A-LEVEL
ECONOMICS

7136/3 Economic principles and issues
Report on the Examination

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Section A

General

The overall standard of the students' responses to the 30 multiple choice questions in Section A of this paper indicates that the demands of the multiple choice test were similar to the demands of the 2019 exam, the last time that there was a normal examination series. The mean facility for the 30 multiple choice questions was 0.62 in 2022 compared with 0.61 in 2019. Fifteen of the questions had a facility of 65% or more and there were three questions that proved to be very demanding with a facility of less than 35%. All questions were consistent with the requirements of the subject and none of the questions was rejected from the test.

The fifteen 'easy' questions were 2, 3, 6, 8, 9, 13, 15, 16, 18, 19, 20, 24, 28, 29 and 30. Three questions proved to be exceptionally easy with facilities of over 85%. Question 9 was the easiest with a facility of 98.67%, followed by Question 30 with a facility of 92.65% and Question 15 with a facility of 87.16%.

Question 26 was the most demanding with a facility of only 17.80%, followed by Question 10 with a facility of 19.46% and Question 11 with a facility of 34.29%.

Questions 10 and 26 had prominent distractors, that is where one of the distractors was more popular than the correct answer. Questions 17 and 22, which had facilities of 39.68% and 38.83% respectively, also had prominent distractors.

The three most demanding questions and those with prominent distractors are considered below.

Question 10

This question proved to be very demanding with fewer than 20% of the students selecting the Key A and over 55% selecting the prominent distractor B. To answer this question, students had to know that Fisher's equation of exchange is MV=PQ. It was also a test of students' quantitative skills, in this case, the ability 'to calculate and interpret index numbers'. The correct answer can be determined as follows:

MV	=	PQ
115.5	=	P x 110
P	=	115.5 ÷ 110
P	**=**	**1.05**

This shows that to maintain the equality between MV and PQ, the price level must have increased by 5%. Distractor B is incorrect because if output increased by 10%, from 100 to 110, and the price level rose by 5.5%, PQ would equal 110 x 1.055 = 116.05.

Question 11

This proved to be another demanding question with fewer than 35% of the students selecting the Key B. Systemic risk in financial markets is where there is a risk that the collapse of one or more financial institutions could lead to very serious problems for the whole economy. Students didn't recognise that investment banking is a high-risk undertaking and that if a bank carries out both commercial and investment banking activities, there is a risk that losses made from investment banking could cause the institution to go bankrupt. The collapse of the commercial banking arm of

the business could then disrupt normal, day-to-day economic activity. Just over a quarter of the students chose distractor A and just under a quarter selected distractor C. The term capital-output ratio in distractor A does not make much sense in relation to a bank. A central bank acting as lender of last resort reduces the risk of a bank collapsing and hence reduces systemic risk. Therefore C is also incorrect.

Question 17

Over 50% of the students chose distractor B whereas only around 40% chose the Key D. Students who selected distractor B probably did so because they wrongly believed that a tax is progressive if a rise in income leads to more tax being paid. In Table 2, although as income rises from £20 000 to £50 000 the amount paid in tax also rises, the percentage of income paid in tax falls, as illustrated below. Hence, the tax is a regressive tax.

Income (£)	Tax paid (£)	Percentage paid
20 000	4 000	20%
30 000	5 400	18%
40 000	6 400	16%
50 000	7 000	14%

Question 22

Around 39% of the students selected the Key C. They recognised that when an economy is experiencing an economic boom, output, incomes and aggregate demand are rising, leading to an increase in spending on imports and rise in the price level. In an economic boom, unemployment is low and job vacancies are likely to increase as firms find it difficult to recruit workers. Almost 44% of the students selected A. They recognised that in an economic boom, the price level would rise but surprisingly, they didn't realise that job vacancies would increase in a tight labour market. Neither did they appreciate that rising output, incomes and an economy with a positive output gap would probably lead to more imports.

Question 26

The specification states that students should know 'the structure of a commercial bank's balance sheet'. Fewer than 18% of students selected Key B which indicates that this aspect of financial markets was not well understood by the majority. Almost 60% of students selected distractor C which suggests that they knew that cash, balances at the central bank and other liquid assets are liquid assets for a commercial bank but that they also thought retained profit (reserves) is a liquid asset. Reserves are not a 'pot of cash' but are on the liabilities side of the balance sheet, representing money owed to the owners/shareholders of the bank.

Section B

General

Given the disruptions to students' learning over the past couple of years, it is not surprising that the performance of students on this section of the paper was not quite as good as in 2019. The mean mark for Section B was 28.43 in 2019 whereas in 2022 it was only slightly lower at 27.31. In 2022, the mean mark for question B31 was slightly higher than in 2019 but the mean mark for question B32 and for B33 was lower. The spread of marks for each question was very similar but a smaller proportion of students achieved Level 5 for B33 in 2022.

