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# **GCE EXAMINERS' REPORTS**

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**AS ECONOMICS (NEW)**

**SUMMER 2016**

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<b>Unit</b>	<b>Page</b>
Unit 1: Introduction to Economic Principles	1
Unit 2: Economics in Action	3

# ECONOMICS

## General Certificate of Education

Summer 2016

### Advanced Subsidiary/Advanced

#### UNIT 1: INTRODUCTION TO ECONOMIC PRINCIPLES

The 2016 AS Economics paper proved to be a challenging paper for most candidates. The key challenge for all candidates in both Unit 1 and Unit 2 was to apply their economic knowledge to unfamiliar situations. Candidates who view economics as a purely theoretical subject generally performed poorly - especially where questions have cut across specification areas or where contexts are non-textbook. Often these candidates use throwaway, generic evaluation points in discuss questions such as 'it depends' or 'these policies are expensive' ... such evaluation gained few, if any, marks and are likely to attract even less in the future.

The best candidates frequently displayed the following skills:

- Made sure that their answers matched the question. For example, in Unit 1 Question 19 (c) the question asked about 'unemployment levels in New Jersey' and in Question 2 (g) the question asked about 'interest rate changes affecting Wales'.
- Evaluated when they were meant to and, more importantly, always evaluated in context.
- Were adept at all quantitative questions on the paper.

#### General Comments

There was certainly no indication of any great time pressure with regards to Unit 1 and almost everyone made an attempt. Perhaps due to this – or, perhaps, due to the fact that is a slightly more familiar layout, Unit 1 was generally answered better than its Unit 2 counterpart. Whilst Question 16 seemed to be the easiest question, all of the other questions have similar facilitation factors - thus showing a similar degree of difficulty.

#### Question-specific comments

- 1-15. This was the first time in a number of years that multiple choice questions had appeared on a WJEC Economics exam and, in general, the questions seem to discriminate well. There was a good blend of knowledge based questions and also highly contextual – often numerical – questions.
16. This was the first time that an inward shift of the PPF in context question had been asked. Most candidates fared very well and the most seemed happy to use the space given the answer booklet to draw their diagram. In relatively few instances, candidates lost marks due to unsuitable labelling of axis. Since the axis were not specified in the questions, examiners were instructed to be fairly generous in their outlook but axis labelling such as Price, Quantity, Real GDP on a PPF diagram was deemed unsuitable.

17. This question seemed to polarise candidates. Many candidates scored full marks (6/6) but, by the same token, a significant number also dropped marks by failing to understand the idea of perfectly inelastic demand and how to derive tax revenue from an increase in sales tax.
18. This question was designed in such a way to challenge the candidates' ability to apply the concept of market failure to an unfamiliar context. The mark scheme allowed candidates to pursue many different strands of market failure such as negative externalities, asymmetric information or monopoly. The key to gaining full marks was to relate this back to the central idea of a misallocation of resources. Where many candidates fell short was simply listing the problems given in the 'stem' without then identifying the market failure and *why* it is a market failure. In addition, a significant number of candidates simply failed to evaluate as well.
19. (a) (i)&(ii) The new AS specification requires quantitative skills to be assessed and in this question candidates were required to perform two relatively straight-forward calculations. In the main, they were dealt with well by candidates. Answers to 1 decimal place were absolutely appropriate.
- (b) Relatively straight forward demand and supply diagram where the candidates only needed to identify the relevant part of the text and apply it to a diagram with limited explanation.
- (c) A demanding question which discriminated candidates in 3 main ways. Firstly, the best candidates that kept their answers tight to the issue of employment and did not get side-tracked with other discussion of other macro-objectives. Secondly, many candidates (incorrectly) argued that an increase in VAT would lead to a leftward shift in AD rather than an upward shift in AS and thus a contraction in AD. Thirdly, the best candidates applied their analysis well to the context of New Jersey.
20. The final question was probably the most open question of the entire exam paper and could have been answered in many different ways. By far the most popular way was to use a Laffer curve analysis and, to a lesser degree, the progressivity of the tax system. The mark scheme allowed for multiple approaches but it was essential, however, that candidates used the data table in their answers to attract full marks – both looking at comparisons downwards (by income level) and across (by country).

# ECONOMICS

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#### UNIT 2: ECONOMICS IN ACTION

#### General Comments

More unfamiliar than Unit 1, in that 2 Data Components have replaced a data and 2 essays. A number of candidates seemed to come under time pressure here, hence the low facility factor in the latter questions. Nevertheless 96% of candidates made some attempt at it, even if this was rushed. Ultimately, able candidates with better understanding of economics will always be able to cover ground more thoroughly and in less time than weaker candidates and this marks an important discriminating factor.

In the first data, one centre raised the issue that the study of 'the problems caused by inflation' is in A2 of the new specification and queried the wording of Question 1(f). A question asking candidates to assess the importance of inflation can obviously be answered at many levels but certainly candidates who have studied the section on government policy objectives should be able to make an informed response. Indeed, candidates were not penalised in any way for not including the detailed costs of inflation.

In the second data, the only query centred around the use of GVA statistics. This had been considered, at length, during the planning of the paper and eventually it was felt that GVA should be explained at the start of the question. However, GDP statistics do not exist separately for Wales and GVA are the only figures available from publicly accessible local, national and international sources. The clarification at the start was therefore an attempt to support candidates. To replace GVA with GDP would be inaccurate and would open up the accusations of over-simplification or worse playing politics, given that the issue of Welsh statistics is a politically sensitive one.

