Examiners' Report Summer 2009

GCE

GCE Economics (8EC01)

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General Comments

This was the second sitting of this paper from the new specification 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. Candidates performed slightly better than in January 2009, with the mean score increasing from 41 to 45 marks out of 80.

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 20 out of a total 32 marks. This indicates that many candidates find this assessment technique highly accessible.

In order to increase the opportunity for candidates to demonstrate their understanding 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, Q1, Q3 and Q4. In a similar vein Q2, Q5, Q6 and Q8 offered scope for candidates to introduce diagrammatic analysis as a means of demonstrating their knowledge and application of the issues at hand.

Some candidates attempted to gain marks by eliminating incorrect options. Up to three marks are available for successfully eliminating three incorrect options. However, mixed success was achieved here. It requires candidates to explicitly state the option key which is being eliminated and then to offer an appropriate explanation. Several examples of how to successfully eliminate incorrect options are provided for the supported multiple choice questions in this series. A certain skill is required for this and it is important to practice this technique.

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 as these may comprise up to half of the marks available for the higher mark tariff 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. Question 9 on the UK housing market proved to be a more popular choice than Question 10 on the Rice market. However, the standard of performance on both questions was comparable.

Examples of candidate performance

Question 1

Answer D

Explanation

(3) 3 Q01b

A production possibility frontier shows the combination of ~~..~~ two or more goods which can be produced whilst using all of the factor resources efficiently.
There has been an ~~......~~ outward shift of the curve due to technological improvements in the agricultural industry increasing output. This could be in the form of more efficient and effective machinery.

This candidates scored 4 marks.
The candidate selects the correct key D (1 mark), defines a production possibility frontier (1 mark) and identifies the outward pivotal movement as an increase in potential output of agriculture (1 mark). Finally, application to improvements in technology is made by referring to 'more efficient and effective machinery' (1 mark). This candidate demonstrates the importance of applying one's answer to the issue at hand, namely technological improvements in agriculture.

Answer D

Explanation

(3) 1 Q01b

Production possibility frontier is a graph showing all efficient combinations of output, when the factors of supply are used to their full potential. Therefore, ~~technological~~ agricultural outputs increasing would be due to improvement of factors of supply.

This candidate scored 3 marks.
The candidate selects the correct key D (1 mark), defines a production possibility frontier (1 mark) and identifies an increase in agricultural output due to improvements to factors of supply (1 mark). The answer does not quite offer the application of how improvements in technology could lead to greater agricultural output.

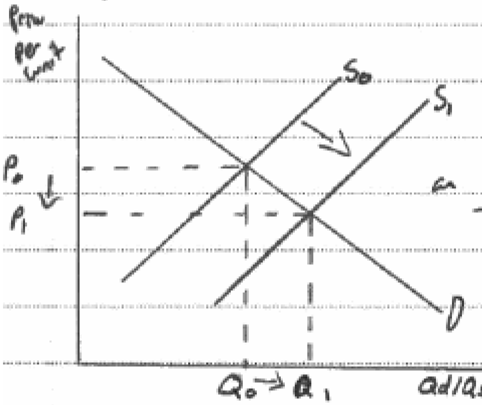
Question 2

Answer C

Explanation

(3) 3 Q02b

The division of ~~labour~~ labour was developed by Adam Smith and it is the idea that ~~..~~ ~~special~~ if workers specialise in specific tasks then they will become more efficient at producing their products and will ~~able~~ be able to produce more.



The division of labour will cause workers to become more productive causing an increase in supply from S_0 to S_1. This causes the qd/qs/period to increase from Q_0 to Q_1 and there is an extention in demand as the price per unit falls from P_0 to P_1. Therefore it is option C.

It cannot be option D because a shift in demand means that something has happened to change consumer habbits other than a change in the price. In the situation shown there is an ~~..~~ extention in demand as the price falls, not an increase 4

This candidate scored 4 marks.

The candidate selects the correct key C (1 mark), explains the meaning of division of labour (1 mark) and then offers diagrammatic analysis of the outcome – namely an increase in production (1 mark). Finally, the candidate demonstrates an excellent way of eliminating incorrect option D (1 mark). Note the importance of explaining why option D is incorrect rather than just stating that division of labour has nothing to do with the demand for products.

Answer C

Explanation

(3) 1 Q02b

The division of labour is when the production of a good is split up into sections and each section is completed by a different ~~labour~~ worker. This ~~create~~ means the business will become more allocatively and productively efficient, therefore producing goods at the lowest possible average cost.

This candidate scored 3 marks.

The candidate selects the correct key C (1 mark), explains the meaning of division of labour (1 mark) and develops the idea that it should lead to more goods being produced - more efficiently (1 mark). A concrete example of how division of labour increases productivity is missing, for example, repetition increases one's skill level at a particular task and so it is done at a faster rate.

Alternately, candidates could mention the more efficient use of machinery involved with the division of labour. Another way of gaining marks is by application to beauty products, for example, a worker might specialise in making a certain type of lipstick and so become highly proficient at it.

Question 3

Answer $\boxed{D}$

0.632 ~~over~~ 3.60

Explanation

(3) 3 Q03b

Income elasticity ~~m~~ of Demand represents how sensitive demand is to a change in income. It is measured by: $\frac{\text{\% change in quantity demanded}}{\text{\% change in income}}$

∴ for clothing + footwear: $\frac{145.99}{40.5} = 3.60$

∴ for food and soft drinks: $\frac{25.6}{40.5} = 0.632$

The clothing + footwear has a greater YED than food + soft drinks

This candidate scored 4 marks.
The candidate selects the correct key D (1 mark) and defines income elasticity of demand / shows the formula (1 mark). Accurate calculations are then made for income elasticity of demand for clothing & footwear at 3.6 (1 mark) and food & soft drinks at 0.6 (1 mark).

