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GCE

GCE Economics (6EC01)

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General

The paper was the first from the new syllabus launched in September 2008. The new paper tested candidates on their knowledge and understanding of topics associated with the old unit 1 and unit 2 syllabus. The structure of the paper involved candidates answering eight supported multiple choice questions, each being worth up to 4 marks (and so totalling 32 marks). Candidates were than required to select a data response question from a choice of two, totalling 48 marks. The time available for the paper is now one and a half hours and there was little evidence of candidates running out of time.

Overall, the paper appeared accessible to the vast majority of candidates and differentiated effectively between the qualities of responses. The mean score was 40.9 (out of 80 marks) and the standard deviation was 14.0.

Based on those scripts marked online, 64% of candidates attempted data response question 10 (Tobacco smoking in decline) and 36% attempted question 9 (Tuition fees in higher education).

Section A: Supported Multiple Choice Questions

A significant number of candidates were very well prepared and demonstrated an excellent understanding of both the specification and the techniques involved in answering the questions. Many achieved scores over 28/32, offering accurate definitions, economic analysis and relevant application. The overall mean score for the supported multiple choice questions was 19.74 out of a total 32 marks.

In order to increase candidate accessibility to the marks available, it is now possible to achieve the full three explanation marks even when selecting the incorrect option. This happened occasionally, suggesting that either an accidental mistake was made in placing the incorrect letter in the answer box, or that a sound understanding of the issue being examined was held by the candidate.

The key to success involves defining the main concept in the question (usually awarded 1 mark) and applying appropriate economic theory and analysis (usually awarded up to 2 marks). Annotation of the diagrams provided in any question is a good strategy, for example, Q3 and Q7. In a similar vein Q2 offered scope for candidates to introduce diagrammatic analysis as a means of demonstrating their knowledge and application of the issues at hand.

As anticipated, candidates found some questions easier to answer than others. The two questions which recorded the highest marks were Q1 (Positive/normative statements) and Q6 (Public goods). The two questions which recorded the lowest scores were Q2 (Signalling function of the price mechanism) and Q8 (Asymmetric information).

Some candidates attempted to gain marks by knocking-out incorrect options. Up to three marks are available for successfully knocking-out three incorrect options. However, mixed success was achieved here. It requires candidates to explicitly state the option key which is being knocked out and then to offer an appropriate explanation. Several examples of how to successfully knock-out incorrect options are provided for the supported multiple choice questions in this series. One can see that a certain skill is required and that it may be quite challenging.

Question 1 (A): Mean score 3.44 out of 4 marks

The highest mean score was achieved in this question and it served its purpose as a gentle introduction to the exam. The vast majority of candidates selected the correct answer and understood that statement 1 was positive and statement 2 was normative. They were usually able to make a clear distinction between positive economics (factual and which can be tested as true or false) and normative economics (based on value-judgements and which cannot be tested as true or false). The most effective answers drew upon statement 2 being normative due to the word ‘unfair’ included in the phrase.

How to raise candidate achievement

Some candidates are still not aware of the importance of referring to ‘value judgement’ when describing a normative statement. This is more appropriate than using the term ‘opinion’.

Question 2 (C): Mean score 1.77 out of 4 marks
The lowest mean score was achieved in this question. Most candidates selected the correct key and offered some description of the operation of the price mechanism in allocating resources. However, many answers were not directed at the question, for example, some responses discussed shifting the supply curve and how changes in producer supply might affect consumer demand. Furthermore, a significant minority of candidates selected incorrect option 'D', assuming the role of the price mechanism was to maintain price stability.

The most effective answers demonstrated how a change in consumer demand effects producer supply, for example:
'An increase in consumer demand for a good will lead to an increase in its price and this acts as a signal to producers to supply more. The higher price provides a profit incentive to producers. Similarly, a decrease in consumer demand will tend to drive price down and so informing producers to supply less as there is less profit incentive'.

Some candidates successfully knocked out option 'A' by stating that surpluses can be eliminated by allowing the price to fall in a market rather than to rise which only increases the excess supply.

How to raise candidate achievement
The very best answers offered diagrammatic analysis that shifted a demand curve, changing its price and moving along a supply curve to a new equilibrium position. This was simple but highly effective. A major part of unit 1 focuses on the price mechanism model for allocating resources. The best way to explain this is through diagrammatic analysis.

