AS

ECONOMICS

7135/2   The national economy in a global context
Report on the Examination

Specification 7135
June 2018

Version: 1.0

General Comments

Section A (multiple choice questions)

The level of difficulty for the Paper 2 multiple choice questions (MCQ) was harder than June 2017. The percentage of students choosing the correct key (answer) is known as the facility index. This year the average facility index for all twenty questions was 52.4% compared with an average facility of 62.9% in 2017.

Note: the percentage in brackets is the facility or percentage of students choosing the correct answer.

Questions students found less demanding

Question 7 (95%)
Students showed that they were nearly all able to identify normal capacity on an economic cycle diagram.

Question 8 (82%)
Most students knew the economic definition of saving.

Questions students found more demanding

Question 11 (29%)
This question tested whether students knew the components of the current account. 34% chose key D, confusing the current account as a whole with the balance of trade in goods, or possibly selecting a key containing the familiar concepts of imports and exports.

Question 12 (32%)
This question required calculation of rates of change using index numbers. A common mistake is to subtract index numbers to obtain growth rates, instead of calculating the percentage change in the index numbers. It is likely that this was the mistake made by the 35% of students who chose key A and the 25% who selected key D.

Question 17 (36%)
This involved the interpretation of a graph of inflation rates in different years. A common error is to believe that a downward sloping yet still positive line shows a fall in prices rather than disinflation. This was the error made by the 30% of students who chose key C and the 25% who chose key D.

Question 15 (37%)
This involved working out how AD and SRAS would shift following an appreciation in the exchange rate. 26% chose key D and 20% chose key C, in both cases incorrectly reasoning that an appreciation would cause AD to increase.

Question 20 (40%)
This question tested whether students knew that an increase in total output, illustrated by an outward shift in a PPF, is equivalent to an increase in real national income. 52% of students incorrectly chose key D, believing that a move from a point on one PPF to a point on another, further out PPF, is associated with lower unemployment. However, points on a PPF represent full

and efficient use of all resources. Therefore, unemployment has to be shown by a point inside a PPF, and lower unemployment by a move towards or onto the frontier.

Question 18 (41%)
This required students to analyse the effects of an expansionary monetary policy. This will (and has in the UK) push up house prices (correct key B) mainly because mortgage interest rates will be lower. 26% of students chose key A, incorrectly assuming that expansionary monetary policy would increase the exchange rate. 26% chose key C, mistakenly believing that government borrowing would be higher (whereas it is likely to be lower if economic growth increases).

Question 14 (43%)
This question concerned contractionary monetary policy. Most students knew that an interest rate rise was most likely to take place in a positive output gap, but 27% chose key D mistakenly thinking that an appreciating exchange rate was more inflationary than a depreciating one.

Section B

Both contexts this year presented students with highly topical issues; economic shocks with specific reference to Brexit, and a policy shift towards a more active industrial policy with the Modern Industrial Strategy. It was noticeable that a significant number of students appeared less familiar with the concepts of economic shocks or industrial policy than might have been anticipated. Demand-side and supply-side shocks and industrial policy are clearly specified in the AS level subject content.

There was an even split between students choosing context 1: Economic Shocks and the UK Economy, and context 2: A New Approach to Government Policy, with slightly more favouring context 2. Context 1 involved the dominant economic issue of Brexit, whereas context 2 considered the less transparent issue of industrial policy.

Many students who chose context 2 appeared to do so without appreciating what industrial policy is. This meant that their answers to Question 32 were flawed as they drifted off focus, limiting their answer to a consideration of other aspects of supply side policy such as welfare reform or education and training. It appeared to be the case that many students chose context 2, perhaps thinking that they could write quite a general answer about any policy and its impact on macro-economic performance, as too many students focused on monetary policy and fiscal policy, without even a focus on supply side polices.

