



A-LEVEL ECONOMICS

7136/3 Economic Principles and Issues
Report on the Examination

7136/3
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Section A

General

The mean facility for the multiple choice questions in Section A of the paper was just under 55%. There were fewer 'easy questions' and more 'demanding questions' than in 2022 but none had a facility of less than 25%. The 'easy questions', with a facility of over 80%, were 4, 6 and 20. The demanding questions, with a facility of less than 35%, were 2, 16, 17, 19, 21 and 22. Questions 2, 16, 19 and 21 also had prominent distractors, where one of the distractors was more popular than the correct answer.

Question 11 contained a typographical error which meant that it couldn't be answered. The first sentence in the stem should have read 'at the start of 2021' and not 'at the start of 2020'. To avoid disadvantaging students, the question was discounted and all students were awarded 1 mark for this question.

The six most demanding questions, including those with prominent distractors, are considered below.

Question 2

Just over 28% of the students selected the key C whereas almost 65% chose option B. Students who selected option B did not appreciate that some natural resources are renewable and that if a resource is scarce, its use must have an opportunity cost.

Question 16

Just under 32% of the students selected the key B whereas nearly 45% chose option D. Students choosing option D did not understand that an increase in the natural rate of unemployment is represented by a rightward shift in the long-run Phillips curve (LRPC). Response B was correct because government intervention that increased inflation, the movement from A to B, would be likely to fuel inflationary expectations. If people come to expect that inflation will increase, the short-run Phillips curve shifts to the right, explaining the movement from B to C in the diagram.

Question 17

Just over 31% of the students selected the key C whereas nearly 33% chose option D and almost 30% chose option A. The majority of students did not know the role of the Office for Budget Responsibility.

Question 19

Under 30% of the students selected the key D whereas nearly 42% chose option C. Students who chose option C did not understand the concept of joint supply. Also, they did not recognise that the increase in the price of carrots, shown in Figure X, leads to the economic incentive for farmers to use fewer factors of production to grow potatoes, the leftward shift in the supply curve in Figure Y, and the economic incentive to switch the available factors of production into growing carrots, shown by the movement along the supply curve in Figure X.

Question 21

Almost 32% of the students selected the key B whereas over 33% chose option A and over 21% chose option C. Those who selected option A did not know that dividends paid to overseas owners of shares in UK companies appear in the primary income section of the current account of the UK balance of payments. Those who selected option C did not know that investment in building a factory abroad by a UK company appears in the financial account section of the UK balance of payments.

Question 22

Almost 31% of the students selected the key B whereas nearly 30% chose option A and over 27% chose option D. Option B is the key because the opportunity cost of producing coffee in Country X is lower than in Country Y. Country X also has an absolute advantage in the production of tea because the table shows it can produce more tea with a given amount of resources than Country Y can produce.

Option A is wrong because although Country X has an absolute advantage in producing both tea and coffee, it has a comparative disadvantage in producing tea. The opportunity cost of producing tea in Country X is higher than in Country Y.

Option D is wrong because the opportunity cost of producing tea in Country X is higher than in Country Y. In Country X, the opportunity cost of 1 tonne of tea is 0.8 tonnes of coffee whereas in Country Y the opportunity cost of 1 tonne of tea is 0.67 tonnes of coffee.

Section B**General**

The performance of students on this section of the paper was similar to last year. There was very little difference in the mean mark or the spread of marks.

It was not expected that students would have any prior knowledge of Sri Lanka's economy and most recognised that there were prompts in the extracts to help them develop their response to the three questions. Most students made use of the extracts but some used them more liberally and more effectively than others. Also, as in previous years, the less able students quoted the extracts without using their knowledge and understanding of economic theory to support their analysis and to develop their answers.

The better responses included an introduction that 'set the scene' and helped students focus on the key issues raised by the question. For example, those who explained what is meant economic development at the start of question B31 were more likely to select data that was linked to economic development. Students who started question B32 by explaining that the world market price of tea is determined by the demand and supply of tea were more likely to provide a relevant, well-structured response. An introduction to question B33 that explained the relationship between government spending, the budget balance and government debt whilst distinguishing between domestic and overseas debt was more likely to provide a fully-focused assessment of the problems facing the Sri Lankan economy.