Note the candidate shows all the workings and makes good use of the table. Indeed, calculating the increase in expenditure for both items was also awarded 1 mark. This is a very good answer but relatively few candidates proceeded to calculate income elasticity of demand.

Answer D

Explanation

(3) 1 Q03b

Income elasticity of demand is the responsiveness of demand as a result of a change in income. Expenditure ~~the~~ on clothing and footwear had the highest increase in percentage change over the time period which means as incomes rise, people spend more on clothes and footwear than they do on other products like food. This means that clothing and footwear are luxury goods rather than necesary goods.

This candidate scored 3 marks.
The candidate selects the correct key D (1 mark) and defines income elasticity of demand (1 mark). Unfortunately the calculation for expenditure on clothing and footwear is incorrect and so no marks could be awarded for completion of the table.

However, the candidate understood the likelihood of clothing and footwear being luxury-type goods and so having a higher income elasticity of demand than food and soft drinks, regarded as more like necessary goods. This development was outside of the mark scheme but awarded 1 mark.

Question 4

Answer $\boxed{D}$

Explanation

(3) 3 Q04I

Consumer surplus is the difference between the price consumers are willing and able to pay - and the price they ultimately do pay.

Old consumer surplus – XYP_1

An increase by the area – P_1YZP_2 results in ~~XYZ~~ XZP_2 being the new surplus.

(Total for Question 4 = 4 marks) $\boxed{4}$

This candidate scored 4 marks.
The candidate selects the correct key D (1 mark) and defines consumer surplus (1 mark). By identifying the old consumer surplus as XYP1 (1 mark) and the increase as (P1YZP2) (1 mark) full marks are achieved. However, this answer was more of an exception than the rule as relatively few candidates actually identified the increase in consumer surplus in their explanation.

Note the candidate annotates the diagram by shading in the new area of consumer surplus but fails to label it or mention what it is in the explanation. An annotation mark was only awarded if some reference is made to it.

Answer $\boxed{D}$

Explanation

(3) 2 Q04b

Consumer Surplus is the differene between ~~the~~ the price a consumer ~~[illegible]~~ pays for a product and how much they are willing to pay.

This candidate scored 3 marks.
The candidate selects the correct key D (1 mark) and defines consumer surplus (1 mark). Annotation of the diagram is made through shading in the area of consumer surplus and labelling it as such (1 mark).

Many candidates appeared to leave their answer at this. Yet it would be easy to gain further marks simply by referring to the original consumer surplus XYP1 and the increase in consumer surplus P1YZP2.

Question 5

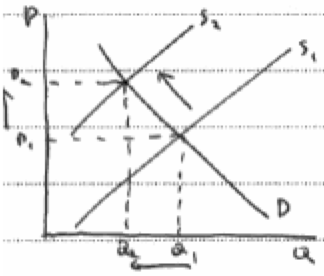
Answer D

Explanation

(3) 3 Q

Price mechanism is the interaction between supply and demand to affect price, which acts as ~~[illegible]~~ a rationing device.

The answer is D because a price mechanism does act as a rationing device to distribute scarcity and infinite wants.



If the quantity supplied suddenly reduced, the price mechanism will cause the price to raise, which then leads to only a few people, who can only can buy that good.

It is not B, because price mechanism exist in a free market, but doesn't get controlled by the government.

It is not C, because excess supply will ~~not cause the~~ not be eliminated by the price rising, as people will not buy a good with a lot of supply at a high price, so it is not scarce, when excess supply actually leads to a drop in price.

This candidate scored 4 marks.
The candidate selects the correct option D (1 mark) and outlines the meaning of the price mechanism in terms of the interaction of supply and demand to resolve the issue of scarcity and infinite wants (1 mark).

Excellent diagrammatic analysis is then offered where supply is decreased, forcing up the price of a good so that fewer people can afford to buy it. This explanation was awarded 2 marks and demonstrates that the candidate has gone to the heart of the issue.

The candidate then demonstrates effective elimination techniques for options B and C, which would be worth a further mark each on their own. Perhaps one should be careful over time allocation here as it really is an answer worthy of more than the maximum mark available.

Answer D

Explanation

Price mechanism is a product of free market economy & allocates resources efficiently through rationing, signalling & incentive.

If supply is low then prices rise to allocate resources to people who are willing to pay the most.

If prices rise, incentive to producer to produce more to gain more revenue.

Price mechanism rations by ~~the~~ ~~£~~ allocating resources efficiently.

3 marks

This candidate scored 3 marks.

The candidate selects the correct option D (1 mark) and outlines the meaning of the price mechanism. This was given the benefit of doubt and 1 mark awarded.

Another mark is awarded for the second paragraph where the candidate recognises the rationing function of the price mechanism: 'If supply is low then prices rise to allocate resources to people who are willing to pay the most'. This is quite a succinct statement and gained 3 marks.