Most students recognised that the extracts included information they could use in their responses but a minority did not. Those that largely ignored the extracts often presented answers that were theoretical and failed to demonstrate their ability to apply their knowledge and understanding effectively to the context. Students who produced good responses recognised when and how data in the extracts were relevant to the question, they quoted the extract and then proceeded to develop their answer in a focused manner. Weaker responses quoted the extracts but did not use their knowledge of economic concepts and principles to further develop their answer.

Students should be advised to devote sufficient time to reading the extracts carefully to familiarise themselves with the context. For some, if they had read the extracts carefully, the confusion between aircraft manufacturing firms and airlines might have been avoided. Spending time reading the extracts should also enable students to identify data that could be used to support their responses to the different questions.

To perform well on this paper, students need to demonstrate their ability to select relevant aspects of economic theory and apply them appropriately to the question. This is particularly important when answering questions B32 and B33. For example, in question B32, concepts such as derived demand, price elasticity, income elasticity and cross elasticity of demand could have been used to help the student construct an answer that included focused, well-developed analysis. In B33, stating that market failures provide arguments for government intervention was a useful starting point. Many good responses used economic principles to explain why government intervention to encourage the development of fuel-efficient aircraft may help to reduce the deadweight loss associated with flying. The analysis was then used to support the case for the UK government intervening to help companies involved in the production of commercial aircraft.

Some students recognised that their answers could be enhanced by using economic theory but did not select relevant economic principles and/or did not apply them appropriately. For example, in B32, some students drew a kinked demand curve and used the model to explain why firms in oligolistic markets are unlikely to raise or lower prices. Consequently, a significant part of their response failed to address the question.

Students are rewarded for using of diagrams to support analysis. Although some students presented accurate, fully-labelled diagrams and used them to help answer questions, diagrams were not always used well. Some diagrams were incomplete and often had incorrect or missing labels. As in previous years, students often used a macro diagram when a micro diagram would have been more appropriate, for example, when illustrating the effects of subsidising a firm in the commercial aircraft industry. Too many students presented hybrid diagrams, for example, labelling curves AD and AS but putting price and quantity on the axes.

Question 31

Since the first exam in 2017, the quality of students' responses to this question has continued to improve. The mean mark for question B31 in 2022 was 6.35 compared to 5.94 in 2019.

Good answers often started by setting out the criteria they were going to use to assess the performance of Boeing and Airbus. Unlike in some previous years, most students selected appropriate data from extract B and used the correct dates and units. The best answers provided an overview of the whole time period, often identifying trends, rather than focusing on one or two years, seemingly at random. For example, when comparing the market shares, as shown in Figure 2, they stated that Boeing had a higher market share in each year but that Airbus's market share had increased whilst Boeing's market share had fallen. Good answers quoted figures to support their interpretation of the data, for example, by stating that Boeing's market share had fallen by 1.6 percentage points over the period whereas Airbus's market share had increased by 4.3 percentage points.

It was surprising that some students failed to make any use of Figure 3. Even some students who used the data in Figures 1 and 2 effectively, ignored Figure 3. The best students recognised that profitability is a key indicator upon which to judge success but too many students, even those who made some use of Figure 3, did not consider the profit margin.

Some of the best responses manipulated the data by calculating percentage changes, means and totals over the period. For example, when using Figure 1, calculating and comparing the total deliveries for each company was helpful when using data to support judgements.

Many students, but not all, identified limitations of the data that may have affected the reliability of their conclusions. One common approach was to recognise that the data in Figures 1, 2 and 3 only covered 2014 to 2018, so that the reliability of their final judgement would be limited by the lack of data for 2019 to 2022. However, some discussed the information at the start of Extract B that referred to deliveries and outstanding orders in 2019. Another valid limitation that some mentioned was that the profit margin, given in Figure 3, was before interest and tax and there was no information relating to how much interest each company paid on its debt.

Strong answers considered all three figures, making preliminary judgements along the way, before presenting an overall conclusion. A significant minority did not make any attempt to present an overall, supported, final judgement. Students who presented an overall judgement usually concluded that Boeing had been more successful than Airbus, based on aircraft deliveries, market share, total revenue and profitability, but that Airbus appeared to be closing the gap. Different final judgements, provided they were supported by the data presented, were also rewarded.

Question 32

This question tests the first three Assessment Objectives (AOs), of which Analysis is particularly important. Evaluation (AO4) is not assessed through this question.

Students were asked to explain the factors that a commercial aircraft manufacturer should consider when forecasting the future sales of its aircraft. There were several useful prompts in the Insert and answers that made explicit use of Extracts A and C were usually much more focused than those that did not. A common weakness was the failure to distinguish between the market for air travel and the market for aircraft and/or to connect the two. The responses of students who did not make this distinction were sometimes muddled.