Question 3(B): Mean score 2.25 out of 4 marks
Strong candidates had little trouble in achieving full marks by accurately defining producer surplus and then distinguishing between its original level in the winter (P1YZ) and the new level in the summer (P2XZ). Often these candidates made effective use of the diagram by shading in the appropriate areas of producer surplus.

Variations in the definition of producer surplus were accepted for example:
'Producer surplus is the difference between the price firms are willing to supply a good to the market for and the actual market price it is supplied for'.

'Producer surplus is the area above the supply curve but below the equilibrium price line'.

Some candidates successfully knocked out option 'A' by stating area P2XT is the consumer surplus.

How to raise candidate achievement
A fairly common mistake made by some candidates was to confuse consumer surplus with the producer surplus which led to selecting incorrect option 'A'. It is important to carefully read the question.

Question 4 (A): Mean score 2.41 out of 4 marks
Most candidates were able to secure one mark by accurately defining price elasticity of demand or showing its formula. The best responses then proceeded to show the correct calculations, including the percentage reduction in price (-20%) and percentage increase in demand (+40%). This was followed by calculating the original (£50m) and new total revenue levels (£56m) for the mobile phone company. The difference of +£6m offered the correct answer.

How to raise candidate achievement
Ensure candidates can calculate percentage change calculations and practice past papers (in this case the specimen paper) where very similar questions have been set.

Question 5 (C): Mean score 2.57 out of 4 marks
Most candidates achieved one mark by accurately defining income elasticity of demand or showing its formula. The best answers went on to secure full marks by explaining that fizzy drinks are an inferior good since they have a negative income elasticity of demand. Some excellent responses made use of the data by suggesting that a 10% rise in income would lead to a 2.4% fall in demand for fizzy drinks. Similarly, an increase in income would lead to consumers switching from fizzy drinks to better quality fruit drinks and bottled water since they are normal goods.

Some candidates successfully knocked out option 'A' by stating that the demand for fruit drinks is income inelastic rather than income elastic since the answer of 0.16 is less than 1.0.

How to raise candidate achievement
Ensure candidates understand the difference between income elastic demand and income inelastic demand. A minority of candidates selected incorrect option 'D' which tested this concept.

Question 6 (D): Mean score 2.70 out of 4 marks
This was well answered by many candidates who demonstrated a good ability to answer supported multiple choice questions on market failure. Most responses referred to public goods as having the characteristics of non rivalry and non excludability, gaining one mark.

A further two marks were available for explaining the free rider problem; the notion that public goods would be under-provided in a free market due to the difficulty in charging consumers for their use once they have been supplied. Consequently, firms find it difficult to achieve a profitable return as many people would consume the good without paying. Quite often examples of public goods were discussed such as street lighting and coastal defence schemes.

Some candidates incorrectly assumed public goods are 'free goods' and others assumed that they have 'no opportunity cost in their provision', selecting incorrect options 'C' and 'B'. Both options ignore the fact that scarce resources are used to produce them.

How to raise candidate achievement
Ensure candidates offer an example of public good and apply it to the free rider problem.

Question 7 (A): Mean score 2.51 out of 4 marks
This was another question on market / government failure that was generally answered well. Due to the typographical error on the diagram examiners were instructed to reward candidates who showed a clear understanding of the implications of an increase in the NMW. The best answers offered a definition of the NMW and then proceeded to annotate the diagram to show a contraction in demand N1N3 and an extension in supply N3N4. Other sound annotations identified the increase in quantity of the excess supply of labour on the diagram for both levels of NMW.

Sophisticated answers frequently considered the reasons for the fall in demand and rise in supply of labour, for example:
'An increase in the NMW will increase the production costs for firms who might not be able to afford to employ so many workers. At the same time, the higher wage rate will give greater incentives labour to seek work in fruit picking'.

Some candidates successfully knocked out option 'B' by stating that the NMW will increase production costs and so shift the supply curve for fruit inwards, not outwards.

How to raise candidate achievement
Annotate the diagram provided to explain the fall in employment or increase in unemployment.

Question 8 (B): Mean score 2.09 out of 4 marks

This was the third question on market failure which proved to be more challenging than the previous two questions. The best answers defined the key term 'asymmetric information' and applied it to the dental market. Asymmetric information is regarded to exist when one party (in this case consumer) have less market information than the other party (producer) and so lead to a misallocation of resources. Application to dental care could simply mean that the dentist is qualified and trained to look after and repair teeth – unlike the consumer who is not and so places his/her trust in the recommendations of expert. These responses usually suggested a profit motive for dental surgeons to undertake non- essential dental work.

