AQA

AS LEVEL
ECONOMICS

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

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Section B: Data Response

General

There was a preference for context 2: Government Spending and Taxation over context 1: Economic Growth, with approximately two thirds of students opting for context 2 and one third opting for context 1.

Students would be well advised to consider the precise wording of the questions, especially any terms which are emphasised in bold. A few moments of careful reading and planning would enable many students to give a more considered, precise, and targeted answers. If the answer is more succinct and focused this will often be to the student's advantage. It is often the case that some weaker answers are overly long because they lack focus and may tend to drift away from the precise question which was asked.

Students would be well advised to think carefully about what to include in their answer, as this is part of the critical skill of application: selecting theories, concepts and principles that are of central relevance to answering the question and avoiding a focus on those that are at best peripheral.

It was pleasing that many students were able to clearly define the relevant term asked for in questions 21 and 27. As noted in previous reports, even where a good definition was given, students often continued to expand on their definition, even though they had already done enough. Students should try to develop confidence that a full, precise and yet succinct definition will gain the maximum mark.

Questions 25 and 31 required students 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 show weak understanding of the relevant terms, were poorly structured, overly long, off focus or repetitive.

Many students made extensive use of AD/AS diagrams in their answers. However, it was often the case that these diagrams were drawn small, without the use of a ruler, and that labels were often overlooked or inaccurate. it is also often the case that diagrams are not then explicitly referred to. An appropriate diagram shows the skill of application, however further credit can be gained if the diagram is explicitly referred to and supports an explanation.

Greater use of data on the UK economy would enable students to better demonstrate the important skill of application. Often better application will naturally lead to better evaluation. As commented on in previous examination series, too often the attempted evaluation is rehearsed and superficial which does not enable the student to demonstrate the good evaluation needed for higher marks. Better evaluation should involve full reflection on the data given in the context; on current data on the UK economy which the student knows and the precise question which was asked. This is what the more able students were able to demonstrate.

Context 1: Economic Growth

Question 21

Students who scored all 3 marks in defining price stability were able to clearly state that price stability relates to the general price level and inflation, rather than the price of a product or prices. It was also necessary to recognise that price stability must occur over a period of time, or that price stability has to be maintained consistently; it was satisfactory in this respect for students to refer to the government's 2% target for inflation as this is an annual target rate. Where a period of time or consistency or the target rate was not explicitly stated, it was difficult for students to gain all 3 marks. Also, to gain all 3 marks, it was insufficient simply to refer to stable inflation, as price stability refers to both low and stable inflation. Weaker answers referred to a price or prices or were simply too vague.

Question 22

The question gave students a figure for UK GDP in 2017, because of this a common mistake was to select the 2017 figure of 1.9% GDP growth from extract A; however, they needed to calculate the value of UK GDP in 2018 and so needed to select the 2018 figure of 1.4% GDP growth. Where students did correctly select 1.4%, a common calculation error was to increase the figure by 40% instead of 1.4%. It was pleasing to note that most students correctly stated the answer in £ and to the nearest billion.

Question 23

Students were required to make two comparisons; each one being awarded up to two marks. Each comparison should have been a comparison between growth rates, in percentages. The majority of the comparisons made were between the highest growth rate of the UK and Germany followed by the lowest growth rate of the UK and Germany. The other common comparison given was the growth rates at the start and end of the period. This was often done well with many students gaining full marks. Some common mistakes were to identify significant features of one country, failing to make a comparison to the other country; or selecting data which was not significant or not giving the significance. Pleasingly, there were very few careless mistakes where marks were lost for not stating % or misreporting the data.

Question 24

This question required students to draw an AD/AS diagram to show the long run impact of improved factor mobility and was generally answered well. Where students failed to gain all four marks, the marks were often lost for missing labels. The axes needed to be clearly labelled. It was important that the labels demonstrated clearly that this was an aggregate, macro-economic analysis. So long as this was the case, many differing labels could be accepted. However, it was not acceptable to use labels representing a microeconomic analysis, such as price and quantity. A wide range of representation of the nature of the LRAS curve - vertical or upwards sloping - was accepted. However, for full marks it was necessary to label the curve as LRAS, as marks were not gained if the curve was labelled AS or SRAS.

For full marks it was also necessary to correctly identify and label the coordinates for the initial equilibrium level of output and price level, and the final equilibrium level of output and price level. Some students shifted the AD curve as well as the LRAS curve. This was not necessary, it often led to these students not gaining full marks due to the final labelled coordinates being inaccurate.

Where students showed only a shift in the AD curve, they could obtain one mark for the set-up of the diagram, provided that the AD/AS diagram was accurately drawn and fully labelled.

Question 25

There was a good spread of marks awarded for this question. The better responses clearly understood the relevant terms, explaining the nature of a global slowdown. Better answers also clearly understood that the UK is an open economy engaged in much global trade. They were also able to introduce a discussion of the significance of changes in overall global GDP growth, and the impact this would likely have on UK export demand. The best answers made clear logical links in a long chain of reasoning which is of crucial importance in securing level 3 on the levels of response mark scheme used for this 10-mark question.