The best responses usually started each paragraph by stating one of the factors mentioned in the extracts and then proceeded to develop a logical chain of reasoning that explained why and how the factor may affect future sales of aircraft. Good analysis was aided by the application of relevant economic principles. Students who explained that the demand for aircraft is derived from the demand for air travel and air cargo usually did well, particularly when their explanations were accompanied by linked demand and supply diagrams. Many recognised that the demand for air travel is likely to be affected by the growth in the world economy and the increase in the middle-class population. Some of these students realised that income elasticity of demand is important but relatively few were able to provide an accurate explanation of why or how it was relevant. It was disappointing that many of the students who mentioned income elasticity didn't understand the concept.

When discussing the significance of the expected growth in the world economy, some students included AD/AS diagrams. Such diagrams were rewarded when incorporated into a logical chain of reasoning that helped to explain the possible impact of, for example, recession or recovery in the world economy on future sales.

Surprisingly, only a relatively small proportion of students identified price as a factor that should be considered when forecasting future sales and very few of these mentioned price elasticity of demand. The price and availability of substitutes was not discussed very often, although the possible threat from COMAC was mentioned by some. Cross elasticity of demand was rarely considered even by those who did appreciate that prices charged by other manufacturers would affect sales forecasts.

Many students explained the likely effect of economic shocks on the sale of aircraft, although their relevance to the question was limited by the fact that shocks are, by their nature, very difficult to forecast. The best students discussed the recovery after a shock and its possible impact on a company's forecast of future sales.

Weaker answers only had partially developed chains of reasoning or failed to explain the link between the factor identified and a forecast of aircraft sales. Very weak answers identified one or more issues mentioned in the extracts but did not explain how the issue was relevant and included very little, if any, valid economic analysis.

Question 33

As in previous years, this question directed students to consider the final extract, in this case Extract D, and the original evidence. Extract D identified a number of current issues that affect the industry and indicated reasons why government support might be appropriate and reasons why it might not be desirable. Good students made extensive use of Extract D when constructing their answers.

Strong responses provided an economic analysis of the case for intervention, often based on market failure. Common arguments in favour of government support included: to reduce negative externalities associated with air travel and to reduce regional inequality, thereby minimising the risk of structural unemployment. Others argued that government support was required to ensure the industry remained internationally competitive, particularly when overseas competitors are supported by their governments. Some of the best answers, whilst recognising the market failure arguments, questioned the need for government support, particularly when: 'The UK's aerospace sector is a world leader …', firms appear to be profitable and the demand for new passenger aircraft is growing.

The possible effects of government support for firms involved in the production of commercial aircraft on the macroeconomy was a key feature of some responses but too often the impact was overstated. For example, some argued that it would lead to rising inflation at a time when there is already 'a cost of living crisis'. Measured discussion of the impact of government support for the sector on, for example, aggregate demand, unemployment and the productive capacity of the economy was not unreasonable provided the consequences were not exaggerated.

When considering the case against intervention, weaker responses just mentioned points from the extracts such as over-reliance on state aid 'reducing the incentive to increase productivity and competitiveness' without further discussion. Some believed that the UK government imposing tariffs on imports would provide an effective means of supporting the industry without recognising the global nature of the industry and that much of its output is exported. Better answers appreciated that government support might provoke retaliation and harm not only companies involved in the production of commercial aircraft but also other UK businesses.

It was pleasing to see that many students included diagrams to support their analysis of key issues. Some diagrams were well drawn and used effectively, but not all. Many students included a diagram showing negative externalities in consumption or production, either was acceptable provided it was used appropriately. Providing support to encourage manufacturers to produce more fuel-efficient, less-polluting aircraft was an important economic argument for government intervention. However, some argued that intervention was needed to reduce the negative externalities in manufacturing airplanes rather than from transporting people and goods. Whilst this approach was given some credit, discussion of pollution permits and pollution taxes by some students was barely relevant.

Many students included a subsidy diagram in their answer. Some diagrams were well drawn and well used, illustrating the likely impact on price, output and the cost to the government. However, some were incomplete and not referred to in the student's written response. Some students used a macro AD/AS diagram to illustrate the effect of a subsidy rather than a micro diagram. Too frequently, this encouraged the student to exaggerate the impact of such support on the macroeconomy. Weaker responses often included a hybrid diagram that was invariably linked to a confused explanation of the possible effects of subsidising the sector. When using diagrams in

their answers to questions on this paper, students should be advised to think carefully before deciding whether to include a micro or macro diagram.

This final question on the paper asks students to make a recommendation and to justify their recommendation. A Level 5 response will include 'Sound, focused analysis and well-supported evaluation'. There will be supported evaluation throughout the response and in a final conclusion. Good responses finished with a final judgement which recommended a course of action for the government, with plausible, supported justification. The final recommendations varied, but the best recommendations were specific, backed up by previous discussion, fully justified and showed an awareness of the arguments for and against the government supporting companies involved in the production of commercial aircraft. The weakest responses failed to include a final recommendation or included a very brief recommendation without any supporting justification.

Mark Ranges and Award of Grades

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