Two points arise from this. Firstly, this is the third examination of this relatively new AS level specification; teachers and students would be well advised to pay close attention to all aspects of the specified subject content; in particular the differences from previous specifications. Secondly, students must be given clear guidance on how to choose between the two contexts. Given that the final question alone, either Question 26 or 32, carries 50% of the data response marks, they must be sure that they fully understand the question.

The definitions asked for this year in Questions 21 and 27 presented more of a challenge to many students. Most students were aware of the need to provide a full and precise definition; answers can be brief but they must be accurate. Unfortunately too many students failed to secure full marks, because they did not give the full and precise definition required; they gave an answer where the substantive content of the definition was correct, but there was also some imprecision or inaccuracy. This did enable a good spread of marks and allowed the better students to stand out.

Once again, when answering Questions 22 and 28 it was pleasing that in the majority of responses students set out their workings. This enabled the awarding of some marks even where there was an inaccuracy in the final answer. Common inaccuracies seen involved the omission of the £ or % sign or incorrect rounding.

When answering Questions 23 and 29, students have become well prepared at identifying two *significant* features. It is highly recommended that students take care to consider the presentation of the data, the title, the key and any notes below the data when deciding upon the significant points. Significant features included identifying the highest values or the lowest values and the majority of answers correctly selected these features. It was not necessary to identify significant points of *comparison* as features were asked for, although a significant minority of students did make comparisons. This did not necessarily prevent them from gaining full marks. Weaker answers selected random features of the data with no indication that they understood its significance, for instance the second highest funded Local Enterprise Partnership, or a period when there was an appreciation of the exchange rate, even though there were other periods where the exchange rate appreciated.

Both contexts required students to draw an AS/AD diagram to answer Questions 24 and 30. On this occasion for both contexts, both short run and long run effects were required. This necessitated use of the classical AS/AD model. The AS level subject content does specify both the short run and long run determinants of aggregate supply. Too many students simply drew an upwards sloping aggregate supply curve, labelled simply 'AS', showing no distinction between the SRAS curve and the LRAS curve. Students who chose to draw a Keynesian version were at disadvantage as it could be difficult to award full marks in these cases.

When answering Questions 25 and 31, it was pleasing this time that fewer students routinely started with one or two relevant definitions, realising that they do not gain specific marks for definitions using the levels of response mark scheme for this question. It was also pleasing this time that many students presented diagrams which were relevant. The levels of response mark scheme refers to the inclusion of a *relevant* diagram. Diagrams should be relevant and used to support an explanation. It is a test of the critical skill of *application* to decide when a diagram will assist a written explanation and when it does not.

The questions required the student to explain; this meant making a clear logical chain of reasoning, using relevant economic terminology, concepts and principles to present a clear analysis. Where this was done well, answers were focused and concise, where this was done less well answers tended to be poorly structured, overly long, off focus or repetitive.

Once again students' answers to questions 26 and 32 often showed too little application of current data on the UK economy, as macro-economic performance indicators, for instance that the UK is experiencing a period of low economic growth, low unemployment and historically low interest rates; that it is has a narrowing budget deficit, or that is has a persistent productivity gap. Greater use of data would enable students to better demonstrate the skill of application. Often this is a good way to lead on to better evaluation. Too often the attempted evaluation is rehearsed and superficial which does not enable the student to demonstrate the good evaluation needed for level 4 and level 5. Better evaluation should involve reflection on the data given in the context; on current data on the UK economy which the student knows and precise question which was asked. This is what the better students were able to demonstrate.

Context 1: Economic Shocks and the UK Economy

Question 21
Students who scored all 3 marks in defining a budget surplus were able to identify that a budget is for a given period of time, for instance one fiscal year. A high number of students did not obtain full marks because they did not include any reference to a period or year. Most students secured at least 2 marks for stating that it is when taxation receipts exceed government expenditures. Weaker students confused a budget surplus with a budget deficit or with the current account of the balance of payments, or attempted to define a budget more generally and so could not be awarded any marks.