Question 6

Answer $\boxed{A}$

Explanation

(3) 3 Q06b

Cross Price Elasticity of Demand is the measure of quantity demanded of one good to changes in price of another good.

$$\frac{\text{\% change in quantity demanded A}}{\text{\% change in price of B.}}$$

Substitutes have a positive XED as the increase in price of one good leads to an increase demand of another good. If the price of rail travel goes up, ~~the~~ people would rather travel by motor vehicles so the demand for them increases. Therefore there is a positive XED. Compliments, however, have a negative XED. If the price of petrol went up, demand for motor vehicles would decrease.

This candidate scored 4 marks.
The candidate selects correct option A (1 mark), defines cross elasticity of demand / show formula (1 mark) and states that substitutes have a positive cross elasticity of demand (1 mark). Application is then offered for motor vehicles and rail travel (1 mark).

Many candidates secured a mark by explaining that motor vehicles and petrol are complementary goods and so have a negative cross elasticity of demand. However, it is important to explicitly reject option C in the answer.

Answer D

Explanation

(3) 2 Q0

~~Cs~~ Cross elasticity of demand is the responsiveness of quantity demand of good A for a change in price of good B. If the positive. than two good is ~~substituty~~ subsitituy. If a good's ~~rise~~ price increase. the other goods will also increase in demand. Beef and animal feed is substituty and the other are all compentment.

This candidate scored 2 marks.
The candidate selects incorrect option D. Despite this, the candidate still gains marks by defining cross elasticity of demand and recognising that if positive the goods are substitutes. This demonstrates the advantage of the supported multiple choice assessment technique.

Question 7

Answer **C**

Explanation

(3) 3 QC

Government failure is when the government intervenes to correct a market failure and the intervention has no effect on the market failure or makes the failure worse. I did not choose D because the market failure is the fact that the MSC is higher than the MPC as there are negative production externalities. I did not choose A because if the government wanted to stop the purchase of cigarettes it would legislate against them making it illegal.

This candidate scored 4 marks.
The candidate selects correct option C (1 mark) and then defines government failure (1 mark). One can see that the candidate may be uncertain of how to explain the correct answer and so opts to eliminate two incorrect options.

Option D is rejected in a clever fashion since it is a market failure rather than government failure. Option A is also well rejected by suggesting that government would use legislation if it wanted to stop smoking all together.

Note that marks are available for discussing the development of an illegal hidden market in tobacco smuggling and how this could reduce tax revenue and possibly lead to more smoking, by the fact that cheaper cigarettes are on sale.

Answer A

Explanation

(3) 2 Q07t

The type of tax illustrated in this incidence is that of a specific indirect tax. An indirect tax is a tax on expenditure that causes suppliers costs to increase. as a result of this less is supplied. Government failure is when government intervention in a market causes a mis allocation of resources

This candidate scored 2 marks.
The candidate selects incorrect option A. However, two marks are picked up by defining the tax on tobacco as a type of indirect tax and then defining government failure. Sometimes there is more than one key concept in the question and so definition marks are usually available for each.

Question 8

Answer B

Explanation

(3) 3 Q08

Market failure occurs whenever an externality arises from production or consumption which is not internalised to the private cost of the third party responsible. Pollution is a negative externality: the marginal social cost of polluting is greater than the marginal private cost met by the polluters. The major carbon polluting industries thus cause market failure with their negative externality. The permit scheme attempts to redress the balance by charging polluters for their negative externalities in production. Industry must buy pollution permits to be allowed to produce: if not they will be fined. The cost of the permit increases the marginal private costs of the polluters internalising the externality and reconciling MPC with MSC.

This candidate scored 4 marks.
The candidate selects correct option B (1 mark), defines market failure in the appropriate context (1 mark) and explains that carbon pollution is a form of negative externality (1 mark). An explanation is then offered of how industry may need to buy permits to pollute beyond their allowance and that this has the effect of internalising the externality (1 mark). This is a sophisticated answer worthy of full marks.

Answer $\boxed{B}$

Explanation

(3) 2

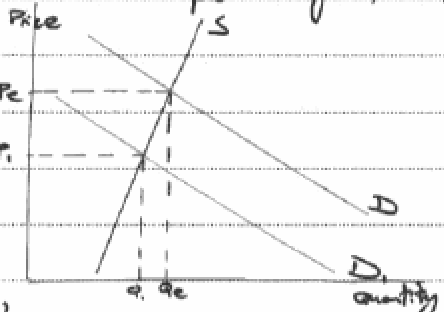
By placing each company with a certain ~~and~~ amount of CO_2 emissions which they ~~#~~ can trade you are limiting the total number of CO_2 tonnes emitted. Therefore you are trying to reduce the external costs in such businesses and therefore reduce market failure.

This candidate scored 3 marks.
The candidate selects correct option B (1 mark) and then has the idea that limits are placed on carbon emissions so that businesses may have to trade them (1 mark). Finally, reference is made to its purpose in terms of reducing external costs to reduce market failure (1 mark). This answer is less sophisticated than the previous one and it rests on the border of 3 marks.

Data response questions

Question 9
a)

House prices fell to such a vast extent because consumer confidence greatly fell, ~~as~~ they were unsure of the future of the economy due to the current economic downturn. Without confidence people are more willing to save for the future as they are unsure what will happen if they spend their money now. This reduces demand as less people are willing to invest in the housing market as they do not think they will receive good returns. This fall in demand, coupled with the inelastic supply of the housing market means housing prices have fallen dramatically over a short period of time, as can be seen in the diagram.



Also rising ~~rates~~ numbers of people are not being accepted for mortgages as the banks are worried they may not be repaid due to the increase, recently, of bad debt. This means fewer people can afford a house, so the demand for housing falls.