Diagrams were generally accurate and labelled appropriately but some students did not use the diagrams as well as they might have done. For example, in question B32, only a minority of students used their diagrams to explain why the world market price of tea is likely to rise or fall

after a shift in demand or supply. The better students showed the resulting excess demand or excess supply on their diagrams and explained why excess demand or supply leads to a change in price. As in previous years, some students do not understand when they should use a micro demand and supply diagram and when they should use a macro AD/AS diagram. The confusion was particularly evident in students' responses to question B32.

It was encouraging that most students quoted the statistical data accurately and included the correct units. When students manipulated the data and included calculations, they were also usually accurate and used appropriately.

Question 31

All four assessment objectives (AOs) and quantitative skills were assessed through this question. Whilst students could use any of the extracts to help them to answer the question, the tables in Extract B were of most relevance.

Students were asked to discuss the extent to which the data suggest that the Sri Lankan economy is more economically developed than the economies of Bangladesh and Pakistan.

Good answers usually started by defining economic development; this helped students to identify which data were most relevant in answering the question. Some students showed little understanding of what is meant by economic development. Weaker answers included data that are poor indicators of economic development, for example, population and total GDP. The best answers selected and prioritised the key indicators of economic development such as: GDP per capita, HDI and measures of inequality, poverty, health and education.

Many students selected appropriate data from extract B and quoted the data accurately to help support judgements. However, some only considered a couple of indicators. This limited the support for their overall assessment of the extent to which Sri Lanka is more economically developed than Bangladesh and Pakistan.

Most students recognised that it was important to explain the link from the data to 'economic development' but this was not always done well. For example, only a minority provided a meaningful explanation of how GDP per capita is linked to economic development. However, many more students were able to provide a reasonable explanation of the links between the health and education indicators and economic development.

Some students misinterpreted the Gini index, suggesting that a higher value demonstrated lower inequality. On the other hand, some stronger responses contrasted Sri Lanka's higher Gini index with its lower poverty rates and concluded that higher levels of inequality do not necessarily equate to less economic development. Some of the best responses went on to explain the reason for the apparent anomaly.

Students often attempted to identify one or more limitations of the data but many attempts were contrived and unconvincing. However, some recognised that the figures for GDP per capita may be distorted because the dollar may not have the same purchasing power in the three countries.

Responses that said the countries may have different rates of inflation were given some credit but also showed some misunderstanding. Another valid limitation was that the data in Figure 3 were out of date and not the same date for each country. Some good answers recognised that to assess economic development in its broadest sense, other data such as gender inequality, political freedom or access to clean water should be considered.

Since this question is assessing a student's ability to use qualitative and quantitative evidence to support informed judgements (AO4), answers should have a concluding paragraph. The weakest responses did not include a conclusion or a final judgement. Good answers had a well-supported overall assessment, recognising that most of the data were consistent with the view that the Sri

Lankan economy is more economically developed than the economies of Bangladesh and Pakistan. Credit was also given to answers that included supported, provisional judgements after each set of key data was analysed.

Question 32

This question tests three Assessment Objectives; Knowledge and understanding (AO1), Application (AO2) and Analysis (AO3), of which Analysis is most important. Evaluation (AO4) is not assessed through this question.

Good answers recognised that fluctuations in the world market price of tea are determined primarily by changes in the demand for and supply of the commodity. They proceeded to use diagrams to support their analysis of how shifts in demand and supply can lead to both rises and falls in the world market price of tea.

There were plenty of useful prompts in Extract C and students that made good use of the prompts were able to demonstrate AO2 more effectively than those who made little use of this extract. However, some of the weaker answers quoted parts of the extract without using economic principles to help them analyse how the factor identified affected the world market price of tea.

The best answers usually began each paragraph by identifying one of the prompts before presenting a step-by-step chain of reasoning to explain how and why it would lead to a rise or fall in the world market price of tea. Many students successfully analysed the effects of shifts in supply caused by weather conditions and natural disasters, and shifts in demand caused by changes in the price and availability of substitutes and changes in incomes. Some stronger responses explained how speculation could result in greater price volatility but the nature and impact of speculation was not understood by many. A number of students attempted to explain how changes in exchange rates might affect the world market price of tea. However, this often highlighted their lack of understanding of global commodity markets, such as the market for tea.

A number of students stated that the inelastic supply and demand for tea contributes to fluctuations in the price of tea. Figures from Extract C were quoted and many were able to explain what is meant by an inelastic price elasticity of demand and/or supply, but not all. Only a small minority was able to analyse how inelastic demand and/or supply can contribute to large fluctuations in price.

