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Paper 01 Macroeconomic Performance and Policy

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General comments

More than half of students attempted Q9 rather than Q10. On average, performance on each of the data response questions was similar.

As mentioned in previous reports, more work is required on the interpretation and use of charts, graphs and numerical data. Q6, for example, again discriminated between students who were able to interpret graphical data and those who were unable to do so. Furthermore, there still appears to be some confusion in distinguishing between changes in the rate of inflation and changes in the average price level. Students need to learn precise definitions and also have a suitable level of experience interpreting and analysing macroeconomic tables and charts so they are able to demonstrate full understanding of such data.

For supported multiple choice questions such as Q3, simply repeating the stem of the question or simply rejecting by saying “it cannot be B as it is C” is not going to achieve any extra rejection marks. A rejection point must be fully explained to be awarded a mark. Also, a rejection point has to be explicitly referred to in order to be awarded a mark. This has always been a requirement and is indicated in previous mark schemes.

The use of data and context continues to be important in Section B. In some cases students were completing purely generic responses, making no reference to the data or to their own examples, therefore not really answering the question. While using previous papers and mark schemes in preparation for the examination is to be encouraged, it is not a good idea to simply learn previous mark schemes as, by definition, the written response will lack application to the context.

Any diagrams must be drawn and labelled correctly for full credit. There continue to be many examples of either partially drawn AD/AS diagrams or incorrectly labelled diagrams.

Specific comments

Section A

Question 1

This question was generally well answered. Students needed to identify the link between monetary policy, growth, average price level and employment. Students who identified the change in base rate as an example of demand-side policy were rewarded.

Remember that students can achieve 3 marks for the explanation even if they get Part A incorrect; rejection marks are available even if Part A is wrong so students should be encouraged to explain why at least one of the distractors is not correct.

Question 2

This question was generally not as well answered as Q1. Many students did not identify the policy of reducing unemployment benefit as an example of a supply-side policy. There also appeared to be some confusion about the likely impact of asset purchases upon inflation and real output.

The rejection points had to be explained or developed to be rewarded with a mark. This could be achieved through an explanation of the likely impact of the policy or change upon AD and/or AS.

Question 3

Many students performed well on this, achieving full marks for Part A. It was clear that the concept of an output gap was understood and most were able to explain the diagram.

Rejection marks were awarded for explaining why point A, B and D could not be correct.

Question 4

Again, this question was generally answered well. It is important that students understand factors that determine both AD and LRAS.

Question 5

This question was generally not well answered. While many students were able to identify the correct answer for Part A, less were able to explain their answer clearly. As with Q4, it is important that students understand factors determining AS, both in the short-run and the long-run.

Question 6

Again, as in previous papers, this question focusing upon changes in the rate of inflation, was generally not answered well. The question tested understanding of the relationship between changes in the rate of inflation and the average price level. While some students were able to demonstrate an understanding of disinflation and deflation, many appeared to be either confused by or unaware of the meaning of these terms.

Question 7

This was quite well answered with most students able to both define net exports and explain the likely impact of falling net exports upon AD.

Rejection points need to be explicitly referred to and explained to be awarded a mark. It is necessary to state that "Option A is not correct because..." to be awarded a rejection mark.

Question 8

Again, this question was answered reasonably well, with most students able to define the multiplier using either a formula or written explanation. There was some confusion about how a change in the MPC might influence the size of the multiplier. We would suggest that this confusion might be reduced by working through some numerical examples in class, perhaps using previous examination questions.

Section B

More students attempted Q9 rather than Q10 for Section B.

As in previous series, there were many generic answers which did not apply knowledge to the context in question or use their own examples. There were also examples of students confusing “cause” and the “effect” of policies or changes in economic variables. There were clear gaps in knowledge, including the distinction between real and nominal values.

Question 9(a)

This was not generally well answered. There were 4 marks available and few students accurately explained annual percentage change in real GDP and provided two data references from Figure 1.