This candidate scored 7 out of 7 marks.
The candidate explains two reasons for the falling house prices over the period, developing each one, namely, decreasing consumer confidence and increased difficulty in obtaining mortgage loans (2+2 marks). A correct diagram is provided which depicts an inward shift in the demand for housing and the consequent fall in price (3 marks).

According to extract 1, one of the reasons house prices have fallen is because unemployment has caused a reduction in consumer confidence. This means that because of an increace in the threat of unemployment people are tending to save more for the future (the marginal propensity to consume has fallen). Because people are now saving not spending demand for houses has fallen causing house prices to fall as well to try to increace demand for them.

Another reason is because banks are not giving out as many loans and mortgages as before. This causes a reduction in house prices because people can no longer get as large loans and so cannot afford expensive housing. This reduces demand for housing & therefore prices must fall to try to increace it again.

This candidate scored 4 out of 7 marks.

The candidate explains two reasons for the falling house prices over the period, developing each one, namely, rising unemployment and increased difficulty in obtaining mortgage loans (2 + 2 marks). Unfortunately no diagram was offered which reveals the importance of carefully reading the question instructions.

b)

Extract 2 states that there were 232000 less first time buyers in 2007 than 2002. It also states that first time buyers had to give larger cash deposits meaning it was more difficult to buy. There is likely to be many more first time buyers waiting to buy while they can't afford to. ~~This may mean that the age of the average first time buyer~~ While the fall in prices should make housing more affordable, high mortages and deposits make buying difficult. First time buyers may look to buy flats instead of houses, or may wait longer (the text states first time buyers are likely to be in their 30s), renting meanwhile.

When prices do finally drop enough and mortgages become more affordable, there will be a surplus of buyers wishing to purchase.

This candidate scored 6 out of 6 marks.
The candidate uses the data to identify a reduction in first-time buyers of 232,000 between 2002 and 2007 (1 mark) and mentions how larger cash deposits are required (1 mark) (presumably for getting a mortgage).

The candidate then switches to the theme that falling house prices should make it more affordable (1 mark) and that first time buyers may look to buy flats instead of houses (1 mark) and perhaps wait longer before buying – so remain renting (1 mark).

Finally the candidate suggest that when prices drop enough and mortgages become affordable there might be a surplus of buyers wishing to purchase (1 mark). This latter point implies time element and represents an evaluative comment to go with the earlier statement on the requirement for larger cash deposits. The candidate gains full marks.

4 out of 6 marks

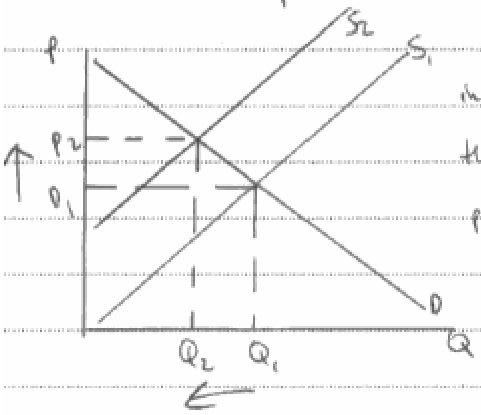
As house prices continue to fall more and more first time buyers will be able to afford houses as the payments will be lower and the deposit money won't have to be so much as 10% isn't as much as before so more people can come up with it.

However if house prices continue to keep falling the number of first time buyers will keep decreasing as they do not want to lose money on a house they will wait until the markets becomes more stable. Also if house prices continue to fall wages might drop as well so people cannot afford the re-payments.

This candidate offers lots of evaluation but not so much on knowledge, application and analysis. Falling house prices make it more affordable for first-time buyers (1 mark) and that the size of cash deposit may be less (1 mark). A good discussion follows on first-time buyers waiting for the housing market to stabilise along with their wages before entering the market (2 marks).

c)(i)
9 out of 12 marks

One factor is the availability of land space in different regions – for example between a city area (eg London) and the countryside there would be much less space available.



The diagram shows how a decrease in supply of land causes the price of the land to be higher so it is at a premium (P1 → P2). Therefore, the cost of building houses in city areas would be higher, and these costs would be passed on in the sales of the housing. Between London and the West Midlands, for example, the average house price difference is around £100,007.

Another factor would be the average wage differences between regions as this would have an effect on the local house prices. The higher wages may cause a multiplier effect, whereby the higher wages mean that more money is spent on the houses – with improvements, extensions etc, raising the value of the house and therefore raising the price. It also means that houses are often put on at a higher value as people know that residents in this area can afford the extra cost.

The candidate identifies and develops two factors which might account for regional house price differences, namely the availability of land and average earnings (3+3 marks). Diagrammatic analysis is included along with some data reference on house price differences.

Economic analysis is offered on how a reduced supply of land in London will increase building costs, leading to higher house prices compared to the West Midlands. Economic analysis is also offered on how higher wages in London mean an ability to spend more on housing and thereby pushing up its price.

Evaluative comments are made by the candidate attempting to prioritise between the two factors identified. It is suggested that wage differences are not so significant and that higher earners may prefer to live in suburban areas and commute longer distances to work. This is then countered by the suggestion that it is a real bonus to live near one’s place of work (3 marks).

5 out of 12 marks

One factor could be average wage, this means that if the area has a higher wage people will be able to pay more for a house and therefore houseprices are higher

Another factor could be the population distribution and the amount of land. If there isn't as much land available then each piece of land can cost more as it is more valuable therefore pushing prices up this is particularly accurant in areas like London where the average house/flat price is nearly £270000 compared to £137000 in the north west.

