back to the 1960s and 1970s; they often quoted figures from Extract A. The question directed students to make use of the data in Extract B. This does not mean that they should not use data from the other Extracts but the data used must relate to the question set. For most, this did not adversely affect the overall quality of their response but for a few it seriously distorted their conclusions.

It appeared that some students were not very well prepared for a question of this type. Using statistical data to support conclusions is a demanding but essential skill for an economist. It is important that students are provided with plenty of opportunities to practise and develop their competence in this area.

Question 32

The keyword 'explain' indicates that this question was set to test three of the four assessment objectives: knowledge and understanding, application and analysis. Evaluation was not being assessed. Whilst most students would have been aware that many advanced economies, including the UK, have seen a decline in employment in manufacturing and an increase in employment in the service sector, it was not expected that students would have been taught the reasons why this shift has taken place. However, there were plenty of clues in the extracts and students were expected to identify relevant factors from the information provided and to apply economic principles to the context to support their analysis of the reasons for the shift in the pattern of employment. Provided they were plausible, students were also, of course, rewarded for their explanation of other relevant factors that were not mentioned in the extracts.

Most students sensibly started by attempting to explain what is meant by economic growth but some of the explanations were imprecise or inaccurate. The length of some introductions was excessive and resulted in too little time being devoted to addressing the main issues raised by the question.

The most common weakness was made by students who based their analysis on the assumption that all jobs in the manufacturing sector are unskilled and low paid whilst all jobs in the service sector are highly skilled and high paid. Students who went down this path often mentioned financial services and implicitly assumed that the financial sector is the only provider of employment in the service sector. Some mentioned lawyers, doctors and accountants. However, very few appeared to recognise that the service sector includes, for example: retailing, hotels and catering, caring for the elderly and the leisure industry.

More sophisticated responses that considered supply-side influences explained why, as an economy grows and develops, it invests in human capital and this becomes an important source of its comparative advantage. Some also presented the view that as economies develop, attitudes towards different types of employment change and people prefer to work in the service sector rather than in manufacturing.

Good answers to this question identified some of the clues in the extracts and included logical chains of reasoning to analyse why the factors identified contributed to the change in the pattern of employment. The analysis was often supported by real-world examples. Weaker answers selected one or more relevant influences but the explanations provided were either very limited or muddled. One of the most frequent explanations offered for the decline in employment in manufacturing in advanced economies was globalisation and this was linked to the impact of economic growth upon labour costs in advanced economies and competition from low-wage economies. Costs imposed on manufacturing firms in advanced economies by government legislation designed to protect workers and the environment were also frequently mentioned. Outsourcing and FDI were also discussed by some.

The impact of growth upon investment, technology and productivity was another common theme. Whilst some analysed effectively the impact of such changes on employment in manufacturing, the weaker students just lifted the point from Extract 3 without much explanation. A few of the strongest students went on to explain why changes in productivity have had more impact on employment on manufacturing than in the service sector.

Extract 3 states that 'Part of the decline in manufacturing output can be explained by the fact that the income elasticity of demand for services is generally higher than for many manufactured

goods'. As expected, many students identified this as a reason for the change in the pattern of employment, mentioning that the demand for labour is derived from the demand for the product. Some went on to define income elasticity of demand and showed a general appreciation of why, when incomes are growing, differences in income elasticity will lead to changes to the pattern of output. However, the majority argued that the demand for services would rise and the demand for manufactures would fall, i.e. they incorrectly assumed that most manufactured products are inferior goods.

Whilst an overall conclusion was not essential, some students enhanced the overall quality of their answers by bringing together the various factors to provide an over-arching view of the causes of the changes in the pattern of employment.

Question 33

When determining a mark for this question, all four assessment objectives are considered, with the quality of the analysis and evaluation being particularly important. Taking into account the evidence in the source booklet, students were required to advise the government whether they should intervene to support the steel industry. They were expected to select and use appropriately aspects of both macroeconomic and microeconomic analysis.