It is worth noting that simply copying down the data is not awarded a mark. The use of the data is rewarded. For example, commenting that there was growth in all years would have been awarded a mark; as would identifying the year with the highest rate of growth.

Question 9(b)

This was generally well answered. There were many ways to achieve the marks, the most common of which was reference to investment as a component of AD and the likely impact upon LRAS. Evaluation marks could be achieved by pointing to the likely inflationary effects of increasing AD in the short-run and how these might be offset by increasing LRAS. The best responses demonstrated evidence of judgement as to the most likely and most significant effects.

Question 9(c)

While this question was not as well answered as Q9(b), however there were still some good responses that depended upon an understanding of the current account of the balance of payments. The less successful responses did not engage with the data, and did not comment upon any trend. Many responses only referred to 2008 (the year mentioned in the question). Some did not accurately interpret Figure 2. Indeed, many students did not see not any upward “shift” over time and thus were limited in the extent to which they could analyse and evaluate the likely impact.

Question 9(d)

As with Q9(a) there were some surprising gaps in knowledge here, with many students able to describe what an inflation target is but not explain why a Central Bank might have one. The use of intermediate targets, including the inflation target, is in the specification and students need to understand not just how but also why they are used. The best responses included reference to transparency of monetary policy and the impact this may have upon confidence and investment.

Question 9(e)

While not as well answered as Q9(b), there were still some good responses to this question. While many students were able to explain possible causes of deflation, a significant number had never really considered the impact deflation. A surprising number of students suggested that said lower prices would lead to higher consumer demand, thus increasing consumption and AD. Even when some students concluded that increased AD equals higher inflation, they often did not see this as a contradiction. It is important that both the causes and effects of deflation are studied. It may even be useful to distinguish between 'good' deflation (falling costs and increasing productivity) and 'bad' deflation (lack of demand).

Question 10(a)

This question was generally well answered, with most students able to define current account of the balance of payments and provide at least one, valid data reference. As with Q9(a) (see above), it is worth noting that simply copying down the data is not awarded a mark. The use of the data is rewarded.

Question 10(b)

This question was quite well done. While some students did not discuss the causes of economic growth, concentrating instead on effects: increased real output; higher employment; better standard of living. Many students successfully identified high consumer spending or high levels of investment as contributors to economic growth, using the data effectively.

Question 10(c)

This question was quite well answered, showing good understanding of what is measured by CPI. There were however some gaps in understanding of how the CPI is constructed and few students made any reference to the data provided.

Question 10(d)

There were a range of responses to this question, with many students not using the data effectively. There were many links that could have been made between, for example, the relatively high rate of inflation and high levels of consumption as a percentage of GDP. The best responses looked for and highlighted such links in the data and also evaluated these in terms of the likely short-term and long-term effects.

Question 10(e)

Again, there were a range of responses to this question. We wanted to know the Government might be able to reduce the reliance upon consumption as a component of economic growth. Many students suggested how to reduce consumption by for example, increasing taxes or increasing interest rates, at the expense of economic growth. However, the subtlety of the question was often missed. The better responses suggested how to increase investment through tax breaks, or how to implement supply-side policies that would increase LRAS and economic growth without increasing consumption.

Paper summary

Based on their performance on this paper, students are offered the following advice:

- Learn accurate definitions and use these to define terms in the stem of supported multiple choice questions.
- Remember to look out for questions that ask you to evaluate or assess your answer. In such questions, responses must not be one-sided.
- Be careful with timing throughout the exam, and try to incorporate some time for planning your answers to the longer, 10 and 14 mark questions. This then ensures that there is sufficient content and evaluation to access the higher marks.
- Use accurate diagrams and refer to them in explanations for KAA and for evaluation marks. An accurate diagram, with explanation in context, can shift a response from Level 2 to Level 3 for both KAA and Evaluation.
- Where possible, use the data provided to illustrate or support your analysis and evaluation.

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