The candidate identifies and partly develops two factors which might account for regional house price differences, namely, average wages and availability of land (2+3 marks). Some use of data is made by comparing house prices in London with the North west.

No evaluation is offered and so in effect, this answer was marked out of 6 marks. For large mark base questions one should expect that up 6 marks are for evaluation.

c)(ii)
7 out of 7 marks

The geographical mobility of labour is the ability of workers to move to a different region in order to find a new job.

Regional house prices may have a great impact on this as it would be extremely difficult for someone in a low cost area like the North west to sell their house and still be able to buy a new property in the south east, where there may be jobs available. The vast variation in houses prices would likely deter people from moving as they know they will have to downgrade, or start to rent. As a result, the geographical mobility of labour would be significantly reduced. *

However, ~~the regional~~ the geographical mobility of labour may vary between regions. For example, workers in the South east and greater London may be more able to move locations to find work as they will be moving to an area that is less expensive, and thus will have minimal financial difficulties in moving.

Furthermore, the geographical mobility of labour may be more influenced by other factors, such as regional differences in earnings or family ties. These may be more significant than regional variations in house prices and so house prices would have less of an impact on geographical mobility.

* For example, workers in the North will find it hard to move south as they could face a rise in house prices of more than 100%.

The candidate defines the geographical mobility of labour (1 mark) and then offers sound economic analysis, namely, that it is difficult for labour to move from a region with low house prices such as the North west to a region with high house prices such as the South east and so labour mobility is low (2 marks); the reverse explanation is made for labour moving from London and the South east to other regions where house prices are much lower – here there is greater labour mobility (2 marks).

Finally the candidate secures the 2 evaluation marks by explaining to the examiner that other factors could be more significant determinants of the geographical mobility of labour such as regional earnings and family ties.

c)(ii)
3 out of 7 marks

(The labour is likely to move from)
Geographical mobility of labour is the ability of labour to move from one work to another (another region or ~~g~~ country) Geographical mobility is likely to increase due to falling in house prices. However, labour ~~can~~ isn't likely to move to those regions with high prices of houses, as they can't afford it. However, if their wages are high enough, they may decide to go to region with even higher prices

The candidate describes the meaning of geographical mobility of labour (1 mark) and suggests it is limited when people seek to move to those regions with high house prices as they can't afford it (1 mark). Unfortunately, no explicit use is made of the information provided which could have enabled more marks to be gained.

However, the candidate makes an evaluative comment about high wages encouraging labour to move to a region with high house prices (1 mark), but again, no context is provided.

d)(i)
4 out of 4 marks

over the next few years. 4 Q09di

(i) Define the terms private costs and external costs.

(4)

Private costs are costs internal to an exchange, it can be expressed in monetary terms. Private costs in this case is the cost of building the houses.

External costs are third party costs beared by third parties from a consumption or production of a good or service where no appropriate compensation is paid. In this case, an example is noise pollution caused by construction.

The candidate accurately defines private costs as 'costs internal to an exchange' and 'costs expressed in monetary terms'. Also external costs are accurately defined as 'third party costs,' 'from consumption or production of a good where no compensation is paid' (2 + 2 marks).

The candidate also suitable offers examples of each to support the definitions. In this case, marks were available for them too.

A whole variety of definitions were acceptable as indicated in the mark scheme. It is strongly recommended that candidates learn extensive definitions for concepts dealing with market failure.

d)(i)
2 out of 4 marks

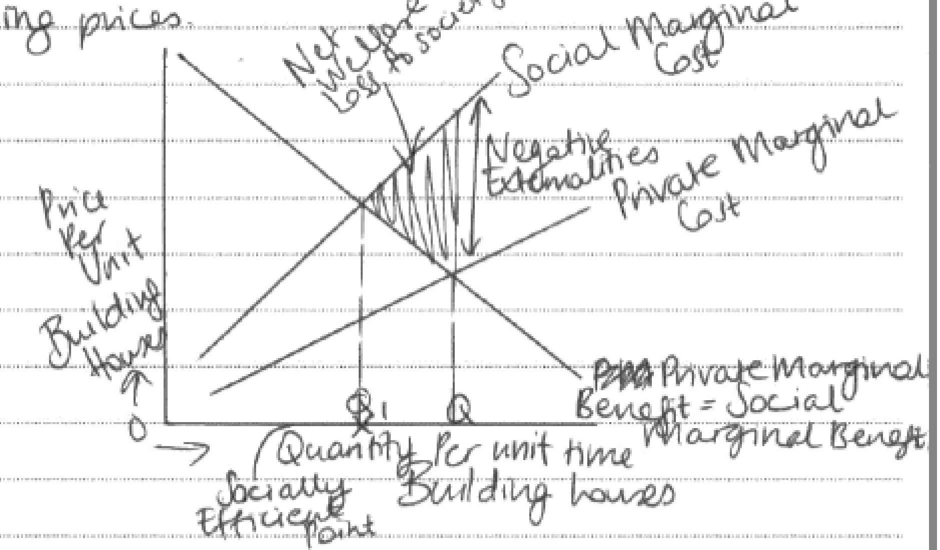
Private costs are costs to an individual for its production or any other economic activity.

External costs are costs associated with an individual from its production or other economic activity which is borne by a third party.