#### Question-specific comments

1. (a) The new AS specification requires quantitative skills to be assessed and in this question candidates were required to read two values from a graph and then apply a % change calculation. In terms of the values from the graph, an appropriate range of figures were accepted on the mark scheme. The question also required candidates to show their workings. One mark was given for a correct calculation – even if one figure was not appropriate. Where candidates did not show their workings or only partial working, examiners were left to deduce how the figures had been determined. A sizeable number of candidates did not know how to perform a % change calculation.

- (b) Relatively straight forward demand and supply diagram where the candidates only needed to identify the relevant part of the text and apply it to a diagram with limited explanation.
- (c) The question on free trade did not require a contextual answer but it did require the candidate to relate the issue of free trade back to 3 separate economic agents. In order to gain full marks, a candidate needed to offer a good analysis of how - in theory - workers, consumers and firms can all gain and lose out from free trade. The best answers here structured their answers to deal with the separate economic agents in turn.
- (d) The data offered several different reasons why the rouble collapsed – fall in oil price, introduction of trade barriers, fall in confidence, high level of capital outflows and selling off assets in order to store money abroad – and, therefore, there were a number of ways to gain full marks. Candidates were, however, required to identify BOTH supply and demand factors, apply them to an exchange rate diagram and offer a good explanation as to how they know the factor affects the diagram.
- (e) Quite a challenging question which picked up on two separate areas of the specification – how interest rates can affect the exchange rate AND how monetary authorities can influence the value of an exchange rate in a floating system. Candidates, in the main, were able to offer a good explanation as to how increasing rates and how buying domestic currency on the foreign exchange market could strengthen the exchange rate. Precious few, however, mentioned the possibility of imposing capital controls - even though it was sign-posted in the data as an additional tool. The evaluations, by contrast, were relatively weak and too many candidates still offered throw-away evaluation points such as ‘there is a time lag’ (which is almost certainly not true of exchange rate speculation) and ‘it depends how much interest rates change by’ (the actual interest changes were given). Such evaluation gained few, if any, marks and are likely to attract even less in the future. More sophisticated evaluation focussed on the more contextual elements of the article such as the lack of confidence in the Russian economy, the choice to not restrict outflows and the trade sanctions against Russia – which were developed to make good analytical points.
- (f) A second quite challenging question at the end of Question 1. The mark scheme required candidates to offer two well-developed arguments as to why low inflation might be the main macro-objective for Russia. In the specification, candidates are expected to have understood why governments try to achieve low inflation (as part of the section on Government policy objectives) and, to that end, it is entirely appropriate to expect candidates to have an awareness as to why the reverse (a situation of higher inflation) is undesirable as well. Candidates are not, and were not, expected to have a detailed knowledge of costs of inflation – and they were not penalised in any way for not including the detailed costs of inflation. Most candidates were able to use identify and then develop the various ‘hooks’ that were presented in the data question such as increasing poverty levels, falling confidence, a contraction in aggregate demand and uncompetitive export prices. Again, however, the evaluation was lacking from a large number of candidates. Some candidates tried to use their generic notes and simply stated the different objectives without developing them in the context of Russia. Any objective(s) could have been rewarded with full marks *if* it had been developed by candidates to answer the question about **Russia’s** macro priorities.

2. (a) This question was, again, testing the quantitative skills of the candidates. In this case, it was not a calculation but an understanding of the measurement being used. Many candidates identified that Wales' relative economic performance was below that of the rest of England but many didn't realise the significance of an index value – that it was, exactly, 27.8% lower than England.
- (b) Many candidates will find that they have half-marks for this questions. Many correctly identified that 3.4% growth when coming from a **low base** is not as good as it sounds but precious few attempted to use an example in their answer – as required by the question.
- (c) This question demonstrated that many candidates were not well versed in the definition of the multiplier process. Many candidates attempted to provide an entirely contextual answer referring to the positive economic impact that South East England has on the Welsh economy but completely missed the key characteristics of the concept in and of itself.
- (d) Overall, the answers to this question were not strong. Some candidates misread the question – despite the key text being **in bold** – and attempted an England v Wales answer rather sticking to the **within Wales** framework as requested by the question. The choice of graph for Figure 4– which showed England – had been considered but, given that the key text was in bold, examiners could not give much credit in that situation. Many candidates did show an excellent understanding of the various issues within different areas of Wales; the key to doing well, however, was to then link this back to economic theory in order to explain why wages are lower/higher in different areas. Whilst the context was often good, the analysis was not.
- (e) Most candidates gave Question 2(e) a good attempt and many will have gained good marks. In many cases, the key to unlocking the marks at the very top end depended on whether the candidate could explain the linkage between Wales' positive economic metrics and its stated long-term plan (stated clearly in Lines 19-21) i.e. not just identifying there was some positive data but offering an explanation of *why* the 'plan' would have led to that impact. Good evaluation tended to follow one of two main lines of inquiry: an appraisal of the Welsh data (that maybe it was not as good as it sounds) and/or the idea that the Welsh economy is improving despite the Government's plans, not because of it.
- (f) Like Question 1(c), this was a longer-answer question that carried no AO2 (application) marks. To that end, candidates were not required to use the context of Wales to answer this question although many did. In order to gain full marks, a candidate needed to offer a good analysis of how - in theory – investing in capital projects could benefit or hinder the pursuit of 2 separate macro-objectives. The best answers here structured their answers to deal with the separate objectives in turn.
- (g) Candidates seemed to be well versed in the impact of monetary policy on an economy. Many candidates, however, perhaps due to time constraints at the end of the exam, did not take satisfactory care to apply their analysis to the context of Wales. Consequently, many answers were devoid of context and could not be credited in the higher skills bands.



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