

AQA ECONOMICS PAPERS STRUCTURE

Each paper is 2 hours long, comprises 80 marks and is worth one third of the total marks available

PAPER 1	PAPER 2	PAPER 3
Markets and Market Failure (micro)	National and International Economy (macro)	Economic Principles and Issues (synoptic)
<ul style="list-style-type: none"> • Section A: choice of 1 from 2 data response (“context”) questions (total 40 marks) • Section B: choice of 1 from 3 essays (total 40 marks) 	<ul style="list-style-type: none"> • Section A: choice of 1 from 2 data response (“context”) questions (total 40 marks) • Section B: choice of 1 from 3 essays (total 40 marks) 	<ul style="list-style-type: none"> • Section A: 30 MCQs • Section B: 50 mark “investigation”

PAPERS 1 AND 2

SECTION A

- Choice of 1 from 2 data responses, based on different contexts
- Each context typically comprises 3 extracts of data, of which 1 is usually quantitative
- Each context has 4 questions
 - 2-mark calculation
 - 4-mark “data use or interpretation” question
 - 9-mark diagram and explanation question
 - 25-mark essay question

SECTION B

- Choice of 1 from 3 essays
- Each essay comprises:
 - Part a) 15-mark explanation / analysis question
 - Part b) 25-mark discursive / evaluation question

PAPER 3

SECTION A

- 30 x MCQs
 - Content from the entire course
 - Expect quantitative skills questions!
 - Definitions, diagram interpretation, application, cause and effect, data interpretation

SECTION B

- 50-mark investigation
 - Content from the entire course
 - Several pages of data extracts, in a separate “booklet”, and a mix of quantitative data charts and qualitative written extracts
 - 10-mark question: using data to support a statement, and evaluating the usefulness of the data
 - You need to “adopt” a specific role, that is outlined before the questions, and write your answers from that perspective
 - 15-mark question: analysis of a key point from the data
 - 25-mark report: taking the viewpoint of a particular stakeholder and justifying a recommendation



Exam Gold

The style of every paper is identical year-on-year – be prepared and know the structure

MULTIPLE CHOICE QUESTIONS (MCQS)

30 MCQs on Paper 3 - these are a good way to test the tiny topics on the syllabus!

Aim to complete them in 30 minutes (or less if you can)

They are a good way to test quantitative skills - **DON'T FORGET** that 20% of the marks in Economics A level are for quantitative skills!

DIFFERENT TYPES OF MCQS

OBVIOUS DEFINITION

A good definition of deflation is:

- A A persistent fall in the increase in the general price level of goods and services
- B A persistent fall in the general price level of goods and services**
- C A fall in the level of real spending on goods and services produced within a country in a given time period
- D A fall in government spending on public services

HIDDEN / APPLIED DEFINITION

Which one of the following is NOT a component of the current account?

- A Balance of trade in goods
- B Balance of trade in services
- C Net primary income
- D Net balance of foreign direct investment flows**

CALCULATION

The PED for good Z is -0.8. Suppose that the quantity demanded rises from 10,000 units to 12,000 units. By how much must the price have changed?

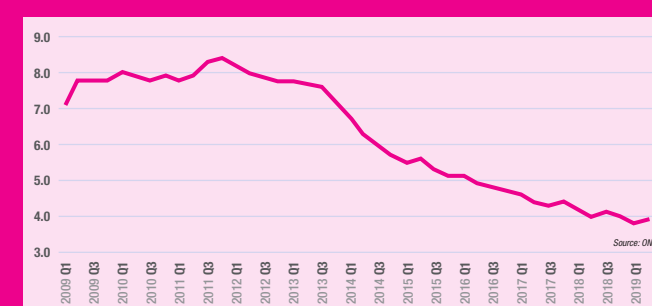
- A Risen by 40%
- B Risen by 25%
- C Fallen by 25%**
- D Fallen by 40%

- Write down the formula
- Do any obvious calculations to complete missing pieces
- Enter the information that you have
- Rearrange the formula if necessary

DATA INTERPRETATION

The following chart shows the rate of unemployment in the UK since 2009 (aged 16 and over, seasonally adjusted). Using only data from the chart, which of the following statements is true?

- A The proportion of the economically inactive population of the UK has fallen by approximately 4% between January 2010 and January 2018
- B The number of people employed in the UK has risen
- C The number of people entitled to welfare benefits has fallen
- D During this time period, the number of people unemployed was at its highest in the first quarter of 2012**



OBVIOUS DIAGRAM

- 1 Sometimes you are given one diagram, and you need to decide how it will change as a result of a scenario you are given in the stem
- 2 Sometimes you are given two diagrams, and asked to connect the two using your knowledge of inter-related markets
- 3 Sometimes you are given four diagrams, and you need to decide which one best reflects the scenario given in the question stem

HIDDEN DIAGRAM

Which one of the following combinations of events is most likely to lead to a fall in real GDP at the same time as an increase in the general price level in the economy?

- A An increase in the level of investment, and a fall in the rate of VAT
- B A fall in the value of net exports, and deregulation in many product and labour markets
- C A fall in consumer confidence leading to a fall in consumer spending, and an increase in the cost of oil and other essential commodities**
- D A decrease in government spending on benefits, and a fall in the National Living Wage Rate

Annotating your exam paper with a diagram will be really helpful with this question!



Exam Gold

Make sure you can define every technical term in the specification (syllabus)

ANSWER THE QUESTION!

Most questions concern either the Cause or the Effect of an economic event

- In these questions, the **Cause** is in **red** and the **Effect** is in **blue**
- Discuss whether **economic growth** always **leads to inflation**
- Explain how **changes to the tax rate** will impact on a **government's budget balance**
- Explain how an **economy's trade balance** is affected by **a currency depreciation**
- Discuss whether **markets become less efficient** when **market concentration increases**