AD/AS diagrams were frequently used to show a leftward shift in the AD curve. Better answers made a clear logical link to the components of aggregate demand and that typically during a global slowdown, UK export demand would fall, especially if a global slowdown was affecting the UK's trading partners and many of the UK's export destinations. A further common acceptable response was to make a link between a global slowdown and global companies not committing to as much foreign direct investment into the UK.

Weaker answers simply explained that the fall in UK aggregate demand was because of a slowdown, without any explicit mention of a global slowdown,

Weaker answers did not consider how a global slowdown would reduce aggregate demand in the UK, without clear links from a global slowdown to its impact on the UK economy. Implicit in many answers was the idea that that the UK was simply part of the global economy and therefore the UK was experiencing a slowdown, although students failed to explicitly make this point.

Once the reasons for a fall in UK aggregate demand were made clear, better answers then went onto explain clear links to unemployment and by implication employment. Weaker answers simply referred to their AD/AS diagram, which showed a fall in the equilibrium level of output and that this represented a rise in unemployment.

To secure full marks, it was not necessary to reference the global pandemic, although many answers did so. Where this was done well it tended to raise the quality of the application, for instance explaining that global supply chains have become disrupted, however, for some students it distracted them from the precise question asked.

The weakest answers showed a limited understanding of AD/AS analysis, for instance in trying to explain that less demand meant less supply and so the AS curve shifted left.

Question 26

The depth of the analysis varied widely. Stronger answers were able to identify that long run economic growth is affected by the implementation of successful supply side policies which raise the productive capacity of the economy.

However, even better answers often lacked an explanation of how a greater productive capacity could raise the long run, underlying trend rate of economic growth, by allowing for aggregate demand to increase at a faster rate without supply side constraints being reached. Very few answers included a focus of the rate of growth, which can be sustained over the long run, or the trend / underlying rate of economic growth.

Better answers gave good logical links in long chains of reasoning, showing good skills of analysis, by selecting a specific supply side policy and how it would raise productive capacity. Weaker answers tended to simply state that it would. Weaker answers often did not identify specific supply side policies; they simply pointed out that supply side policies focus on issues such as skills and training, without identifying any particular policy to improve this such as greater government funding for training providers.

It was pleasing that better answers included an understanding of the distinction between interventionist supply side policies and free market supply side policies, and this tended to raise the overall quality of their analysis.

Many answers simply focused on policies to stimulate economic growth, such as expansionary fiscal and monetary policies, without a focus on the long-run rate of growth. Many answers explored the impact of expansionary monetary policy through very low interest rates with Bank Rate set at historic lows. Weaker answers explained how this would stimulate aggregate demand and therefore increase economic growth. Better answers did this also but went on to explain how this policy could stimulate capital investment and therefore long run productive capacity and by implication the long run underlying trend rate of economic growth.

It was common for students to take one policy approach, one at a time, often with the inclusion of an AD/AS diagram. This enabled them to dissect each policy in greater detail. However very few students brought together an analysis of a combined policy approach, using AD/AS analysis to explain how if supply side polices are successful in raising productive capacity, shifting the LRAS rightwards, then expansionary demand side policies, which shift the AD curve right, can also be implemented, without supply side constraints giving way to greater inflationary pressures. This often led to superficial evaluation, stating that a combination of policies is best, when they had not provided any analysis of why.

Very few students included the issue of productivity. Where this was included and done well, it helped to build stronger analysis. However, as has been noted in previous reports, there was a notable weakness when referring to productivity as it is often confused with production.

A strong conclusion should provide an overall view of the most important points before directly answering the question which was asked, which in this case was to judge the policies which can be used to increase the long-run rate of economic growth.

Context 2: Government spending and taxation

Question 27

It was pleasing that many students were able to clearly define unemployment. To gain all three marks, it was necessary to accurately define both unemployment and the rate of unemployment However a common weakness was a lack of clarity on the rate of unemployment; Where this was picked up on, it was common to see answers referring to unemployment expressed as a percentage, or a percentage of the population, rather than as a percentage of the labour force.

Question 28

It was pleasing that many students correctly identified 35% by adding together the 14% and 23% figures given in extract D. However, a common mistake was to then calculate 35% of £275 to give an incorrect answer of £96 billion.

Where the correct answer of £2102 billion was given, it was pleasing to note that most students correctly stated the answer in £ and to the nearest billion as required and so these students were able to gain all 4 marks.

Question 29

Students were required to make two comparisons; each one being awarded up to two marks. Each comparison should have been a comparison between areas of government spending, in percentages. A common response was to compare the highest percentage of government spending at the start and end, or the lowest percentage of government spending at the start and end, this was often done well with many students gaining all 4 marks. A common mistake was to identify 'other' as the largest percentage of government spending, failing to recognise that this category would comprise of many smaller individual categories of government spending combined, and so it is misleading to state that this category is the largest in the composition of government spending. Other weaknesses included not giving a significant point of comparison or failing to state the significance. For instance, it is not sufficient to state that health spending increased as a percentage of GDP, as there is nothing significant in this observation; whereas stating that health spending increased the most as a percentage of GDP is significant.