Question 22
It was pleasing that many students seemed to have little difficulty with this calculation of the value of the multiplier. This question was generally well answered and many students were awarded full marks. Some students were careless and included a £ or % sign, falling to appreciate it is simply a numerical value and so losing a mark.

A significant minority of students had learnt a formula to calculate the value of the multiplier using the marginal propensity to consume. It is clear from the AS level specification that students will not be required to calculate the value of the multiplier using the marginal propensity to consume or the propensities to withdraw.

As the AS level specification makes clear, the approach needed was to calculate the value of the multiplier from the initial change in the injection and the resulting change in national income.

Question 23
The majority of the features identified were the lowest and highest sterling exchange rate over the period shown. This was often done well with many students gaining full marks.

A common mistake amongst those not gaining full marks was that they did not identify April 2017 as the final month shown, even though it is clear from the title that the data runs from '1 May 2016 to 30 April 2017'. A number of students failed to notice that only every second month was labelled on the date axis, the last month labelled being March 2017, but the data actually continuing through to the end of April 2017. Some students gave the end month as May 2017. Careless mistakes meant that some answers lost marks for being out of tolerance or misquoting the data.

Some students gave the wrong units of measurement, this should have been given as US$ per £, but some answers were written as £ per US$. Some students made comparisons when features were asked for, for instance they compared the highest sterling exchange rate with the lowest.

Question 24
This question was generally answered well, with many students obtaining full marks for their AD/AS diagram.

Many students chose to present a Keynesian interpretation and full marks could be achieved using this approach. However the AS level specification does require that both the determinants of short-run aggregate supply and long run aggregate supply are studied.
Many students drew an upwards sloping AS curve, simply labelled AS rather than LRAS or SRAS, which made it difficult to award full marks as the question asked students to show both the short run and long run effects. It was not necessary to include the SRAS curve although many of students did so; it was necessary to show a rightwards shift in the AD curve.

The vast majority of students obtained at least one mark for the set-up of the diagram.

Question 25
There was a good spread of marks awarded for this question. The better responses clearly linked monetary policy to the economic cycle. They then went onto develop clear logical chains of reasoning, using relevant economic terminology, concepts and principles to present a clear analysis of the policy.

The majority of students selected the rate of interest as the policy instrument.

The better answers linked a change in Bank Rate to a change in commercial rates of interest available to households wishing to borrow and firms wishing to fund capital investment. They also explained the reduced incentive for households to save as they would see their savings funds attract a lower percentage return. In the better answers these explanations were clear and detailed and were then linked to the components of aggregate demand.

The majority of students chose to draw a diagram showing a rightwards shift in the AD curve due to increased household borrowing and consumption. In the vast majority of cases this did help them to answer the question because it showed the effect of increased household borrowing or business investment.

Some answers also explained the impact of a weaker exchange rate and/or an expansion of the money supply. Where this was done well it supported their answers through to level 3 and full marks. However it was not necessary to include these aspects, it was possible to gain full marks without.

Often weaker answers simply stated what would happen, without developing clear explanations. Alternatively, weaker answers became repetitive and added very little to their answer from their repetition, for example, an answer that explains how a high interest rate discourages borrowing and then explains how a low interest rate encourages borrowing.

Question 26
The depth of the analysis varied widely. Good answers used the case study material and current UK data effectively. Many students focused on the impact of Brexit, using a combination of their own knowledge and the extracts. Better answers broadened their discussion out to include other economic shocks; however, very few students structured their answers well with a consideration of both demand side and supply side shocks. Even fewer answers focused on the issue of a 'sustained' increase in unemployment as stated in the question. Those that did were often very good answers.

Many students discussed the role of policies in averting a sustained increase in unemployment. Weaker answers tended not to address the question put to them accurately, choosing instead to write a standard analysis of how monetary, fiscal and, sometimes, supply side policies may reduce unemployment without actually focussing on the notion of an economic shock. Weaker answers found it difficult to explain the concept of an economic shock lucidly.