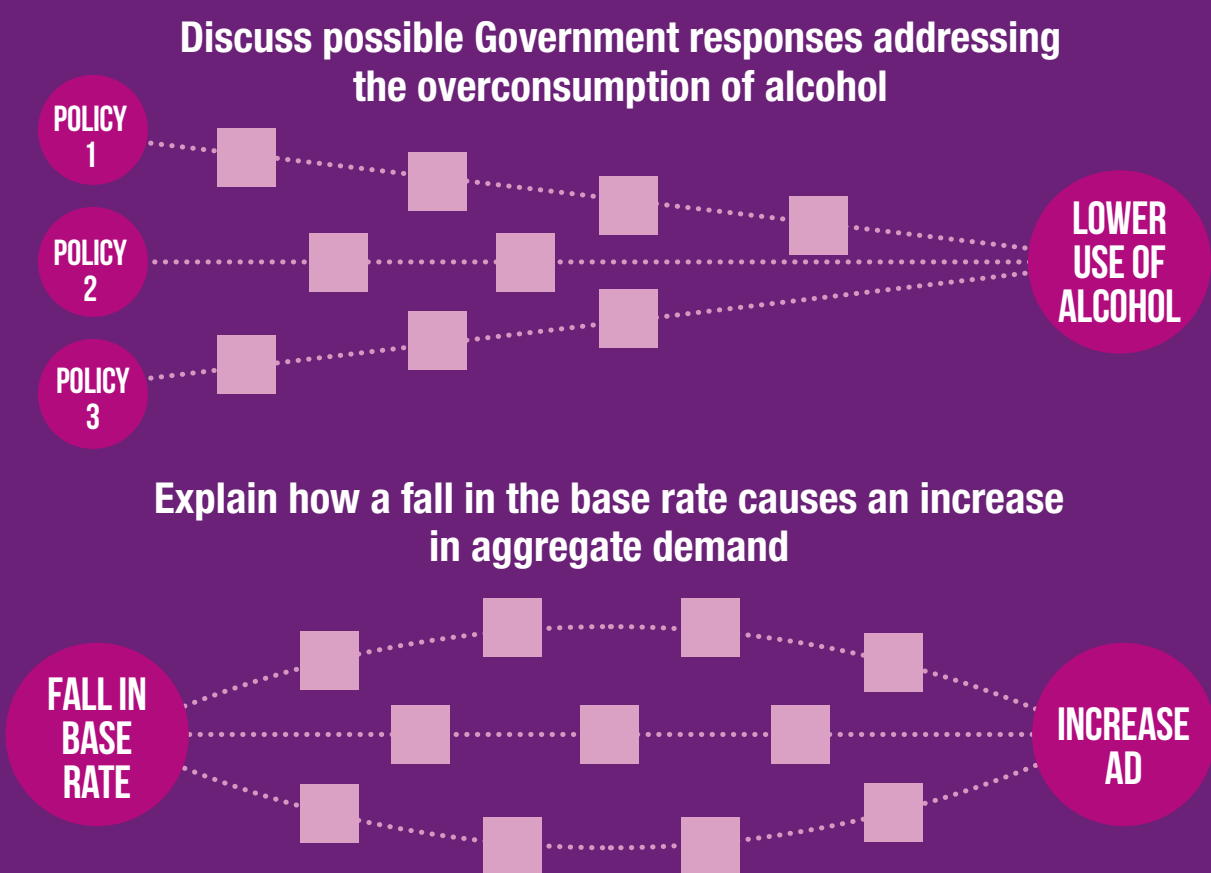
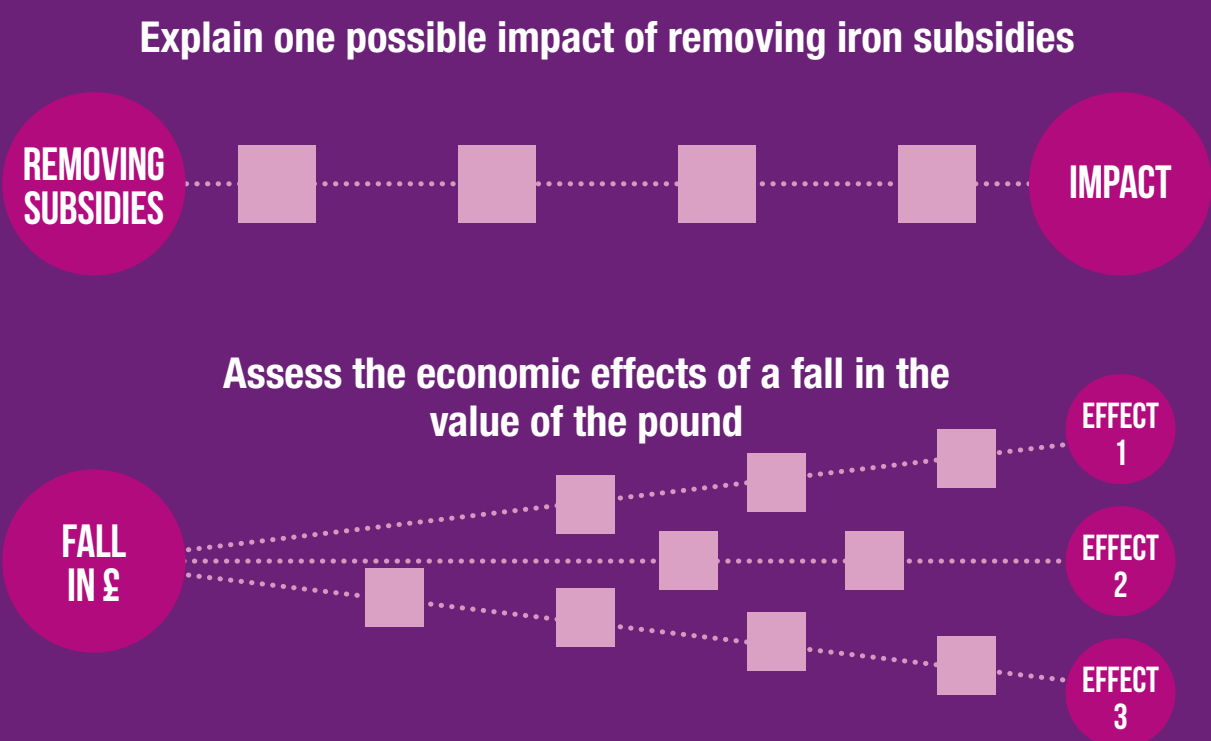


Beware: it is very easy to get muddled between Cause and Effect, and write your answers the wrong way around, thus sadly losing almost all the marks, because you haven't answered the question!

Does the question ask you to write about the Cause of an economic event, or its Effect?

Some questions give the Cause first and the Effect second:	Explain why a fall in economic growth leads to unemployment Explain why a fall in the rate of unemployment leads to economic growth	Write about the Effects on unemployment Write about the Effects on economic growth
Others give the Effect before the Cause:	Explain the impact on economic growth of a fall in the rate of unemployment Explain the impact on the rate of unemployment of a fall in economic growth	Write about the Effects on economic growth Write about the Effects on unemployment
Sometimes the Cause is clear, but the Effect is undefined: you have to think about the effects / impacts / consequences	Analyse the impact of rising interest rates on an economy Discuss the likely impacts of increased focus by competition authorities on monopoly power	Sometimes the Effect is clear, but the Cause is undefined: you have to think about the causes and reasons Analyse the likely causes of a trade deficit Assess two reasons why the demand for a product might become more price inelastic

Linking causes to effects



Interpreting the question

BUS the question

- B BOX the command word
- U UNDERLINE the cause and effect
- S STAR the discriminator/weasel word



2-MARK AND 4 MARK CONTEXT QUESTIONS — PAPERS 1 & 2

2-MARK QUESTIONS	4-MARK QUESTIONS
Calculation	Data interpretation

2-MARK QUESTIONS — "CALCULATE..."

Answers require a calculation, using one of the essential quantitative skills	You must follow the specific instructions regarding the answer format e.g. to 2dp, to the nearest whole number etc
---	--

Example:

Data

In January 2024, the beer company BrewDog announced that it would no longer be paying its employees a ‘Living Wage’. Instead, BrewDog’s workers will just receive the UK government’s national minimum wage of £11.44 an hour, which is below the £12 cost of living-based rate. The Scottish firm said the move was “necessary” in order to make a profit – it made a loss of £24m in 2023. Former employees accused the company of “abandoning its principles”.

Question

Calculate the percentage of the cost of living-based hourly wage rate earned by workers at BrewDog. Give your answer to 2 decimal places.

Student answer

$\frac{11.44}{12} \times 100 = 95$

Although the workings are correct, this answer may get zero marks because:

- There is no % sign
- The answer is not given to 2dp

4-MARK QUESTIONS — "EXPLAIN HOW THE DATA SHOWS THAT..."

1	State what you want to see in the data to help show what is required by the question	2	Data quotation 1 – using the correct units, and conducting a relevant calculation if possible	3	Data quotation 2 – again using the correct units, and conducting a relevant calculation if possible	4	Explain how your selected data shows what is required by the question
---	--	---	---	---	---	---	---

Example question:

UK Government Accounts summary

	Annual fiscal deficit (£ million)	Total government debt (£ million)
2010	148,846	1,220,252
2011	123,367	1,353,765
2012	137,352	1,447,791
2013	95,868	1,519,787
2014	103,854	1,622,144
2015	88,571	1,683,922
2016	66,491	1,749,166
2017	52,156	1,805,994
2018	48,933	1,858,417
2019	55,425	1,913,521
2020	276,521	2,227,320
2021	179,534	2,404,234
2022	118,089	2,515,537

Explain how the data shows that the existence of a fiscal deficit causes the national debt to increase.