The candidate gains 1 mark each for explaining private costs and external costs. Little development is offered and so knowledge-based marks are being missed. If in doubt, always offer examples to increase your potential score.

d)(ii)
11 out of 12 marks

The private costs of the production are only applicable to the government. Examples of these costs are the costs of employing the builders, buying the ~~builders~~ land to build on and the administration costs. These are likely to be very significant as 1.1 million homes are being built and land prices in the South-East are very expensive. However, many ~~to~~ external benefits will be created with ~~to~~ greater availability of housing and this may lead to lower housing prices.



However this building programme has external costs, shown by the diagram where the social marginal cost is greater than the private marginal cost to the producer. This results in a net welfare loss to the society. It would be better is supply was reduced from Q to Q_1 to the socially efficient point by internalising the external costs. The external costs of this programme are the disruption caused by the building of the houses, the visual pollution of the building sites, the noise pollution and the congestion caused by building vans ~~or~~ etc. Although ~~these~~ these could cause a welfare loss to society you could argue that the building work would only be for a short time and in the long society would benefit as there is more housing available and more income for the builders. The external costs could also be reduced by making sure that they only work a certain number of hours a day to reduce the amount of noise disruption and congestion. *I feel that the benefits of this scheme really outweigh the costs as geographical mobility will be able to improve and the standards of living will improve greatly.

It depends on how significant the external costs ~~are~~ are - the more significant the welfare loss.

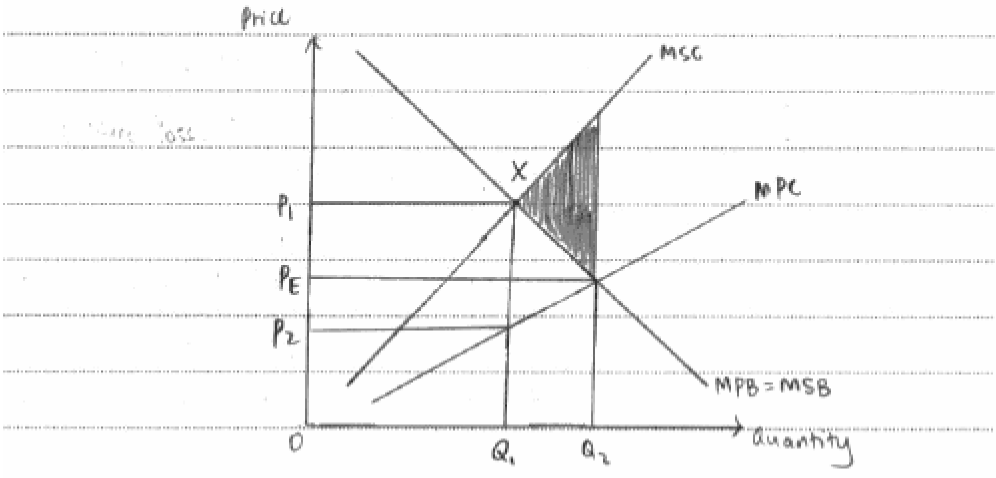
* Also, there is already a huge amount of shortage of space in the South East so it could be argued that this will just worsen the problem, not provide a solution to the lack of housing. The ~~tokens~~ prices of these houses need to be made reasonable so that people can afford them - more high cost housing will again not solve the problem.

(Total for Question 9 = 48 marks) 41

The candidate offers a relevant diagram and explains the private costs and external costs involved in the house-building programme to achieve the full 6 knowledge, application and analysis marks available (the diagram alone is worth the full 4 marks available).

The candidate then offers good evaluative comments. The first focuses on the size of the programme and how it might help make more housing available at a lower price. The second comment discusses the short term nature of the pollution associated with building the houses and that external costs should fall over time. The third comment refers to improved geographical mobility of labour and how this could raise living standards. Finally the candidate suggests that the shortage of space in South east England will just be made worse by such a building programme. Overall, 5 evaluation marks were awarded for these comments.

d)(ii)
6 out of 12 marks



The private costs of this house building programe would be the costs of production, including things like purchase of raw materials, wages of labour, purchase of machinery, etc. At MPC, the equilibrium price is at P_E. However, the aim is to be at point X, where marginal social cost is equals to marginal social benefit. The price level is therefore increased to P_1.

The external costs that could be caused by this housing project could be things like noise pollution, air pollution, and may cause problems like road congestion. As houses are being built, the transport of raw materials to the site of construction would cost the producer an amount of money. The transport of these materials could also cause air pollution due to the gases released by the ~~vehicle~~ vehicles and congestion.

The candidate gains the maximum 6 knowledge, application and analysis marks available. 3 marks were gained from the diagram and 1 mark for explaining private costs and 2 marks for explaining external costs involved in the house-building programme. Unfortunately, no attempt is made to evaluate the programme. Candidates must be aware that up to half the marks available are evaluation marks for large mark base questions.

6EC02 Examiners' Report

The new 6EC02 was examined for the first time in June 2009. In general the performance was judged to be at a very high level, with answers showing a firm grasp of the requirements of the new specification. Clearly the use of the old 6353 papers was helpful to students in their preparation, and to a very large extent the paper was based on the 6353 format but with mark bases doubled. One difference was the increase in the weighting of evaluation from 20% to 25% on the assessment objectives, reflected in the inclusion of one extra evaluation question, with four evaluation marks attached. The majority of entrants knew how to recognise the evaluation command words, and made good attempts at using this higher-order skill. The inclusion in the specification of development indicators had clearly been embraced by the majority of entrants. There was a 1.1:1 split in favour of answering Question 1, based largely on growth and development indicators. Perhaps the main attraction for Question 1 was the supply-side essay question (from 6353), and those answers that performed well on the essay often followed on from very few marks being earned on the evaluation of HDI in the previous item, 1c.