Many answers included relevant and accurate diagrams to aid their explanation. The inclusion of a relevant diagram itself demonstrates the skill of application. Using the diagram to aid an explanation helps to demonstrate the skill of analysis. Diagrams were generally well used but still some students missed out labels, only drew an AS curve when AD was also needed and confused micro and macro diagrams.

It was great that nearly all students attempted to evaluate throughout the essay, which is the recommended approach. Evaluation was better where it picked up on the prompts given in the extracts, such as the opportunities to create employment through public and private sector investment projects, contrasted against evidence that employment will suffer as banks relocate out of London post Brexit.

Where conclusions were given, they were often more of a summary and relatively weak. For some students the absence of a strong conclusion made it more difficult to go beyond level 4. A strong conclusion should reemphasise the most important points before directly answering the question which was asked, in this case, will there be a sustained increase in unemployment following a negative economic shock. It was difficult to give clear judgement of this point in a final conclusion without referring to the key importance of the word *sustained,* which very few students did. Students should be encouraged to use the phrase 'it depends' as a way into making better evaluative comments.

Context 2: A New Approach to Government Policy

Question 27
In order to gain all three marks it was necessary to demonstrate that progressive taxation involves an increase in the percentage or proportion of income taken in tax as income increases, rather than merely an increase in the amount of tax paid as income increases, which would be the case with a single, flat rate of tax.

Almost half of all students were able to correctly identify the percentage or proportion of income taken in tax as the key point. However it was disappointing that the majority of students did not show an adequate appreciation of this point and therefore could not be awarded full marks. Some students clearly did not understand progressive taxation at all, referring to progression over time and could not be awarded any marks.

Question 28
It was pleasing to see that most students had little difficulty with this calculation of the median amount of funding. This question was generally well answered and many students were awarded full marks. Some students were careless and omitted the £ sign and/or million, losing marks.

A noticeable minority of students calculated the mean, when the median was required and so could not be awarded any marks.

Question 29
Many students were able to identify valid significant features. The majority of the features identified were the lowest values and highest values A small number of students failed to include the £ sign or millions and so did not achieve full marks for a feature.

Weaker answers attempted to give two comparisons, when two features were required. Some did not use the space provided and the prompts "feature 1" and "feature 2" in presenting their answer clearly to the examiner.

Some weaker answers did not identify a feature that was significant or express the significance of the feature identified. A small number of students did not include any data at all and so could not be awarded any marks.

A small number of students attempted to explain the reasons for the disparities in funding, for instance that it was the larger cities that attracted more funding, relying on their own knowledge of the area, when this was not required.

Question 30
Pleasingly this question was well answered with many students able to show the effects of both short run and long run productivity gains on macroeconomic equilibrium, gaining full marks. However, a surprisingly wide range of interpretations were seen.

Many students chose to present a Keynesian model. Unfortunately this did make it difficult for them to gain full marks. It was necessary to show both a shift in the SRAS and the LRAS curves, but the Keynesian version does not facilitate this. It is clear in the AS level specification that students are required to consider both the determinants of short-run aggregate supply and long run aggregate supply.

There were a number of two mark responses for a correct shift in either the LRAS or the SRAS but not both.

It was necessary to include an AD curve; it was not necessary to show a shift in the AD curve, but many students chose to show this. So long as their final coordinate points were correctly identified and labelled this not prevent them from gaining full marks, provided that there was also a correct shift in the SRAS and the LRAS shown.

Weaker answers failed to distinguish between LRAS and SRAS at all, simply labelling the curve AS. This prevented them from gaining full marks. The vast majority of students obtained at least one mark for the set-up of the diagram.

Question 31
It is clear in the specified AS level subject content that students should be aware of the main taxes in the UK. Corporation tax is obviously one of these; however, many students had a poor understanding of corporation tax. The question did indicate that corporation tax is a tax on firms' profits.