Question 30

This question required students to draw an AD/AS diagram to show the effect of an increase in injections and was generally answered well. There were many full mark answers, and it caused few difficulties. Where students failed to gain all four marks, the marks were often lost for missing labels. The axes needed to be clearly labelled. It was important that the labels demonstrated clearly that this was an aggregate, macro-economic analysis. So long as this was the case, many differing labels could be accepted. However, it was not acceptable to use labels representing a microeconomic analysis, such as price and quantity. For full marks it was also necessary to correctly identify and label the coordinates for the initial equilibrium level of output and price level, and the final equilibrium level of output and price level. Some students shifted the AS curve as well as the AD curve. This was not necessary, it often led to these students not gaining full marks due to the final labelled coordinates being inaccurate. Where students showed only a shift in the AS curve, they could obtain one mark for the set-up of the diagram, provided that the AD/AS diagram was accurately drawn and fully labelled.

Question 31

This question required students to explain how fiscal policy can be used to affect the pattern of economic activity, however, the majority of students did not respond well to the term 'pattern' of economic activity, but instead attempted an explanation of how fiscal policy can be used to affect the level of economic activity. This was despite the term 'pattern' being emphasised in bold in the question and many examples being provided in the extracts.

A wide range of responses would have been acceptable, either relating to areas of government spending, or taxation, and the many examples given in extract F included: using government spending to affect the pattern of economic activity such as:

1. regions and sectors
2. subsidy for energy saving home improvements
3.support for the arts industry
4. funding to create jobs for young people and new traineeships

or using taxation to affect the pattern of economic activity such as:

1. corporation tax to stimulate innovation
2. sugar tax to address obesity
3. VAT cut for the hospitality sector

Often, even when these prompts from the extracts were responded to, students brought the explanation back to the overall level of economic activity, linking through to the level of aggregate demand or the level of real GDP. It was common to then include an AD/AS diagram to show this.

It should be noted that the pattern of economic activity is clearly stated in the specification subject content, and students would be well advised to study all the subject content listed in the specification

Where students' answers focused just on an explanation of how fiscal policy can be used to affect the level of economic activity, it was difficult for them to move beyond level 2 on the mark scheme and gain more than 5 marks.

Question 32

This question asked students to whether a long-term significant increase in government spending would be beneficial for the UK economy. It was pleasing that students knew to address the main macro-economic objectives in assessing the beneficial impact. The extracts did provide guidance on many issues relating to an increase in government spending, referring to the pandemic, tax revenues, multiplier effects, the degree of spare capacity and the unemployment rate. It was pleasing that many students used the extracts well, which provided prompts to evaluative considerations. Better answers took these prompts, such as the reference to private sector investment in extract E, and used this to discuss issues such as crowding out, or crowding in. In contrast weaker answers failed to appreciate the significance of the prompts in the extracts.

A weakness was that many answers simply focused on whether an increase in government spending would be beneficial. Very few answers responded to a long term, or significant increase. A long term and significant increase would raise the government's involvement in the economy, very few students were able to discuss the advantages or disadvantages of this. Few students responded to the figures given in extract E that government spending as a percentage of GDP was 46.3% in 2009-10, or that it has been decreasing since so that it stood at 39.3% of GDP in 2018-19 or that it was predicted to exceed 50% due to the pandemic.

Very few answers responded to the decade of austerity, mentioned in extract E and the unprecedented pause in government spending growth, and the impact of this for certain government departments and the wellbeing of the UK.

Very few answers considered the role of the government spending in a mixed economy such as the UK, and whether a larger role for government, with the associated higher overall tax take would be beneficial overall. For instance, with a more interventionist industrial policy and a more generous welfare state; or whether a smaller state would be beneficial in promoting free market incentives and entrepreneurial endeavour, arguably resulting in a more dynamic and faster growing economy.

It was very pleasing that nearly all students attempted to evaluate throughout the answer. However, many evaluative sections struggled to move beyond considerations of the short-term impact of greater aggregate demand and employment, versus the trade off with greater inflation and a greater budget deficit. Better answers included the potential for supply side improvements

arising from certain targeted aspects of government spending. However, few students were able to discuss the possibility that greater government spending targeted at the supply side could have lasting long term advantages, for instance the potential to raise the long-run rate of economic growth, such that the trade off with inflation could be lessened and greater tax receipts could be generated from this greater growth lessening the impact on the government's budget deficit.

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. For instance, that the effect of an increase in government spending depends upon the stage in the economic cycle and the existence of any spare productive capacity to absorb the extra demand, or other economic considerations such as weak growth in domestic consumer demand and low investment due to the recent pandemic.

Mark Ranges and Award of Grades

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