Example answer:

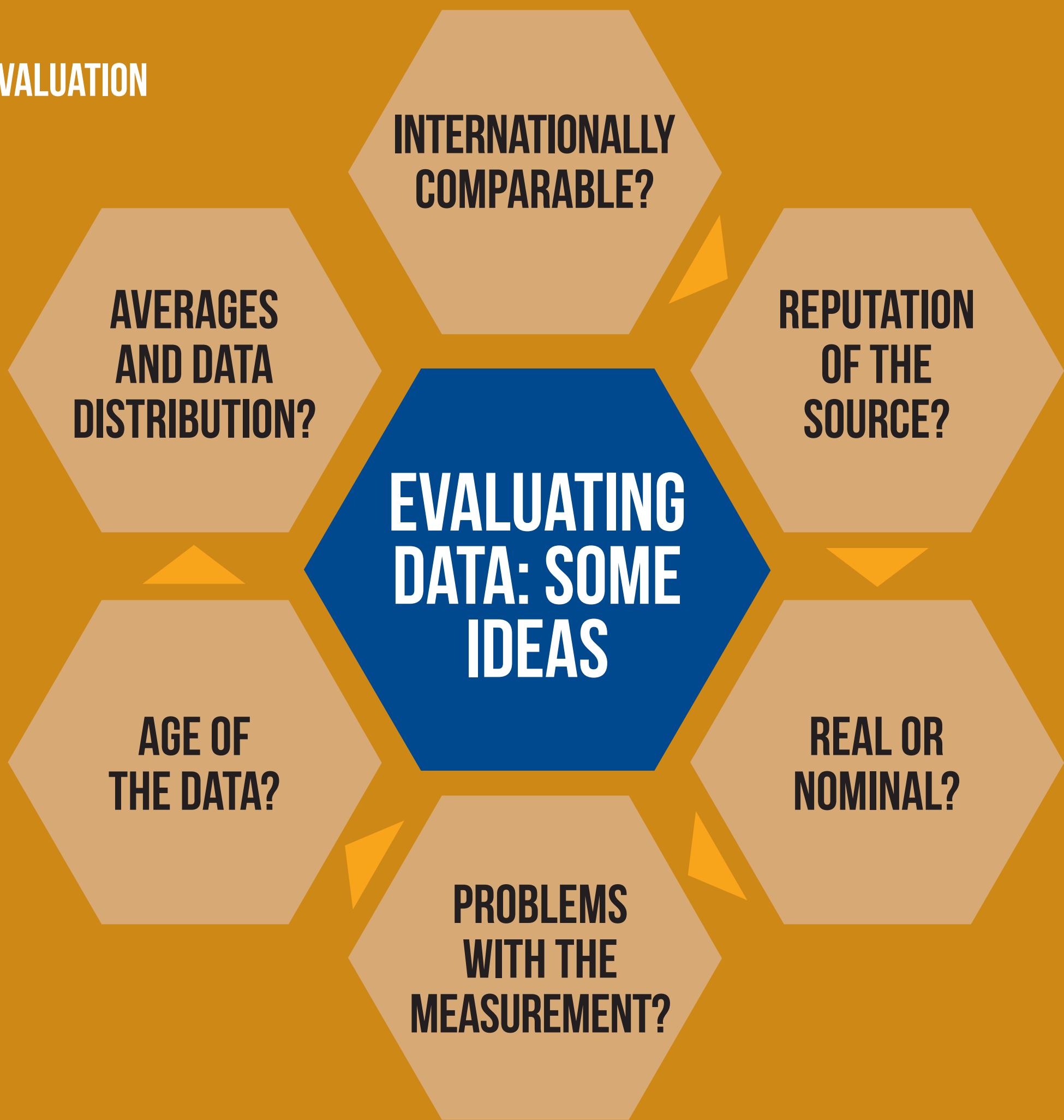
Use this grid	
What you'd expect to see	A fiscal deficit means that the government borrows by issuing bonds, so it usually causes the accumulated national debt to grow.
Data use 1	In 2020 the fiscal deficit was at its highest at £276bn and in that year the UK national debt increased by £314bn.
Data use 2	The sum of budget deficits for 3 years from 2020 to 2022 is £574bn and <i>I have calculated the</i> change in national debt as £602bn over this period. £574bn/£642bn is a ratio of 95%.
Explanation	Therefore, the data strongly supports the idea that borrowing by the government contributes to a higher national debt.

10-MARK QUESTIONS (PAPER 3)

“TO WHAT EXTENT, IF AT ALL, DOES THE DATA SUGGEST THAT...”

State what you would want to see in the data to show what is required by the question	
Data quotation 1 – using the correct units and conducting a relevant calculation/manipulation	
Data quotation 2 – also using the correct units and conducting a relevant calculation/manipulation	
Data quotation 3 – again using the correct units and conducting a relevant calculation/manipulation	
Explain how your selected data supports/negates the view shown in the question	
Evaluation point 1	Evaluation point 2
Final judgement, considering the extent to which the data supports the view in the question	

TIPS FOR DATA EVALUATION



CONTRADICTIONARY DATA	EXTRA INFORMATION	DATA CRITIQUE
<ul style="list-style-type: none">Maybe the data doesn't all point in the same direction	<ul style="list-style-type: none">What additional data might you need to make a better assessment?Why is it needed?	<ul style="list-style-type: none">Few data pointsNot enough years coveredReal / nominal dataNot enough data provided to allow a comparison / assessment

9 MARK QUESTIONS

“WITH THE HELP OF A DIAGRAM, EXPLAIN...”

The 9-mark question always requires you to use a diagram, but is not really a “diagram question”.

The emphasis should be on your explanation. **The diagram supports your explanation.**

Your answer will be marked ‘holistically’ using the marking grid below. Note that the diagram is only one of the five criteria used to mark your answer.

LEVEL 3 (7-9 marks)

- Well organised & develops one or more relevant issues
- Sound knowledge & understanding of key terms, concepts
- Good application and/or use of data / context
- Logical, clear chains of reasoning
- A relevant diagram which is accurate and used appropriately

LEVEL 2 (4-6 marks)

- Has one or more relevant issues
- Reasonable knowledge & understanding of key terms, concepts but some weakness
- Reasonable application and use of data
- Reasonable analysis but not always well-developed and could show confusion at times
- May include a relevant diagram

LEVEL 1 (1-3 marks)

- Very brief/incoherent
- Limited knowledge and understanding, with some errors
- Very limited application and use of data
- Limited analysis – lacks focus and often confused
- Diagram not used or inaccurate

A good answer has four key components:



- 1 Definitions of relevant key terms from the question and other technical terms that are relevant.
- 2 A diagram that is accurate, well-labelled, large and clear.
- 3 A description of the diagram
- 4 An explanation that:
 - Links the cause and effect in the question using economic theory and technical language
 - Refers to any relevant data from the extracts
 - Explains the diagram

Example question

Extract A – UK CPIH index

	CPIH Index (UK, 2015 = 100)
Dec 2022	125.3
Jan 2023	124.8
Feb 2023	126.0
Mar 2023	126.8
Apr 2023	128.3
May 2023	129.1
Jun 2023	129.4
Jul 2023	129.0
Aug 2023	129.4
Sep 2023	130.1
Oct 2023	130.2
Nov 2023	130.0

Extract B

Crude oil is an essential raw material for many businesses, and also a key input into the energy sector. Crude oil prices rose by 1.6% in the 3 months to November 2023, and were 50% higher than they were in February 2020. The increase in the price of crude oil reflects geopolitical tensions, such as the conflict in Russia and Ukraine.

