

## A LEVEL

*Examiners' report*

# ***ECONOMICS***

**H460**

For first teaching in 2015

## **H460/02 Summer 2019 series**

Version 1

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## Introduction

Our examiners' reports are produced to offer constructive feedback on candidates' performance in the examinations. They provide useful guidance for future candidates. The reports will include a general commentary on candidates' performance, identify technical aspects examined in the questions and highlight good performance and where performance could be improved. The reports will also explain aspects which caused difficulty and why the difficulties arose, whether through a lack of knowledge, poor examination technique, or any other identifiable and explainable reason.

Where overall performance on a question/question part was considered good, with no particular areas to highlight, these questions have not been included in the report. A full copy of the question paper can be downloaded from OCR.

## Paper 2 series overview

This was the third sitting of the new A Level qualification in Economics. Paper 2 discriminated well with a wide range in the quality of responses. Very few candidates appeared to have problems with timing, with most able to write full responses to both the compulsory and optional questions.

The below comments on individual questions indicate that the standard of responses was very pleasing. In the main, subject knowledge was strong, although for Section A, the use of quantitative skills could still be improved and precise learning of definitions, there were candidates giving 'no response' to 1b, 1cii and 1d, which involved a precise understanding of the model given and also calculations. In the longer answers within Section A candidates could benefit from utilising the data, within their answers. In response to essay questions, candidates were able to deploy the economist' toolkit of concepts and theories to great effect. Diagrams were well used in Section B and provided useful development of responses to Section C questions; good use of AD/AS analysis was present in the stronger answers. Weaker responses tended to be descriptive and general and candidates did not always recognise the economic concepts, which could be used to deepen their answers. Candidates should focus on the question set and refer to it while they are writing their answer to make sure they have kept to the question. Diagrams also need to be integrated into their answers, there were still several candidates who rely on the diagram to explain itself. It is crucial when the questions states 'using a diagram' the candidate does that and fully explains the diagram, it is the only way they can access the top marks.

Despite these areas for improvement, the overall quality of candidates' responses was pleasing and indicated effective preparation for this exam.

### Note

We have updated our specification for first teach 2019, please make sure you download our latest version from our website: <https://www.ocr.org.uk/qualifications/as-and-a-level/economics-h060-h460-from-2019/> and see the SIU here: <https://www.ocr.org.uk/administration/support-and-tools/siu/as-a-level-economics-536672/>

## Section A

### Question 1 (a)

- 1 (a) Distinguish between absolute advantage and comparative advantage.

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..... [2]

Most candidates were able to define opportunity cost, but definitions of absolute advantage were often imprecise, such as 'produce more'.

### Question 1 (b)

- (b) Explain how Fig. 1. illustrates the Harrod-Domar model.

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..... [2]

Many candidates showed good understanding of the Harrod-Domar model, but there were also many who confused 'growth leading to saving'. When using the data to explain a concept such as the Harrod-Domar, it would be helpful to answer in a two-stage way. First describe the Harrod-Domar model, then say in what way the Figure matched the definition/concept.

#### Exemplar 1

- (b) Explain how Fig. 1. illustrates the Harrod-Domar model.

There  
↓  
savings  
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K  
↓  
econ.

As there is 'growth of saving', there is a growth of capital accumulation. This increase the 'growth of investment' and bring economic growth by the 'growth of world GDP', which is a sustainable cycle.

The exemplar shows how a candidate can get full marks by starting with savings and explaining the relationship with investment and then growth

### Question 1 (c) (i)

(c) (i) Using Table 1, explain which country's government made a negative contribution to the country's aggregate demand.

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..... [2]

A very straight forward question, which was answered correctly by the vast majority of candidates.

### Question 1 (c) (ii)

(ii) Using Table 1, calculate Russia's GDP in 2017.

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..... [2]

Candidates generally answered this correctly. It's worth pointing out here though, that workings should always be included, and the correct units used. In this case \$ and Billion

### Question 1 (d)

(d) Using information from the stimulus material, calculate the UK's marginal propensity to import in 2017.

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..... [2]

Candidates generally answered this well, although there were a significant number who made no attempt. Centres could make sure candidates have further practice of these type of questions.