A significant number of responses selected incorrect option 'A' which assumes dental care is a public good. Clearly, the rivalry and excludability for dental care make this a private good. A similar number opted for 'C' which assumes the external benefits from dental care to be the reason why dentists might undertake non-essential dental work rather than the profit motive.

How to raise candidate achievement

Apply asymmetric information to dental care.

Section B: Data response questions

The data response questions have a substantial weighting for evaluation marks (16 out of 48 marks). Consequently, it is vital that candidates make evaluative comments when required by the question in order to avoid disappointment. These may comprise up to half of the marks available for the larger mark-base questions.

Furthermore, attention should be directed to the quality of written communication (QWC), especially in those questions identified by an asterisk in the question paper. Here, candidates should attempt to develop a coherent argument and take into account grammar and presentation. Although no explicit marks are awarded for the QWC, it forms part of the overall impression that examiners take into account when awarding marks.

Both data response questions were accessible to candidates though Q9 (Tuition fees in higher education) proved to be a less popular choice than Q10 (Tobacco smoking in decline). The mean score for Q9 was 19.68 from 48 marks; this was almost 3 marks lower than the mean score for question 10 which recorded 22.64 from 48 marks. This difference is partly explained by the mean scores achieved by candidates when calculating percentage change questions. In question 9di the mean score was 0.79 out of 2 marks and for Q10ai the mean score was significantly higher at 1.45 out of 2 marks.

Question 9 (a)

Mean score 3.77 out of 7 marks
Most candidates defined opportunity cost and offered relevant examples to both the government and students. The most effective answers made use of the data, for example:
'The government contribution to tuition fees for each student is £4,300. The opportunity cost of this is the next best alternative use of these funds which were forgone, for example, lower taxes, less government borrowing or increased spending on primary education and healthcare.

The student contribution to tuition fees is £3,000 per year. The next best alternative for students could be avoiding debt or spending the funds elsewhere. Similarly the individual's time could have been spent gaining an income from employment or having increased leisure time.'

How to raise candidate achievement
Make use of the information in the extract to develop the answer.

Question 9 (b)

Mean score 3.0 out of 8 marks
This proved to be a challenging question with many candidates not labelling the axes of an outward shifting production possibility frontier diagram. The focus was on the economy and so required some reference to this, for example, capital and consumer goods output.

How to raise candidate achievement
Ensure candidates offer an evaluative comment when instructed by the question.

Question 9 (c)

Mean score 4.09 out of 12 marks
This was another question where many candidates struggled to draw and explain the positive externalities consumption diagram. Up to 4 marks were available and so a poor diagram meant fewer marks could be awarded. However, it differentiated effectively between the quality of responses and some outstanding answers were forthcoming. These tended to focus on the benefits from increased competitiveness, foreign investment, improved government finances and indirect employment effects.

How to raise candidate achievement
Ensure candidates can draw and explain relevant externality diagrams.

Question 9 (d) (i)

Mean score 0.79 out of 2 marks
As mentioned earlier, a great number of candidates struggled with calculating the percentage increase in tuition fees. It is important that candidates come prepared to undertake numerical work with percentages.

Question 9 (d) (ii)

Mean score 3.61 out of 7 marks
This was well answered by many candidates. One crucial requirement was to make explicit use of the information provided, for example, by stating the overall trend of increased applications to higher education despite a temporary fall between 2005 and 2006. Some notably impressive answers suggested demand for higher education is price inelastic and proceeded to work this out. Good evaluative comments often considered the impact of increased tuition fees on different income groups within society and questioned whether the planned increase in fees in 2010 would have the same effect as in 2006.

How to raise candidate achievement
Ensure candidates use the information provided in their answers as instructed by the question.

Question 9 (e)

Mean score 4.42 out of 12 marks
This was another question in which many weak responses were recorded. Yet the extracts offered various ideas for further development. With regards to students these included taking their work more seriously, improved chances of employment, deferred loan repayments, lower drop-out rates, grants for low income groups and the notion of a valuable individual investment since lifetime earnings are significantly raised. With regards to universities these included improving the quality, innovation and choice in education provision. The potential for moving up the international university rankings also appears to increase.

The possible drawbacks from increased tuition fees offered a convenient means of evaluation, for example, falling student applications from lower income groups, the disparity in funding between UK and US universities and unpaid student debts. Development of these types of ideas was sufficient to achieve full marks.