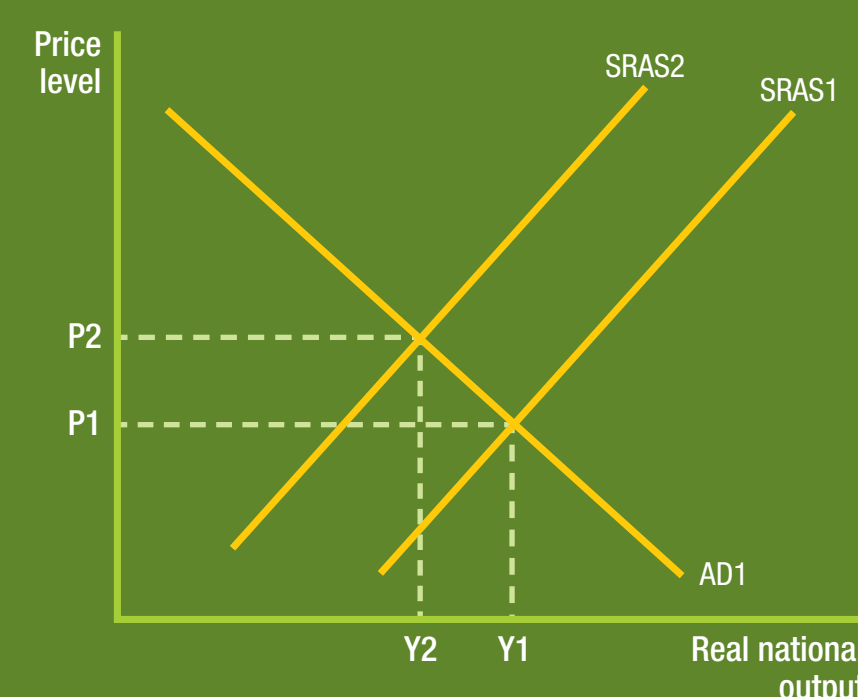
Source: ONS

With the help of a diagram, explain why an increase in the price of crude oil can cause inflation in the UK



Example answer

Crude oil is a key component of many production processes in the UK economy, for example in manufacturing such as car production at JLR in Solihull or to generate power for heating and lighting in offices. An increase in the price of crude oil can cause cost push inflation because all businesses will be affected by it. This type of inflation is demonstrated in my diagram. Extract B states that crude oil prices rose by 1.6% in the 3 months to Nov 23 and were 50% higher than in Feb 20. An increase in the price of crude oil raises production costs. This means that short run aggregate supply shifts from SRAS1 to SRAS2. As a result the economy's price level rises from P1 to P2. This is because there is an inverse relationship between the price level and aggregate demand. Extract A shows that the CPIH rises over the year shown from 125.2 to 130.0, which is 3.75%. Therefore, an increase in the price of crude oil is accompanied by an increase in the CPIH price index, ie inflation.



ESSAYS – 15 MARKS “EXPLAIN...”

Papers 1 and 2: 15-mark essays are paired with a 25-mark essay; you make a choice of one of three available pairs of essays.

They are marked ‘holistically’ with the focus on the quality of what is written, using this marking grid:

LEVEL 3 (11-15 marks)	LEVEL 2 (6-10 marks)	LEVEL 1 (1-5 marks)
<ul style="list-style-type: none"> Well organised & develops a selection of relevant issues Sound knowledge & understanding of key terms, concepts Good application and use of data / context Logical, clear chains of reasoning 	<ul style="list-style-type: none"> Focuses on some relevant issues Reasonable knowledge & understanding of key terms, concepts but some weakness Reasonable application and use of data Reasonable analysis but not always well-developed and could show confusion at times 	<ul style="list-style-type: none"> Identifies 1 or more relevant issues Limited knowledge and understanding, with some errors Very limited application and use of data Limited analysis – lacks focus and often confused

Structure of your answer:

15-mark “explain” questions

Short opening paragraph: define key terms and list the 3 points you will make

Analysis paragraph 1: demonstrating application / examples and theoretical explanation

Analysis paragraph 2: demonstrating application / examples and theoretical explanation

Analysis paragraph 3: demonstrating application / examples and theoretical explanation

VERY SHORT FINAL CONCLUSION: ONE SENTENCE IS FINE!

15-mark questions: top tips



Make sure you can accurately define the key terms, and identify the ‘cause’ and the ‘effect’

Develop chains of reasoning connecting cause and effect – use connective phrases to extend your chains

Use as much economic terminology and theory as you can

You can (and should!) include diagrams: but if you do so, you should write about them and explain them

Papers 1 and 2: make reference to the short context that you are given

Paper 3: make extensive reference to the data you are given

Paper 3: 15-mark essays are part of the Data Investigation, where you have no choice of questions.

Use the same technique and holistic marking grid as the 15m essay questions in Papers 1 & 2

Your answer must be completely grounded in the context of the extracts / data – avoid purely theoretical answers!

Allow time to read the extracts in detail, and look for links between them that enable you to use more than one data reference for each point that you make

Write at least 2 well developed chains of reasoning - add a third, if you have time to do so without reducing the quality and depth of the first two

There is no need for evaluation

ESSAYS — 25 MARKS

EITHER DATA RESPONSE ‘USING THE EXTRACTS AND YOUR KNOWLEDGE OF ECONOMICS, EVALUATE...’ OR ESSAYS TO “ASSESS, EVALUATE OR DISCUSS THE VIEW THAT...”

Papers 1 and 2: 25-mark essays appear twice on these papers; first as part of the Data Response question, where you have a choice of two different Contexts, and second paired with a 15-mark essay, where you make a choice of one of three available pairs of essays.

For 25-mark questions, use the same approach (and follow the same tips) for your analysis as you do in 15-mark questions

In addition, you must evaluate each of your analytical points and write a final conclusion that directly answers the question

The essays are marked ‘holistically’ with the focus on the quality of what is written, and 5 different levels of marks available

Good structure for a 25-mark essay:

Short opening paragraph: define key terms and summary of your overall argument (see our One Line Answer activity on the “Good Analysis 1” poster)

Analysis Paragraph 1, immediately followed by Targeted **Evaluation paragraph 2**

Analysis Paragraph 2, immediately followed by Targeted **Evaluation paragraph 2**

Analysis Paragraph 3, immediately followed by Targeted **Evaluation paragraph 3**

Concluding judgement paragraph and in Paper 3 a clear **recommendation**

The differences between levels 3, 4 and 5:

LEVEL 5
21-25
marks

- Well organised with sound knowledge of terms, concepts, principles with few errors
- Good application and use of data/context
- Well-focused analysis with clear, logical chains of argument
- Supported evaluation throughout with a final conclusion

LEVEL 4
16-20
marks

- Well organised with sound knowledge of terms, concepts, principles with few errors
- Some good application and use of data/context
- Some well-focused analysis with clear, logical chains of argument
- Some supported evaluation throughout with a final conclusion

LEVEL 3
11-15
marks

- Satisfactory knowledge of terms, concepts, principles with few errors with some weaknesses
- Reasonable application and some use of data/context
- Some reasonable analysis but not always clear or developed
- Superficial evaluation and unsupported judgements

Overview of a strategy for 25-mark questions

Think of a “one line answer” to the question – don’t sit on the fence... have an opinion! (This is covered in another poster in this set)

Think of at least 2 points you can make – you will need to be confident enough to write about them in depth

Think of an evaluative points for each of your analysis points – use the APE approach (this is also covered in another poster!)

Double check to make sure that your points and their evaluation support your viewpoint

Have a plan for your conclusion / judgement – what might affect your conclusion?

Paper 3: 25-mark essays are part of the Data Investigation, where you have no choice of questions.

The question requires you to make a recommendation to a specific person or organisation: ‘After considering (all the data), would you recommend that.... Justify your recommendation.’

Marks are limited to 13/25 without evaluation or a clear recommendation

Need to adopt the role set out in the exam paper, and write from that perspective

Think about who you are making a recommendation to – focus on issues important to them

Need to read an additional extract / piece of data before answering this question

Must support your arguments with the data provided from all extracts

Must provide a clear recommendation – you could write this at the start and at the end of your answer

Holistically marked, using the same marking grid as for 25m essays on Papers 1 and 2