Good answers presented the case in favour of intervention and the case against intervention before weighing up the arguments and providing a fully-supported recommendation. Many analysed the different methods that might be adopted to support the industry and discussed their pros and cons. The use of tariffs, subsidies and relaxing regulations designed to protect the environment were the most frequent methods of intervention that were reviewed. Only a small number of students considered the possibility of outright nationalisation. Some of the policy options discussed were implausible, for example, cutting Bank Rate and/or intervening in the foreign exchange market to reduce the sterling exchange rate. Better students recognised that recent falls in the value of the pound have eased the problems facing the steel industry; some of these suggested that this supports the case for not intervening whilst others argued that it makes it more likely that intervention by the government will succeed.

Students who considered the use of tariffs often included a suitable diagram and some of the linked analysis was impressive; the best students analysed the impact on domestic production, consumption and imports as well as consumer and producer surplus, the overall deadweight loss and government tariff revenue. The risk of retaliation was usually taken into account. Some recognised that membership of the EU and the WTO makes it difficult for the government to use tariffs to protect the steel industry. However, it was only very rarely understood that dumping provides an economically justifiable argument for protectionism and that tariffs to protect against dumping are allowed by the WTO. Some of the weaker students stated that the UK steel industry should be protected by a tariff because it is an infant industry.

Diagrams were often drawn to support students' analysis of the effects of subsidies and other measures designed to reduce government imposed costs upon the steel industry. Externality diagrams were occasionally used to illustrate the environmental and resource allocation effects of relaxing climate change policies. Macroeconomic AD/AS diagrams were also employed to show the effects of allowing the steel industry to collapse on the wider economy and the impact of higher steel prices, resulting from protectionist measures, upon inflation and growth. Many, but not all, of the diagrams were accurately labelled and used correctly but some students did not recognise when it was appropriate to use a microeconomic diagram and when a macroeconomic diagram would have been suitable.

The weakest answers failed to identify the key issues raised by the question, some of which focused on the decline in manufacturing rather than the more immediate problems of the steel industry. Other weak responses selected a few relevant issues from the extracts but failed to include adequately developed analysis and made superficial, unsupported judgements. Another weakness apparent in some answers was to exaggerate the effects of either allowing the steel industry to decline or intervening to support the industry. For example, some argued that failure to support the industry would cause a serious, prolonged recession and result in a sustained period of deflation. Good evaluation required a more measured assessment of the likely impact of policy choices.

The majority of students recognised that a significant argument in favour of supporting the steel industry is to reduce the incidence of structural unemployment. The best students were able to build on this by discussing issues such as: the impact on the government's fiscal position, labour mobility, regional consequences, hysteresis, the equilibrium rate of unemployment, poverty and inequality. Weaker answers just noted that a collapse of the steel industry would lead to more unemployment and make it harder for the government to achieve one of its macroeconomic policy objectives.

Plenty of students referred to the sentence in Extract D which states that 'Steel is vital for many essential products including buildings, vehicles and refrigerators' and argued that unless the government supported the steel industry other sectors of the UK economy would suffer. It wasn't always appreciated that these related sectors benefit from cheap imports of steel and that forms of intervention that raise the domestic price of steel are likely to harm steel-consuming enterprises and their customers. Very few students recognised that steel is a strategically important industry and even fewer went on to develop this as an argument in favour of supporting the industry.

The overwhelming majority of students stated that the UK no longer had a comparative advantage in the production of steel and cited this as a reason for allowing the industry to contract. Many went on to argue that unemployed workers should be retrained and reallocated to sectors in which the UK has a comparative advantage. The best students were able to explain the case for allowing market forces to reallocate resources but others failed to show that they understood the rationale for allowing countries to specialise in producing those goods and services in which they have a comparative advantage. Some incorrectly believed that dumping was evidence that China has a comparative advantage in the production of steel and that imposing a tariff will restore a country's comparative advantage. Only a few students argued that the government should consider investing in the industry and attempt to restore its competitiveness.

Most students included a final judgement; some were well supported but others were only briefly justified. Students who failed to devote enough time to this vital aspect of the question were unlikely to get very far into Level 4. The majority of students concluded that the decline of the UK steel industry is inevitable and that it should not receive long-term support. However, they were in favour of measures designed to minimise the likelihood of persistent structural unemployment and to mitigate the consequences on the regions affected by the decline of the industry. However, some very good students presented a well-justified case in favour of the government intervening to support the industry.

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.