There were, many exceptional answers to 2d, covering a variety of macroeconomic conflicts, and the split was not significantly imbalanced. The context of the exam, amidst heightened media interest in the economy, clearly added much to answers. There were few who could not relate in some way to increased unemployment, cuts in interest rates or falls in the value of a currency. This real interest in the economy was evident in many papers, and was easy to credit within the flexible mark scheme.

Question 1

(a)(i) Unsurprisingly, the concept of economic growth was generally well answered, although answers which failed to quote data on economic growth sometimes found it harder to score full marks. There were a significant number of static answers, describing GDP and not changes in GDP. A small number of answers wasted time by mentioning benefits, causes or consequences of economic growth.

(ii) The 'methods of measuring inflation' question was often well answered, with many answers scoring full marks. However, while most answers mentioned weighting, some struggled with the explanation of this concept, and a link must be made to patterns of expenditure. Very few mentioned the price survey, despite being explicitly stated in the specification. Some answers were not about the measurement of inflation, preferring again to write about the inflation target or what inflation is. Many talked about the 'exclusion of house prices' which is not specific enough – a better approach would be to discuss the exclusion of 'housing costs'.

(iii) The analysis was generally well written, with negative externalities, the informal or hidden economy and distribution of income as popular points being raised. Many answers included more than two reasons, often writing less on each point as a result. One of the greatest weaknesses was to criticise the effects of inflation on growth figures. Some marks were allowed for this, although it should be remembered that growth is usually given in real values. A common inaccuracy in student answers (both for this and other questions) was a tendency to talk about (distribution of) 'wealth' when 'income' was clearly more appropriate. This confusion is surprising, given the emphasis on income vs. wealth in the specification.

Most commonly, when answers failed to get full analysis marks it was for not explaining the point that had been raised rather than being unable to think of relevant reasons. Many answers failed to evaluate and therefore could not access the four evaluation marks. The most frequently used evaluation was to suggest a way in which growth figures could be used more effectively to demonstrate living standards, such as within the HDI. Some creditworthy answers made the link between income and living standards as being *necessary* but not *sufficient*.

(b)(i) This was well answered with most answers correctly identifying a withdrawal, and giving data reference and explaining that the value or imports were greater than exports achieving full credit. Very few went on to explain that outflows were greater than inflows, or other recognition of *value* rather than *volume*. This meant that those who had not referred to the data were less able to score the full marks. A significant but worrying minority of answers confused the balance of payments with the government budget.

(ii) A well answered question, with many logical answers scoring full marks. The two most common reasons given were Spain's high economic growth and high rate of inflation, with accurate use of data. One common reason not related from the data was the low quality/low standards of UK manufacture goods. Explanations linking these to the deficit were often good, for example in explaining that higher relative growth rates mean that imports are sucked in to an economy. There were a few incomplete answers, for example that high inflation renders Spain's goods more expensive than imports, without any mention of "relative" or "reduced competitiveness", and many that got confused when explaining the link between the value of a currency and trade. The links often broke down when discussing currencies; the high value of the euro was a valid argument but it had to be related to relatively cheap imports or dear exports (many got this the wrong way around). A large number thought that interest rates might be too high, and also had difficulties with currency values and FDI. While knowledge of the euro and the ECB is not required, there was credit for knowing that higher interest rates tend to increase the value of a currency rather than reduce it. Many answers were not related the current account, and referred to hot money and other activities on the financial account of the Balance of Payments. Clearly these answers moved beyond the scope of the specification.

(c)(i) Most answers showed understanding of the broader nature of HDI, for example as a measure of development not merely growth. A large number of answers were unable to score full marks for failure to list the components accurately, for example many mentioned doctors per 1000 population, access to clean water, mobile phones per thousand, or just GDP or 'living standards', with no mention of per capita or PPP$. Use of data was also very rare and for some answers not accurately explained nor interpreted. The difference between an index and a rank was rarely understood, and caused some confusion when mentioned.

(ii) Some answered this question with too much evaluation and insufficient analysis. The HDI's failure to show income distribution, negative externalities, the hidden economy, other measures of development (such as access to mobile phones) and data collection issues were often discussed, sometimes in very good detail.

For many students, however, analysis was limited to the HDI being broader than just GDP, with a few students also mentioning the index and rankings for easier comparison. Those who commented on PPP$ often misinterpreted the concept and failed to get the marks. Stronger answers could comment significantly on PPP$, although there was no further credit for knowing how PPP values are calculated. A valuable approach was to discuss the consistent methodology under the UN which enables better comparison between countries, or the simplicity yet breadth of the HDI approach. Again, when talking about distribution and poverty issues, there was much confusion with (the distribution of) 'wealth', when 'income' was clearly more appropriate. Many answers just repeated the points given in c (i) correctly identifying HDI components and explaining how it is calculated but no clear link to measuring living standards.

Other common answers were focused on how government could use HDI to compare performance between countries and try to identify a successful policy just by looking at HDI figures between countries. Many answers also were not really clear on what the components are actually measuring, for example. Many mentioned access to water, internet or quality of education rather than attainment as components of HDI. As a 'new' area this was perhaps the least well rehearsed, and there was wide discrimination amongst answers.