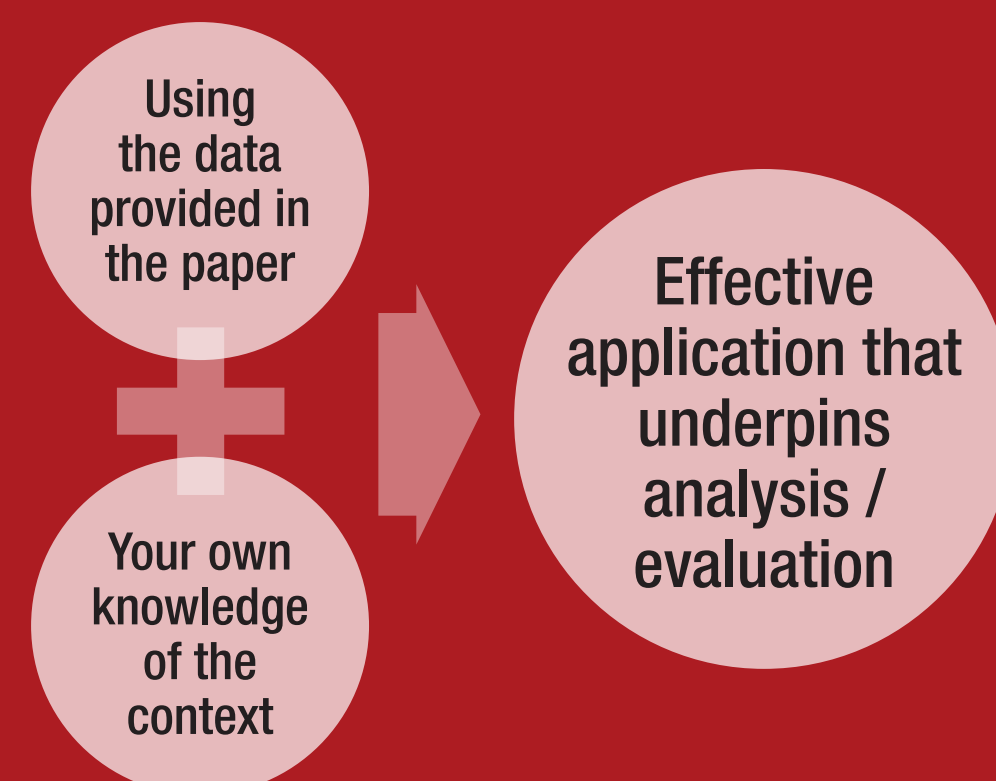
'GOOD APPLICATION' 1

USING THE DATA

"Good application" is needed to gain top level marks in essays

In data response questions, it is often a good idea to read the questions first, and then work through the data identifying the parts that will be most relevant

In essays, read the introductory 'stem' to the questions, which gives brief background to the context, usually with some data



What does successful use of data look like?

Direct quotation of data

(qualitative and quantitative)

Adaptation of diagrams

(e.g. specific axes labels, consideration of elasticity etc)

Data used in both analysis and evaluation

Data and context used throughout an answer

What is and isn't application?

In these examples, you could replace the country or industry – e.g. Argentina instead of US, or bakery instead of airline - and the economic point would still make sense. This means that it is NOT applied to a specific context, and is 'generic', i.e. it could apply to any context, not just the one given in the question. Therefore this is NOT application.

*The central bank of the **US** could reduce interest rates to stimulate economic growth. This increases consumer spending in the **US** because it reduces the reward for saving and raises the incentive to borrow. Rising consumer spending would cause more **US** economic growth.*

*An **airline** that grows organically could achieve economies of scale. This is because the **airline** could buy more essential materials in bulk, helping to reduce its variable costs. This could make the **airline** more profitable.*

Example question:

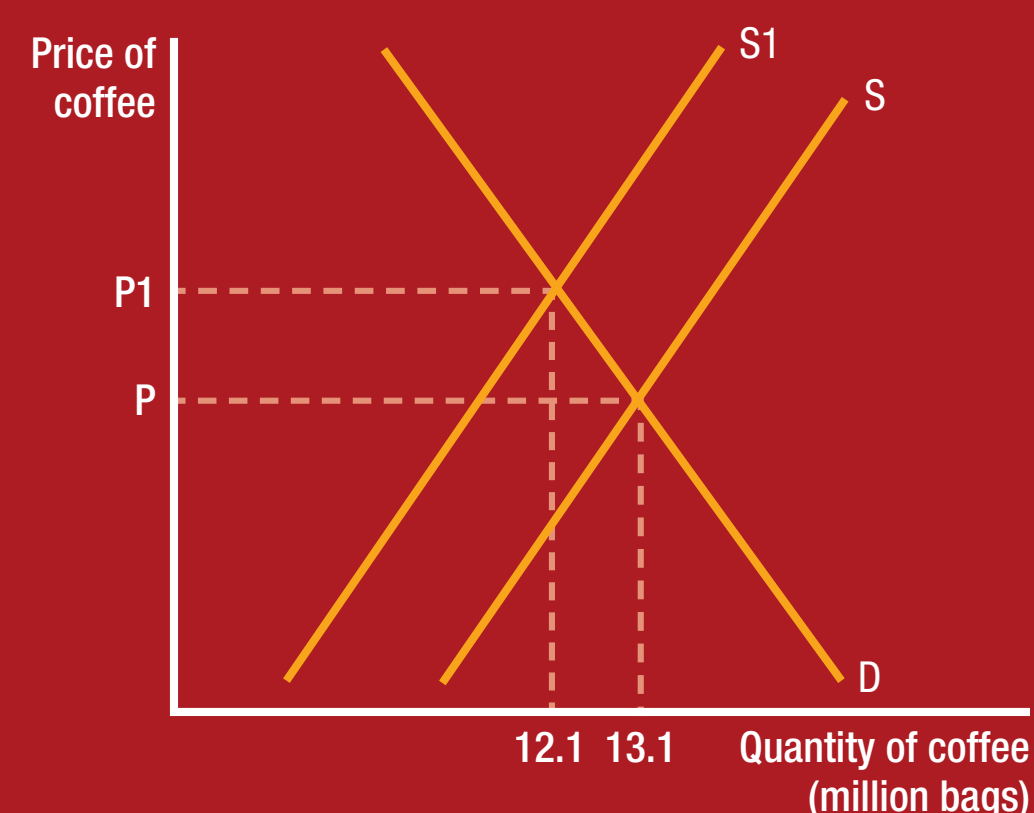
Use this extract to answer the question below:

Workers who pick the coffee beans in Colombia (South America) are in very short supply because of the impact of coronavirus. Santa Isabel has 900 000 coffee bushes and is one of many farms in its province struggling with the impact of labour shortages. The province is short of at least 7,000 workers. This is likely to result in bushes and beans being left to rot on the ground because they cannot be picked in time. Furthermore, the weather has been unusually cold and wet, causing some delays to the harvest. That said, production so far has only fallen from 13.1m bags at the end of 2019 to 12.1m bags at the end of 2020.

With the help of a diagram, explain why output of coffee has fallen by 1m bags compared to 2019.
(9 marks)

Suggested answer

A labour shortage of 7000 workers will cause the supply of coffee to fall, because it results in bushes and beans rotting rather than being picked. Furthermore, the costs associated with more advertising and the poor weather will also cause supply to fall. The impact of these combined factors is shown in the diagram, where supply falls from S to S1. Because demand for commodities such as coffee is relatively price inelastic, the overall impact is a fall in equilibrium quantity albeit not very large.



‘GOOD APPLICATION’ 2

USING YOUR OWN KNOWLEDGE

The exam board specification says this:

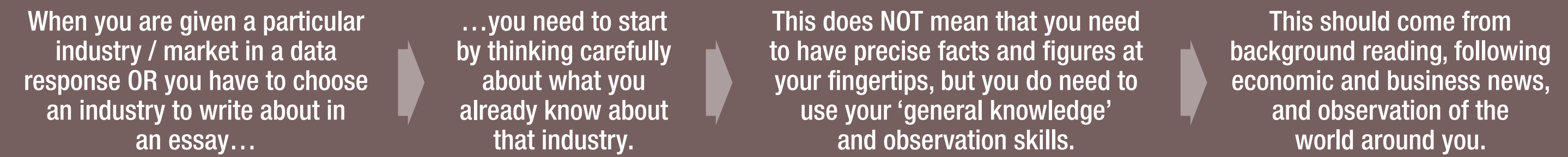
MICRO	MACRO
<i>“Students will need to...demonstrate an awareness of current economic events and policies...drawing on local, national and global contexts”</i>	<i>“Students should develop an awareness of trends in the global economy over the last 25 years through wider reading and research so that they can include relevant examples in their analysis and evaluation”</i>

The importance of your own wider knowledge:

Add more application detail in data response answers	Allows you to select more appropriate points and be less generic
Support better evaluation because it adds weight to arguments	Reach higher ‘levels’ on 25m essays

Examples of past questions:

“Using your own examples” compare behavioural to traditional solutions to market failure	Evaluate the costs and benefits of joining a currency union, such as the Eurozone
Discuss tax/regulation of global tech firms	Assess the view that increased globalisation has been good for the UK economy



Adding ‘such as’ seasoning

Each of these sentences makes a valid economic point, but lacks application. A student who has taken time to build their economic awareness can add a ‘such as’ phrase to add Application to their Knowledge and Analysis.