## Question 1 (e)

- (e) Using Table 2, evaluate to what extent differences in corporate tax rates explain differences in foreign direct investment in countries. [8]

This question was answered well by most candidates. Where it was not answered well, it was due to a lack of use of the data. There was also confusion from some who related lower corporation tax to a fall/lower costs of production, rather than retaining more profit.

## Exemplar 2

region. There is more incentive for foreign investor to invest in those region, such as Ireland, where has the lowest tax rate and highest FDI per head. India, the second highest rate has the lowest FDI per head. With a reduction in production cost, foreign investor can have a more competitive production with a lower

In Exemplar 2 the candidate correctly identified Ireland and India, and the inverse relationship was implicit, so they got good analysis here, but the response was not given strong analysis because they confused the idea that lower corporation tax would lead to lower production costs.

## Question 1 (f)

- (f)\* Evaluate whether the growth of emerging economies will benefit the UK economy. [12]

Candidates were able to argue the positives of how it benefits the UK economy and how it may not. However, some students only applied the benefits to the emerging economy. The best answers used the extract to back up or formulate their answers. There were a range of ways they could access analysis and evaluation marks and answers displayed this range. For example, how India has created jobs within the UK and hence improved employment, then linked to economic growth and how China's steel production has been detrimental to the UK causing structural unemployment. An increase in exports to emerging economies leading to economic growth and then competition from emerging economies could lead to the decline in UK industries were also common answers.

## Exemplar 3

This means the export of AD in UK will increase, the shift of  $AD_0 \rightarrow AD_1$  will increase real output by  $Y_0 \rightarrow Y_1$ . UK economy (GDP) growth has been weak in the recent, with a growth of 1.4% only, having more external demand through export & increase in foreign income can stimulate the economy. As export increase, the balance of payment will move from deficit to surplus, this will improve the BOP & current account deficit, which reduce the substantial outflow of capital and avoid national debt. Example is the reform & opening up of China, which improve the UK economy through increase in tourism and export through trade of Goods & services. Another positive is the migration of skillful labour. Economic growth in emerging economies can improve the human capital of the people living in there. By AS growth - supply side policy such as increase in education funding can produce for skillful labour, which can migrate to UK & become UK's factors of production, thus increase UK AS. For example, the India econ growth has lead to a growth of engineering specialists, who can support the construction of HS2, illustrate by  $(AS_1 \rightarrow AS_2)$  and potential growth of  $(Y_1 \rightarrow Y_3)$ , also applicable to PPF outward shift.

In Exemplar 3 the candidate makes excellent use of context and theory to analyse the benefit to the UK economy. Points are fully developed using chains of reasoning which include relevant context and detail. The diagram is integrated and explained. This showed strong analysis and was awarded full marks.



## Section B

## Question 2

- 2\* In 2018 the Australian government, concerned about the possibility of an economic downturn, used a number of policy measures intended to increase private sector investment.

Evaluate, with the use of an appropriate diagram(s), whether an increase in private sector investment will help a government achieve its macroeconomic objectives. [25]

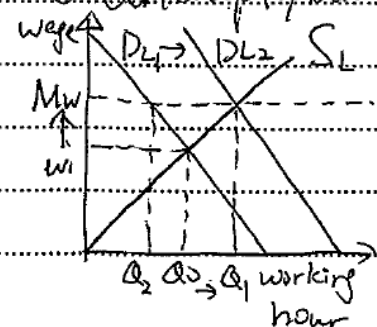
Candidates who tackled this question completed this soundly using solid economic models and were able to clearly link this back to economic objectives. The better answers analysed how an increase in private sector investment could help achieve macroeconomic objectives through an increase in AD and LRAS. Diagrams were accurately labelled and integrated into answers. Evaluation, which tended to focus on inflation, could have been improved by looking at the limitations of investment. Candidates need to take care reading the question as it clearly states increase in private sector investment not the government investing. Weaker answers tended to focus on government spending or on policies to increase private sector investment and evaluate the effectiveness of those policies. There were also candidates who had missing links in their analysis. For example, saying that private sector investment causes employment without explaining how or why, this often meant that they did not get beyond L3.