(d) This was the better of the two 30 mark essays written by students, with a large number of answers employing the structure of 3 x analysis and 3 x evaluation marks to ensure the highest possible marks. Common supply-side policies included education and training, privatisation, TU reform, and corporation or income tax cuts. Analysis of transmission mechanisms was adequate or strong in most essays, though weaker answers made over-use of subsidies, either with no macroeconomic explanation, or with an inappropriate microeconomic analysis. There were also many answers related to cutting import taxes or cutting import quotas, which was not always an effective line of reasoning. While there is credit for discussing cutting interest rates, it could be made clear that this is not entirely a supply side policy in the UK.

Many answers correctly defined SSPs and presented the correct diagram. A few used a PPF diagram, which was a permitted (but not necessary) response. The most popular SSPs used were education and training, trade union and privatisation / deregulation. Some applications of the current economic climate were used, including possible nationalisation of the Royal Mail, and shoring up of failing businesses in the credit crunch.

Diagrams were present in most scripts, though some answers need to ensure they provide macro labels. In the essays there are almost always 'easy' diagram marks, although the credit can be gained by commenting on the impact of an AD or AS shift on the price level and real national output.

Evaluation points were fairly straightforward (almost everyone mentioning time lags), though more detail was required in most essays. Stronger answers linked their evaluation back to the requirement for economic growth, for example excessive TU reform may alienate workers, undermine productivity etc, reducing economic growth; or income tax cuts taken too far may undermine government spending plans for education, with knock-on effects for future productivity.

Question 2

(a)(i) Most answers correctly identified 2% and many added the sense of the range referring to +/-1%, stronger answers stated that the target is set by the government for the MPC to achieve, and a significant minority referred to the use of interest rates as the tool used to reach the target. For weaker answers, data reference boosted their overall marks, though many of these answers claimed that the MPC sets the target or the government sets interest rates.

(ii) Many students simply explained the transmission mechanism of an interest rate cut, but most failed to mention the impact on the price level. Many claimed that the MPC was trying to achieve full employment, an increase in house prices or balance of payments equilibrium. It was mainly the stronger answers which used evidence and analysed the impact of that evidence on AD and the price level. However, even these answers often failed to explain the point identified (eg 'tight credit' was not always followed with 'loans more difficult to obtain').

(iii) Some would say that distribution of income will improve but then failed to justify this convincingly. Those who took the increase in AD approach would sometimes let themselves down by not identifying any particular group affected (for example, workers or employers). Stronger answers kept their answers brief and direct, often focusing on savers (assumed to be the rich) vs borrowers / mortgage holders (assumed to be poorer households). Again, there was much confusion with (the distribution of) 'wealth', when 'income' was in the question.

For those who could correctly show the distribution changes there were few problems in evaluating the issue. For example, the high income groups are not always savers, and the low income groups can be more prudent with savings.

(b)(i) Most answers got two marks for stating that government spending was greater than tax revenue, but there were many limited answers saying that government had overspent or spent more than planned with no reference to tax or revenue. A large proportion of students also gained two marks for data reference. Many answers were confused between the government budget and the balance of payments, often discussing exports and imports.

(ii) Many students did not recognise that this question was about the multiplier (despite the wording of the question clearly hinting at this) so limited themselves to only four marks for an appropriate AD/AS diagram and up to four marks credit for evaluation. Some only described how a rise in G or fall in T will shift AD to the right, without thinking about 'more than proportional' in the question. Many gave the analytical process of tax rises that would be necessary in the future, which appeared to be a counterargument to 'more than proportional'. Overall, diagrams were accurate, though some needed a more macroeconomic feel, particularly in their labelling.

The weakest answers discussed X and M, showing clear confusion between the budget and the balance of payments. On the other hand, stronger answers analysed the multiplier with good application (eg to building a school or hospital). However, only a few answers went on to evaluate this, usually with time lags or elasticity of AS, or questioning the size of the leakages.

(c) This was generally well answered, with many answers offering good development of the points raised, along with accurate reference to data. Many answers were related to the government budget and loss of output for the economy at large. Social cost was one of the popular costs offered, although it is advised that answers encompass a wide range of costs and not just the external costs of family breakdown, drugs and crime which – though valid – was prone to be repetitive and without firm economic analysis.

However, a common problem for both strong and weak answers was failure to explain the point identified, or failing to say why the effect was a cost. For example, there would be 'a fall in output', which 'green economics' teaches us might be a good thing. Or there was 'a fall in AD' which the MPC might consider to be a benefit not a cost at times.

(d) Those who interpreted the question correctly wrote about a variety of conflicts, most notably inflation vs growth or employment, either with an AD / AS diagram or the Phillips Curve, though many simply stated the trade-off without adequately explaining it. Other conflicts included economic growth vs. environmental protection and economic growth vs. balance of payments, and although many more were given it should be noted that at most three factors are required for the essay on the AS macroeconomics paper.

Time lags were often mentioned, but without any comment that unemployment might take some time to be affected (a 'lagging indicator') or that increased fiscal spending will have to be compensated for with increased tax or cuts in spending in the future. The most convincing evaluation centred around the familiar 'elasticity of AS' idea and how inflation may rise more or less than economic growth or unemployment depending on where we are in the business cycle. A minority of stronger answers prioritised with justification (though this was rare) and some talked about green taxes as part of the policy mix to ensure that economic growth can coexist with a healthy environment, or other multi-pronged approaches.

Statistics

6EC01

Grade	A	B	C	D	E
Mark	57	50	43	36	29

6EC02

Grade	A	B	C	D	E
Mark	59	50	42	34	26

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