This is a ‘reasonable’ sentence

Large airlines, for example British Airways, can benefit from economies of scale

UK water companies were privatised in the 1980s because the government thought that there would be many benefits to consumers

Ghana is a coastal country in West Africa, whose government could increase international trade using supply side policies

The UK’s Gini coefficient increased slightly from 34.4 in 2021 to 35.7 in 2022, and this could be due to government policies

In 2023, the youth unemployment rate in Spain was nearly 28%, which could be a result of structural factors

This makes a good sentence!

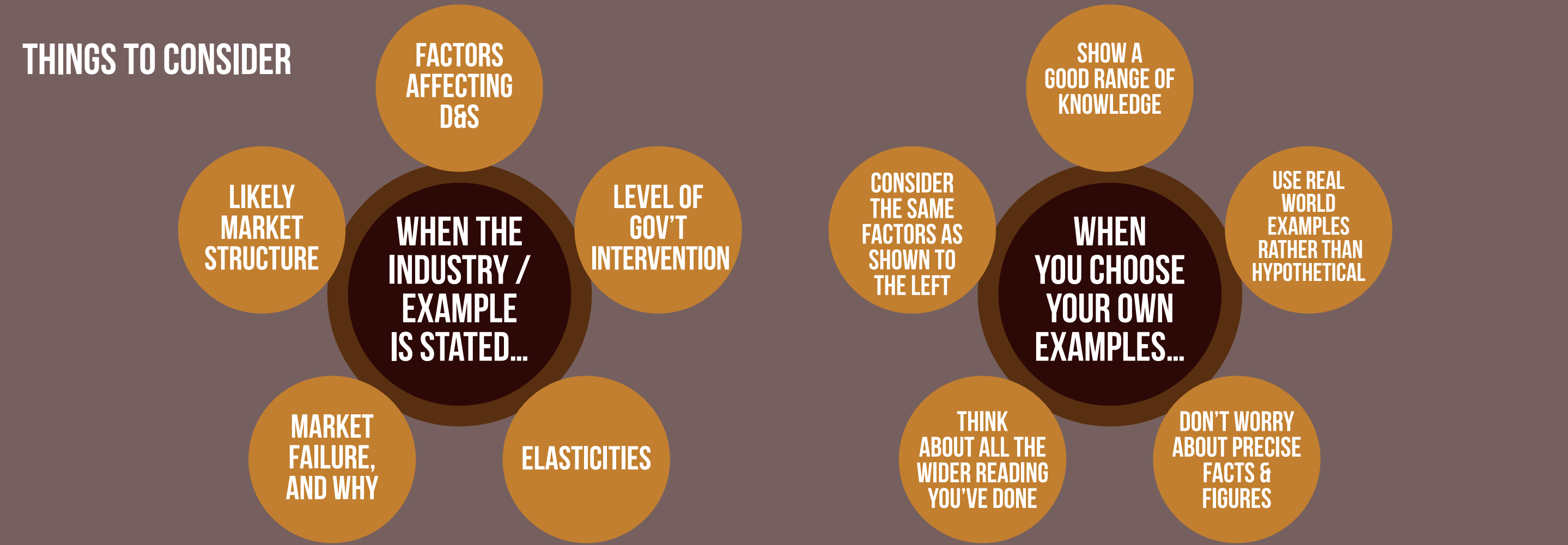
such as bulk buying jet fuel

such as more investment in pipes and sewage

such as building container-ship friendly ports

such as tighter eligibility for claiming Personal Independence Payments

such as highly seasonal work in tourism



GOOD ANALYSIS 1

CHOOSING POINTS TO MAKE

When you need to identify microeconomic and macroeconomics causes or impacts of something, try using POPSICLE and DIGESTIF

- P

Prices
- O

Output
- P

Profit
- S

Structure of the market
- I

Inefficiency
- C

Competition
- L

Labour markets
- E

Externalities/market failure
- D

Development
- I

Inflation
- G

Growth
- E

Employment
- S

Structure of the economy
- T

Trade balance
- I

Inequality
- F

Fiscal balance

Assess the microeconomic impact on the global economy of reduced protectionism	Assess the macroeconomic impact on the global economy of reduced protectionism
Start by identifying the impacts	
MICRO	MACRO
<div>P</div> Price of traded goods may fall because of the lack of tariffs, and the increased pressure to be competitive	<div>D</div> Development may increase in LEDCs because they can sell exports more easily to areas such as the EU
<div>O</div> Domestic production may fall with more competition from imports	<div>I</div> Reduces SRAS > lower price level in importing countries
<div>P</div> Will fall for domestic producers but rise for overseas producers	<div>G</div> More trade > global economic growth
<div>S</div> May be an incentive for domestic producers to merge	<div>E</div> Exporting countries have higher employment
<div>I</div> Pressure to be competitive / mergers may increase productive efficiency	<div>S</div> Enables focus on comparative advantage
<div>C</div> Increase in competition from overseas producers	<div>T</div> Better for exporting countries, less good for importing countries
<div>L</div> Possible loss of jobs in the industry	<div>I</div> If exporting countries are LEDC's, may reduce inequality there
<div>E</div> Impact on monopoly power? Negative externalities of lower employment?	<div>F</div> Less government revenue for importing countries which reduce tariffs

Planning technique: introducing the One Line Answer

- Summarises your response to the question and the answer you are going to give
- Is the basis for planning your answer
- Uses the words from the question, which indicates that the specific question is being answered
- Considers the difference between 'theory' and 'practice'
- For 25-mark questions: introduces some key evaluation themes that can form the basis of the main argument

Some examples:

Discuss the view that the UK government should raise the rate of income tax on high earners

One Line Answer: *Raising the rate of income tax on high earners should, in theory, make the distribution of income more equal and provide more essential funds for provision of social services, but it depends on the extent to which the tax is raised and what we mean by 'high earners' and their role in society.*

To what extent does deregulation lead to rising economic efficiency?

One Line Answer: *The extent to which deregulation leads to rising efficiency depends on whether an industry will become more contestable (e.g. low-cost airlines) or become more concentrated (e.g. bus services) following deregulation.*

★

Exam Gold

Look at past paper questions and try to write a one-line answer for each of them... it's a time-efficient way to get some revision done!