Some of the weaker answers focused on the impact of changes in the price of tea on the economy of Sri Lanka rather than factors that affect the world market price of tea. Others discussed how rising world energy prices can lead to cost-push inflation rather than focusing on how fluctuations in the price of energy might affect the price of tea.

Many students were able to use demand and supply diagrams effectively to support their analysis of why the world market price of tea fluctuates. However, the analysis and use of diagrams was not always fully developed. For example, the mechanisms that cause prices to adjust when demand and supply change were not always explained. The best responses explained why excess demand and excess supply lead to market prices changing and some mentioned the role of the rationing and incentive functions in restoring market equilibrium.

As in previous years, some of the less able students used hybrid micro/macro diagrams to try to explain fluctuations in the price of tea. Others incorrectly used macro AD/AS diagrams to represent the market for tea with price level on the vertical axis and real GDP on the horizontal axis. AD/AS diagrams were rewarded if they were used as part of a chain of reasoning to explain how the world

market price of tea may be affected by, for example, rising energy prices. Unfortunately, too many students used them inappropriately.

Question 33

All four assessment objectives were tested through this question, with analysis and evaluation being particularly important.

Students were asked to recommend whether the government of Sri Lanka should cut its spending to reduce its debt. Whilst it was important to analyse and evaluate the arguments for and against cutting government spending, good responses often assessed the relative merits of other policies that might be employed to deal with the problems facing Sri Lanka. For example, some students discussed whether increasing taxes might be preferable to cutting government spending.

As always, there were lots of ‘clues’ in the extracts, particularly Extract D, and most students made some use of these ‘clues’ to help them identify relevant issues and sometimes, to help support judgements.

Strong answers usually started by showing an understanding of what is meant by government debt, how it occurs and how it can be reduced. Some, but not many, made a useful distinction between reducing the absolute value of the debt and reducing its value as a percentage of GDP. Some students confused government debt with a budget deficit and less frequently with the balance of payments. Not very many students distinguished between internal and external debt or understood how a high proportion of overseas debt and limited foreign exchange reserves posed particular problems for Sri Lanka.

A typical approach was to start by making the case for cutting spending to reduce the debt. This often included explaining how cutting government spending could help to reduce Sri Lanka’s current high rate of inflation. Many students included an AD/AS diagram to support the argument but the associated depth of analysis varied. Some explained how cutting government spending and reducing the debt would affect Sri Lanka’s international credit rating and the interest it has to pay to service its debt. Many answers recognised that if the government failed to reign in its growing debt, Sri Lanka faced the threat of bankruptcy. However, the attempted analysis of how cutting government spending would reduce this risk wasn’t always convincing.

Most answers then balanced this by looking at the case against cutting government spending. This often included a consideration of benefits for those on low incomes, the provision of public and merit goods and how government spending can lead to future growth, which could reduce the debt in the long run. Many students included an AD/AS diagram to illustrate the potential benefits of

government spending for long-run economic growth. Some used a micro diagram to illustrate the potential loss of welfare if the government failed to provide merit goods. The quality of the analysis related to these diagrams and the manner in which they were woven into the answer varied markedly.

A number of answers also considered possible alternatives to cutting government spending. Common examples were: raising taxes, applying for a loan from the IMF or waiting to see if the

economy and most frequently, the tourist industry, bounces back after the effect of the Covid pandemic. Those who discussed the possibility of raising taxes often presented the case for progressive taxes and introduced the Laffer curve as part of the discussion. A small minority of students considered the limited taxable capacity of a developing economy such as Sri Lanka. Very

few students showed much understanding of the role of the IMF and some asserted that borrowing from the IMF would reduce the debt.

The best students used economic principles to inform their analysis of the issues raised. They evaluated arguments throughout their answer, for example, by considering the side-effects and limitations of different policies and by making interim judgements. They finished with a fully justified recommendation that was supported by previous discussion, whilst recognising the inevitable debate and uncertainty surrounding the best course of action.

Weaker answers often identified issues from the extracts but failed to apply relevant economic principles effectively. Sometimes, diagrams were presented but not used. Analysis lacked depth or was confused. Arguments both for and against cutting government spending were often included but the attempted evaluation in the weaker response was generally unconvincing or superficial.

Mark Ranges and Award of Grades

Grade boundaries and cumulative percentage grades are available on the [Results Statistics](#) page of the AQA Website.