## Exemplar 4

Increase in private sector investment can help a government achieve its macroeconomic objectives - including economic growth, stable and low inflation, balance of payment, and full employment.

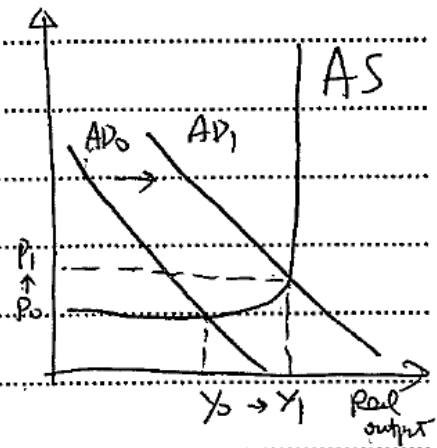
tech.

Firms increase investment to expand the production. In this process, there will be a higher demand of FOP (Land, labour, ~~to~~ capital & entrepreneurship). Labour, as a derived demand of production will increase. This will reduce cyclical unemployment through  $D_1 \rightarrow D_2$ . Original cyclical unemployment under Minimum wage (Mw) will be reduced. If there is no min wage, real wage will increase from  $w_1 \rightarrow Mw$ .

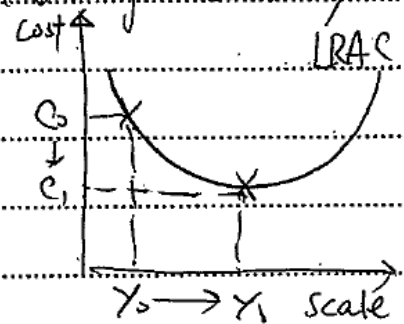


This can help the gov't to achieve Full employment. As there is more employment, consumption will increase, this will increase AD as  $C$  increase.

Short run economic growth is achieved by shifting  $AD_0 \rightarrow AD_1$  through a multiplier effect as explained and the direct stimulation of investment (I) increase from  $Y_0 \rightarrow Y_1$ , which is economic growth.



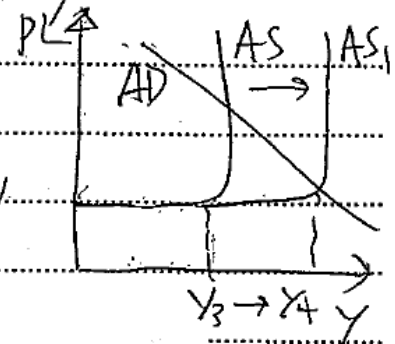
Another advantage is through private sector investment, firms can utilise the economies of scale by increasing return to scale, which reduces the long run average cost. By firm expansion through investment, the domestic production cost can be lowered, which reduce the price of export and improves the terms of trade through a lower price in general.



$(TOT = \frac{\text{EXPORT PRICE}}{\text{IMPORT PRICE}} \times 100)$ , this can increase the export competitiveness by cost advantage and quality improvement, which improve the current acc. and the Balance of payment. Moreover, increase in net export ( $X-M$ ) can also increase AD by ( $AD_0 \rightarrow AD_1$ ) which improve Economic growth.

Private sector investment can reduce the gov't expenditure and increase government tax revenue by

Increase in transaction turnover, which increase the revenue and profit tax, also improve the budget position of gov't and flexibility of fiscal policy. Also, investment in infrastructure can bring a long lasting effect to the AS growth. Firstly increase in investment increase firm size, which increase the profit & profit tax, gov't can have more revenue to balance the budget (such as UK, 2% deficit). Gov't can save the budget and prepare for any future supply side policy, such as education. Also private sector investment can bring a long lasting effect to the AS. For example, Emirates has built public aviation school which provide training of pilots in UAE, dubai. This can continuously produce skillful labour, which is a high quality FOP to shift AS to the right. This increase potential output & outward shift of PPF (production possibility frontier). Shown by  $(F_1 \rightarrow F_2)$ , which is Economic LR growth.