How to raise candidate achievement
Ensure candidates offer evaluative comments, especially in the high mark base questions (since up to fifty per cent of the marks comprise this).

Question 10 (a) (i)

Mean score: 1.45 out of 2 marks
This was a straightforward calculation and the vast majority of candidates achieved full marks.

Question 10 (a) (ii)

Mean score: 2.71 out of 6 marks
Most candidates identified two likely effects and offered some explanation. The best answers tended to focus on falling revenues and how this might lead to reduced profits and force retailers to consider reducing costs or even exiting the industry. Another popular effect was to suggest that cigarette retailers could diversify into selling alternative goods such as nicotine replacement products, confectionary and alcohol in order to reduce the dependency on tobacco sales.

The main drawback involved confusing cigarette retailers with tobacco producers. These answers tended to focus on tobacco companies relocating production facilities to other countries. This type of answer was considered invalid.

How to raise candidate achievement
Ensure candidates carefully read the question to avoid confusing cigarette retailers with tobacco production companies.

Question 10 (a) (iii)

Mean score: 4.42 out of 10 marks
This question differentiated effectively between strong, average and weak responses. The better answers offered an explanation, application and evaluation of the cross elasticity of demand concept. Average responses tended to offer no evaluation and often reinterpreted the question solely on how a change in the price of cigarettes might affect the demand for nicotine replacement products. Weak responses barely got further than defining cross elasticity of demand and suggesting the products might be substitutes.

Evaluative comments included discussion on the degree of substitution between cigarettes and nicotine replacement products. Some suggested they were close substitutes and others that they were weak – both were regarded as valid if developed in a logical manner. For example, they might be close substitutes for people trying to give up smoking but otherwise prove to be weak substitutes.

How to raise candidate achievement
Ensure candidates offer evaluative comments when instructed by the question.

Question 10 (b)

Mean score: 6.11 out of 12 marks
This was another question which differentiated effectively between the qualities of responses. The best answers stood out, with accurately drawn diagrams that depicted the tax area. Popular forms of evaluation included discussion on the price elasticity of demand for cigarettes and how the tax revenue collected could be used to fund public health campaigns on the dangers of tobacco smoking.

How to raise candidate achievement
Ensure candidates draw an accurate diagram depicting the imposition of an indirect tax, including the tax area. Answers should also remain focused on the effectiveness of a tax in reducing cigarette and tobacco consumption, rather than diverging into internalising external costs.

Question 10 (c)

Mean score: 5.11 out of 12 marks
This was quite an open ended question which offered plenty of scope for candidates to demonstrate their ability to develop a coherent economic argument. The best answers offered a breadth of knowledge and understanding. These often included discussion on the health of the workforce, increased productivity and lower absenteeism rates.

Other popular arguments explored the benefits to the National Health Service which might face less pressure on the use of its resources and how resources could be switched to other treatments. Another valid approach was to consider benefits to non smokers from a reduction in passive smoking. Some interesting ideas were developed concerning the reduction in crime, for example, tobacco smuggling, and how police resources could be allocated to other areas of public protection.

A good evaluation point included discussing the impact of a reduction in cigarette consumption on government finances; for example, they might worsen since there will be less tax revenue collected from tobacco sales and more state pension expenditure as people live longer into retirement age. On the other hand, government finances might improve through the additional tax revenues collected from increased productivity and incomes.

Other evaluative comments considered the impact of falling tobacco sales on tobacco companies and leisure venues such as pubs, clubs and restaurants.

Unfortunately, a significant number of answers were very brief and offered a limited range of ideas and development.

How to raise candidate achievement
Candidates should offer evaluative comments, for example, prioritising between the benefits, discussing their magnitude or the potential limitations from the reduction in tobacco smoking.

Question 10 (d)

Mean score: 2.84 out of 6 marks
The quality of responses varied enormously. Many candidates achieved full marks by explaining and applying asymmetric to the tobacco market, following through with evaluative comments. A popular evaluative comment discussed whether asymmetric information still existed due to the increase in public awareness about the dangers of smoking. This follows regular public health campaigns against smoking, health education in schools and various health warnings on cigarette packets. Other excellent answers explored the problem of a time lag between smoking and its consequences.

However, it appeared that many candidates were not familiar with the meaning of asymmetric information and so did not quite focus on the issue of unequal market knowledge between consumers and producers and how this might lead to market failure.

How to raise candidate achievement
Ensure candidates can learn about the different types of market failure in the specification.

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