GOOD ANALYSIS 2

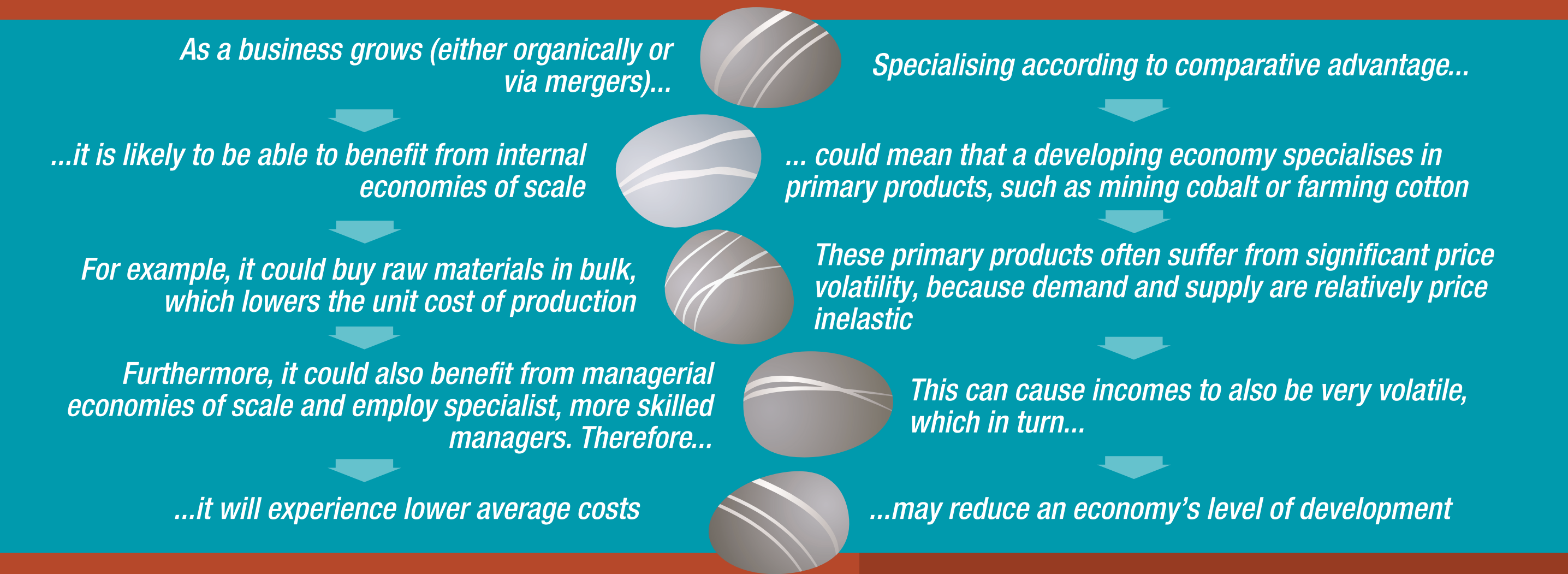
CHAINS OF REASONING FOR 15 AND 25-MARK ESSAYS

Summary of “good analysis”

Key point clearly stated	Clear link between “cause and effect”	Connective words and phrases, resulting in 5 or 6 step chains of reasoning	Reference to assumptions made	Context and evidence integrated throughout the chain of reasoning	One argument / point per paragraph
--------------------------	---------------------------------------	--	-------------------------------	---	------------------------------------

Stepping stones to better chains of reasoning

- These statements make economic sense:
 - “As a business grows, either organically or via mergers, it will experience lower average costs”
 - “Specialising according to comparative advantage may reduce an economy’s level of development”
- But they do not explain how or why the cause (business growth / specialising) leads to the effect (lower average costs / reduced economic development). Therefore they are assertions, with weak or basic analysis.
- A chain of reasoning will provide those links, with stepping stones to support the links in each chain.



Basic to Good analysis: “Explain how globalisation can lead to growth in developing countries”

Basic or Weak Analysis:



Reasonable Analysis:



Strong Analysis:



Building chains of reasoning

Practice building your chains by using this model for analytical paragraphs – one paragraph for each point you are making.

OBJECTIVE -> HOW THE POLICY IMPACTS THE OBJECTIVE (IN THEORY) -> IN THIS CASE... -> BECAUSE... -> SO...

Here is an example of the technique, used to answer this question:

Analyse methods the UK government could use to increase and maintain the rate of economic growth

Policy to be described: reduce the rate of income tax for Basic Rate taxpayers from 20% to 18%

Paragraph element	Details
Objective	Steady economic growth
How the policy impacts the objective (in theory)	Disposable income up -> C up -> AD up (show on a diagram) -> real GDP up -> growth
In this case...	MPC is likely to be fairly high for Basic Rate taxpayers
Because...	They are more likely to spend rather than save, compared to Higher Rate taxpayers who may already have met their needs
So...	The lower rate of income tax could lead to a higher rate of GDP growth fairly quickly, and this should be maintained as long as the rate is held at the lower percentage.

GOOD ANALYSIS 3

BUILDING BETTER ARGUMENTS

There is a huge array of words and phrases that you can use in your economics writing to help you build strong and persuasive arguments that are easy for examiners to follow and that match the requirements for the highest 'levels' in the mark schemes. Here are four different categories to include:

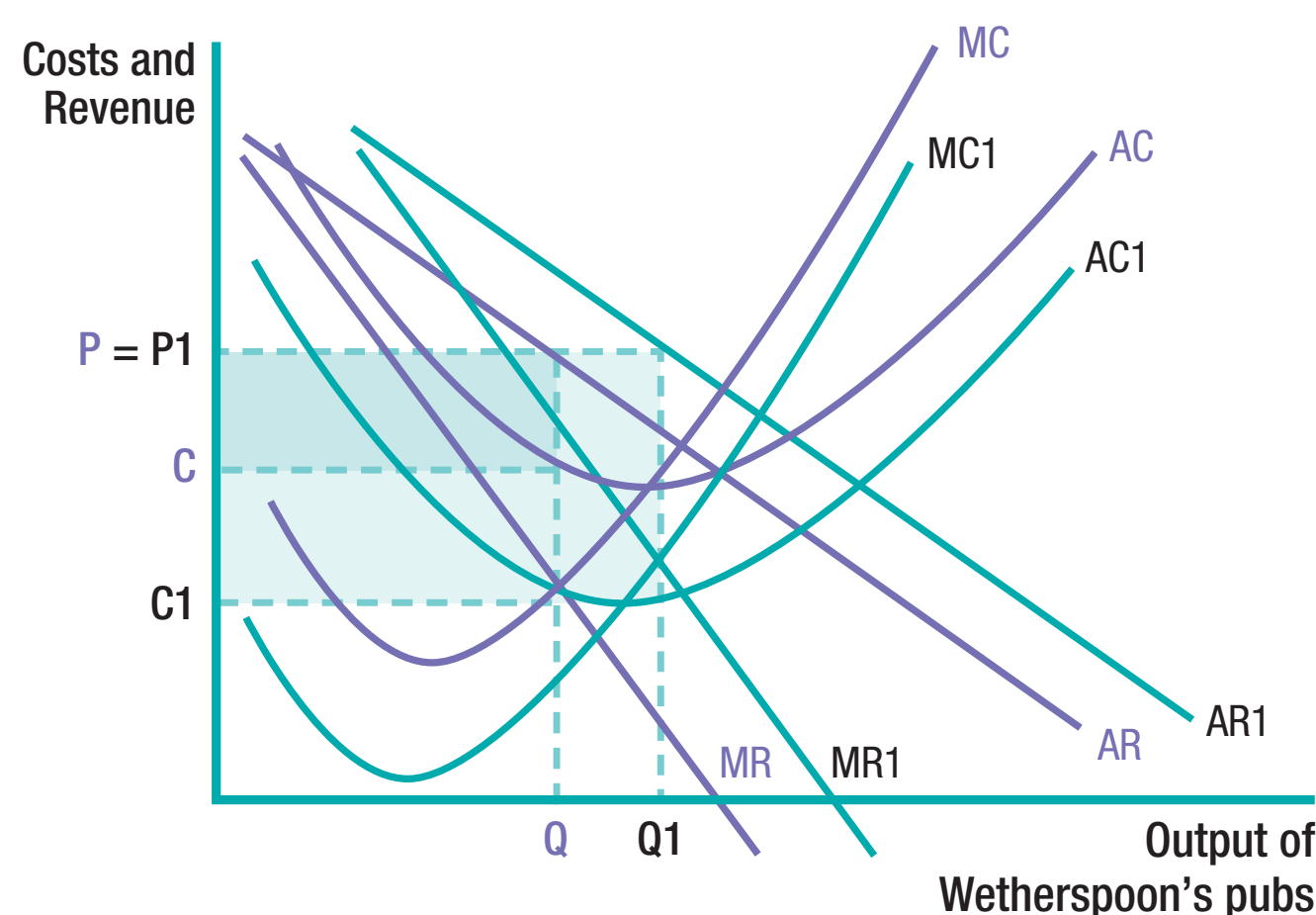
Connectives	Hedging	Technical	Application
<ul style="list-style-type: none"> Used to develop and extend your chains of reasoning Examples include 'therefore', 'as a result', 'in turn' 	<ul style="list-style-type: none"> Used to indicate that you recognise there are different views and approaches Examples include 'typically', 'sometimes', 'might' 	<ul style="list-style-type: none"> Used to show that you have strong A01 knowledge These are the words used by economists rather than the general public 	<ul style="list-style-type: none"> Used to provide a context for your argument, for A02 These can be direct quotes from a case study or examples from your own knowledge

Consider this answer to the question:

Discuss the likely impact on the performance of the pub chain Wetherspoons of its recent partnership with Haven Holiday Parks. (25 marks)

Connectives are shown in orange, Hedging words in green, Technical language in blue and Application in purple

One way in which Wetherspoons' performance could be affected is through higher profits due to lower costs combined with increased demand. Wetherspoons has entered into a partnership with Haven to open pubs on 41 Haven Holiday Parks across the UK, at a total cost of £4m; whilst this might initially seem like a high cost, it is very small in terms of the cost per pub, presumably much less than opening a new pub in a town. Furthermore, it may be the case that Haven will take responsibility for aspects such as security, parking and cleaning; as a result Wetherspoons' operating costs could reduce even further.