In this response the candidate used a brief introduction, which clearly showed they knew what the question was asking of them. The analysis is developed with clear chains of reasoning focused on the question set, the diagrams are predominantly correct and integrated into the answer. There is use of their own knowledge which enhanced the explanation. Overall this section was awarded strong analysis and went on to be awarded strong evaluation.

## Question 3

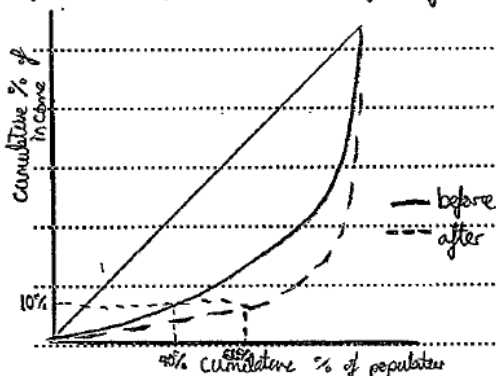
3\* Cuts to welfare benefits of £2.5bn affected eleven million families in the UK in 2018.

Evaluate, with the use of an appropriate diagram(s), whether a cut in government spending on welfare benefits will increase income inequality. [25]

This question was answered by about half of the candidates. The better answers showed their ability to relate a cut in welfare benefits to income equality, many making good use of an AD/AS diagrams reflecting a fall in government expenditure and the impact that and cuts in welfare benefits would have on inequality. Evaluation of the incentive to work impact was also clearly explained and most frequently used. The Lorenz diagram was also used, but often it could have been labelled and explained appropriately. The weaker answers were often when the use of the diagram could have been better. Candidates should avoid drawing a diagram and then simply stating 'as shown in the diagram'. Diagrams need to be integrated into the answer to show strong analysis. Several candidates lost sight of the question and started to analyse and evaluate the cut in government spending on other macroeconomic objectives.

## Exemplar 5

benefits as they no longer fulfil criteria. This could lead to absolute poverty for some people if they do not receive any form of income and are unable to get a job. Along with this, relative poverty could increase as people will receive less than 60% of average household income which may prevent some people participating in society. Overall this can create large scale unhappiness that could lead to clinical depression which is not the rise which may prevent people from being able to get jobs. In turn this will worsen inequality.



This Lorenz curve indicates the effects of worsening inequality due to the reduction in welfare benefits. The lowest 40% of the population owns only 10% of wealth before whereas after this figure changes to the lowest 60% of the population only owning 10%. The government may fail to see some people on benefit suffer from hysteresis as their skills no longer are useful in the current day.

In this response the candidate makes good use of the diagram and clearly explains the relevance to the question and overall even though it is not a perfect explanation there is enough for strong analysis. In questions where candidates are required to use a diagram it is crucial that they do so correctly.

## Section C

### Question 4

- 4\* Over the last twenty years China has experienced rapid economic growth but surveys suggest that this has not increased happiness.

Evaluate whether economic growth increases happiness.

[25]

This question was answered by more candidates than Question 5. The stronger answers made good use of economic theory. Using AD/AS analysis, The Easterlin Paradox and the Kuznets curve. The better candidates focused on the question and developed their analysis in terms of individual happiness, worker happiness and the role of the government, many also used China as an example. Strong evaluation was often gained through environmental damage and use of theory. The weaker responses often made general and sweeping statements e.g. more inequality must reduce happiness, or that inflation would make people unhappy, without explaining why. Candidates should be prepared to recognise that there are very different outcomes for different types of people.

#### Exemplar 6

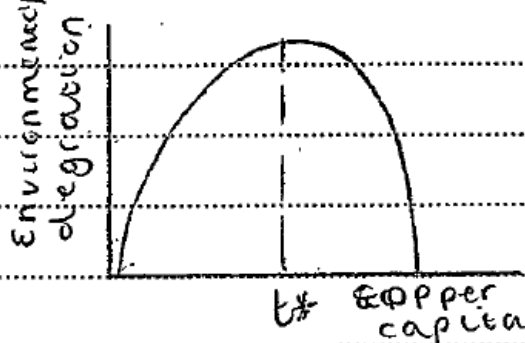
The Easterlin paradox is an advocate for economic growth not always constituting an increased happiness. The paradox states that to begin with as economic growth increases, so will happiness in proportion to growth, however, there will become a point when ~~continued~~ continued and increase growth will no longer lead to increased happiness, but will reduce it.