Many students reasoned that lower corporation tax would lower firms' production costs; they understood this tax to be an additional cost per unit of production to be paid by firms. This lead them to argue that corporation tax was a determinant of short run aggregate supply and so lower corporation tax would shift the SRAS curve downwards/rightwards. Some students limited their explanation to this, simply stating that this shift in the SRAS curve was the supply side improvement, with no further explanation.

Better answers argued that lower corporation tax, which is a tax on profits, not production, would result in firms achieving greater post tax profit. This then lead them to argue that firms could choose to use these greater post tax profits to fund greater levels of capital investment. Greater levels of Investment would then lead to an increase in the capital stock available in the economy, resulting in greater productive capacity and that this was the supply side improvement.

A frequent misunderstanding was that the lower corporation tax would result in firms having greater disposable income. Disposable income is a term that correctly applies to households, not firms.

Some students attempted to make a link to productivity gains, but a weakness was apparent. Many students had a poor understanding of productivity and they confused greater production with greater productivity

A number of students linked the reduction in corporation tax to the possibility of rewarding employees with higher wages and that this would lead to greater productivity. Once again weaker answers confused production & productivity.

Weaker answers argued that because of lower corporation tax, firms could afford to employ more unemployed workers, this would lower unemployment and this was therefore the supply side improvement. This approach tended to confuse a decrease in unemployment, with an increase in the size of the available labour force.

Question 32
The vast majority of students discussed demand-side and/or supply-side polices, without any depth of understanding of industrial policy. The AS specification does state that supply side policies include measures such as government spending on education and training, cuts in income tax, welfare reform and industrial policy.

The extracts did provide guidance on what a more active industrial policy consists of, referring to five named areas that could receive 'special government support'; the millions of pounds available for research and development to aid innovation and technological progress.

Many answers drifted off focus, loosely discussing supply side policies more broadly. Many responses placed too much emphasis on other aspects of supply side policy, which cannot reasonably be considered as industrial policy, such as changes to the tax and benefit system and incentives for individuals to work. These tendencies meant that the important skill of application was called into doubt, which lowered the overall quality of the response.

Weaker answers took a very broad interpretation of the question and centred on a general discussion of various macroeconomic policies almost at random and their impact on macro-economic performance. Many students focused on monetary policy and fiscal policy, without even a focus on supply side polices. As stated in the general remarks above, students need to make sure they read the 25 marks questions very carefully and convince themselves that they understand it before selecting that context.

The quality of the analysis and evaluation varied widely, many students made good use of diagrams to support analysis. It was very pleasing that nearly all students attempted to evaluate throughout the answer.

However, many evaluative sections progressed little further than rehearsed considerations of the short term impact of monetary or fiscal policies versus the long term impact of supply side policies. In some cases even this was confused as a number of students commented on supply side policies taking 18 months to have any impact, perhaps confusing this with the time it is argued it takes for changes in Bank Rate to have an impact trough the transmission mechanism. It would be nice if students could fully appreciate the great uncertainties and generational time scales associated with many supply side policies.

It was pleasing that many students used the extracts well, which provided prompts to other evaluative considerations. Better answers took these prompts, such as government officials suffering from imperfect knowledge, and applied the idea to poor decision making and delays in

practice for instance over HS2 or Heathrow expansion. In contrast weaker answers simply copied from the extract without any development of the point.

As with Question 26, where conclusions were given, they were often more of a summary and relatively weak; the absence of a sound conclusion made it difficult for them to progress beyond level 4. Better conclusions are ones where students show that they understand the complexity of the issues they have addressed and try to place some emphasis on key points they have discussed, emphasising why a point is of particular importance and why more weight should be attached to it. A conclusion should re-emphasise the most important points before directly answering the question which was asked, in this case, will a more active industrial policy improve macroeconomic performance, or not?

Use of statistics

Statistics used in this report may be taken from incomplete processing data. However, this data still gives a true account on how students have performed for each question.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the Results Statistics page of the AQA Website.