This can be seen on my diagram, in which fixed and variable costs have both fallen, and as a result AC and MC shift downwards to AC1 and MC1.

Wetherspoons is known for offering quite cheap drinks compared to other high street pub chains as well as cheap hot meals, often bundling its meals with a drink e.g. its Thursday evening "Curry Club". People on holiday may not want to cook because they want to relax, and they will be in family groups, and may buy several rounds of drinks on consecutive days on holiday. Consequently, we can assume that they will spend quite a lot in Wetherspoons' Haven Holiday pubs. This means that AR and MR shift to the right, as you can see on my diagram. The combined impact of lower costs and higher revenue is a large increase in supernormal profits. You can see this on my diagram as the shaded area to represent supernormal profit is much larger after the changes to both revenue and costs following Wetherspoons' partnership with Haven.

GOOD EVALUATION

First, remember that your evaluation paragraphs must have chains of reasoning, just like your analysis paragraphs.

The best evaluation DIRECTLY ATTACKS THE PREVIOUS ANALYTICAL POINT

If you do not do this, then examiners could treat your attempt at evaluation as another analysis point, which will limit your marks

This means that you need to weigh up the strength or validity of your point, thinking about what it depends on and its likelihood of happening

For example:

Look at the Good Analysis 2 poster which gives an example of a chain of reasoning to explain how a reduction of the basic rate of income tax could lead to stronger GDP growth.

This can lead into a developed chain of reasoning of Evaluation of that point:

What the magnitude of this effect depends on	Marginal propensity to consume (MPC) of basic rate taxpayers
If... then...	If MPC is high, then the effect on growth would be bigger because more of this increased disposable income would stay in the circular flow so the multiplier effect would be greater
So...	The magnitude of the effect of reducing the rate of income tax for basic rate taxpayers could be large, leading to strong economic growth

Basic to Better evaluation – worked example:

Question: **Assess the likely effectiveness of government subsidies to public transport providers in reducing pollution**

Analysis one line answer: A subsidy to public transport providers such as bus and train operators should, ceteris paribus, reduce the price paid by consumers to use these services so that people choose to use them instead of their cars.

BASIC EVALUATION
Subsidies lead to a big opportunity cost for the government.

➡

GETTING BETTER
For example, the money spent on subsidising public transport companies could have been spent on improving road infrastructure which could reduce congestion and also reduce pollution whilst still being convenient for consumers.

➡

EVEN BETTER
Maybe the best way to use subsidies, therefore, is to tax road users more and use the funds to improve roads and subsidise public transport.



One approach to evaluation that can be HIGHLY effective is to think about APE evaluation:

Assumptions	<ul style="list-style-type: none">Question the validity and applicability of the assumptions that underpin the economic theory you used in your analysis
Perspectives	<ul style="list-style-type: none">Think about the impact from different perspectivesFor micro points, you could use the mnemonic PLASTIC - producers, location, age, skills, time, income level, consumersFor macro points you could use the mnemonic TINKER - trade offs, immediacy, Neoclassical, Keynesian, equity, region
Evidence	<ul style="list-style-type: none">Can you think of counterexamples, or data that provides evidence in favour of or against your point?This will help you to reach an overall judgement - vital for scoring in the top marking band/level

Example: *Discuss the view that currency devaluation is an effective policy measure for reducing a trade deficit.*

Possible analysis point:
Devaluation of a currency is a type of monetary policy that can be used in an economy with a fixed / pegged exchange rate system. It is usually achieved by selling domestic currency and buying foreign currency reserves, sometimes in conjunction with lowering the domestic base rate of interest. A weaker domestic currency makes exports appear relatively cheaper and makes imports appear relatively more expensive. The law of demand states there will therefore be more exports bought by overseas consumers and fewer imports bought by domestic consumers, which should cause net trade to increase and reduce the size of the trade deficit, ceteris paribus. Therefore, currency devaluation can be an effective policy measure for reducing a trade deficit.

Evaluation using Perspectives
Some countries have floating systems so it wouldn't work.
Depends on importance of trade to an economy.
Depends on the product – ideal for manufactures but less ideal for primary goods.

Evaluation using Evidence
China has been accused of undervaluing its currency and has strong trade.
UK sells price inelastic exports (financial services, pharmaceuticals) and buys price inelastic imports (food, oil).
Ineffective in Egypt in 2016 as black market currency trading undermined the devaluation.

Evaluation using Assumptions
This assumes the Marshall-Lerner condition applies.
This assumes people are rational but price may be unimportant.
This assumes ceteris paribus, but it depends on other countries' exchange rates.

POLICY PICK'N'MIX MICROECONOMICS

All markets fail and governments have limited resources

Firstly, they need to decide whether it is worth intervening

Then, they need to decide on an appropriate MIX of SPECIFIC policies

Our Policy Pick'n'Mix shows the policies that governments can choose from:



Consider the mix of policies which could be used to solve failures associated with these markets:

- High street coffee shops
- Streaming services
- Railway network



Market failures: monopoly/oligopoly power with dominant firms; negative externalities from throw-away cups

- **Monopoly power** - do nothing, there is already plenty of competition in the market
- **Externalities** - specific tax on the cups; subsidise R&D into alternative materials to use; information campaigns to persuade people to change behaviour



Market failures: information asymmetry with automatic renewal contracts; irrational behaviour with autoplay and binge-watching; some monopoly power

- **Info asymmetry** - regulation to make it easier to stop / pause contracts, to require the same deals to be provided to those already in-contract as those for new customer
- **Irrational behaviour** - regulation to require a clock showing viewing-time
- **Monopoly power** - info provision with better price comparison services; do nothing, it's not a necessity good/service, there is plenty of choice in the market, and it is difficult to enforce regulations in a global market



Market failures: monopoly power on a particular route, very high peak time prices, and overcrowding; positive consumption externalities because public transport removes cars from roads

- **Monopoly power** - nationalisation to be allocatively efficient with lower price and higher supply; easier compensation for delays
- **Positive externalities** - maximum price to cap fares; regulation for minimum service level on frequency, service levels, punctuality

POLICY PICK'N'MIX MACROECONOMICS

All governments aim to improve their economy by meeting a number of macroeconomic objectives – in the UK they would be: sustainable economic growth, control of inflation, high employment, sustainable overseas trade balance, lower inequality, improved public services with balanced budget, improved productivity

The relative importance of each of the objectives depends on the state of the economy and stage in the economic cycle in order to meet the objectives. Each government needs to decide on an appropriate MIX of SPECIFIC policies which fall under the broad definition of monetary, fiscal and supply side policy

Our Policy Pick'n'Mix shows the policies that governments can choose from:



Consider the mix of policies which could be used in the following circumstances:

- A developed economy with low productivity, high government debt and high inflation
- A developing economy with low GDP per capita, poor infrastructure and dependence on primary products



- Incentives for business investment - Quantitative Easing to free up lending to businesses, corporation tax incentives for investors, deregulation and privatisation
- Higher interest rates to target inflation
- Spending on education to improve labour resources in the long run
- Devalue the exchange rate to encourage inward foreign direct investment



- Aid from overseas to spend on infrastructure
- Seek inward FDI in manufacturing industries that can use the primary products produced in the country
- Regulation to prevent capital flight and 'brain drain'
- Strengthen fiscal and financial institutions in the economy to improve global standing