The extent to which economic growth increases happiness will partly depend on the level of corruption of the government. If governments are more corrupt, they themselves may raise taxes and keep the tax revenue for themselves instead of circulating it round the economy to benefit households and consumers. In addition, development and economic

a economist Amartya argued that growth and development needs to allow for greater freedom and choice of individuals within society in order for them to be happy; and with corruption occurring within the government, this may reduce.

Another problem with growth and its ability to increase happiness depends on the level of externalities associated with growth.

For instance, the environmental Kuznets curve argues that rapid economic growth, like that of China's will lead to large



(Figure 3)

amounts of environmental degradation, like pollution which is a form of a negative production externality. Trade with increased pollution as a

result of rapid growth, the societies health will deteriorate which will reduce the productivity of workers, which as we know in the UK is a record low and the UK government has spent £3.1 billion pounds trying to promote. This will therefore reduce individuals happiness.

The candidate in this response uses the Easterlin paradox and environmental damage to develop their evaluation and makes a judgement as to what happiness depends upon, which was awarded strong evaluation. It is also useful if candidates refer back to the question to show how their point answers the question set.



## Question 5

- 5\* In 2018 the UK Prime Minister said she would put financial services at the heart of a new trade deal with the EU.

Evaluate whether the UK financial sector makes a positive contribution to the UK economy. [25]

The least popular question, but there were answers that covered the full range of possible responses. Many candidates that chose this question had an excellent understanding of recent events in the financial markets, including the recent recession, bailouts and moral hazard. The best answers focused on exactly how financial markets enhanced (or damaged) economic performance rather than just describing recent events. Candidates knew financial services made up a large proportion of the UK exports – analysis that started with this usually gained good analysis. Others confused the financial sector and the central bank; candidates would usually talk about base rate changes and its effect on the macroeconomy rather than answering the question. Most of the evaluation centred around the global financial crisis of 2008, better candidates gained good evaluation by looking at the economic effects of moral hazard, systematic risk, and asymmetric information in the financial sector. Strong evaluation was awarded for concluding remarks on regulation and the role of confidence within the financial sector.

## Exemplar 7

P2. If financial institutions continue inflation targeting, this may cause a fall in country's output, further reducing the output of the country from  $Q_1$  to  $Q_2$ , causing a worse off economic output.

Also, Banks acting as a last lender resort may encourage Retail Banks and Investment banks to participate in high risk investment as they know that they will get help from Bank of England if they went bankrupt. This creates a moral hazard where large banks ~~know~~ are too big to fail and Bank of England are forced to bail out. This may cause further financial instability as large banks are involved in higher risk ~~of~~ ~~being~~ ~~to~~ be bailed out. Besides, bailing out banks may

not benefit the UK economy as ~~fail~~ out only solves short-term impact, where there may still be some structural problem to banks. This causes people to still be less likely to put deposits into the bank, causing less savings into that bank and eventual failing of the bank. This causes financial instability and as people have less confidence into the country's institutes, there will be a fall in FDI, and fall in investment, which causes fall in AD and AS of the economy, causing a fall in output and GDP.

Overall whether the ~~eg~~ financial sector can contribute to UK economy depends on the government's regulation to the financial sector, e.g. ~~setting a high~~ capital ratio to prevent regulatory capture where Bank of England may be biased towards Investment Banks and the financial institutions ~~are~~ <sup>are</sup> ~~aren't~~ <sup>are</sup> regulated in finding profit to prevent them from speculative investment which may ~~cause~~ lose depositor's money and cause fall in ~~the~~ people's confidence on financial institutes.

The candidate in this response made sufficient use of theory regarding moral hazard and bail outs to be awarded good evaluation, the judgement in relation to regulation made it strong.

## Copyright information

Section A, Table 1	<a href="http://www.cia.gov">www.cia.gov</a> , Central Intelligence Agency.
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