AQA
Questions matter

A-Level
Economics
7136/2 National and International Economy

Report on the examination

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General

Although the Paper 2 is focused on macroeconomics, some microeconomic issues may feature and help enhance students' response to some questions. This year's paper had contexts based upon "The value of the Norwegian Krone" and "The emergence of BRICS+". Approximately two thirds of students opted answer the BRICS+ context questions. In Section B, the majority of students opted for Essay 2, with Essay 3 being the least popular.

Most students managed their time well and wrote answers of an appropriate length for most questions. However, many students wrote much more than was necessary to provide a competent response to the 4-mark context questions.

Accurately drawn diagrams can enhance a student's answer when used appropriately. They can support analysis by assisting the student in providing a clear, focused explanation. This year, many students presented diagrams that were inaccurate and/or not referred to in their written responses.

Recent events meant that a significant number of students introduced protectionism into their answers and presented a standard tariff diagram, sometimes when protectionism was not relevant to the question.

Section A

Context 1

Question 1

Students were asked to calculate how the value of the Norwegian krone had changed compared to the Singapore dollar between two time periods. The question asked the students to give their answer as a percentage and to one decimal place. An important feature of this question was 'how the value had changed'. To gain both marks, students were required to show that they appreciated that the currency had depreciated. Including a minus sign was sufficient.

Question 2

This question asked students to *explain* why the data showed that Singapore had benefitted from managing its exchange rate. Most students referenced relevant data from Figure 2, which illustrated various aspects of the macroeconomic performance of Singapore, Germany, and Norway. However, many did not provide a clear explanation of how this data related to managing the exchange rate. As always, the command word for this 4-mark question was 'Explain'. Many students just quoted relevant data without providing a plausible explanation.

Question 3

The majority of students was able to explain how currency appreciation could contribute to reducing inflation, often accompanied by an appropriate diagram. A diagram illustrating a leftward shift in aggregate demand and/or a rightward shift in short-run aggregate supply was expected. Stronger answers used their diagrams to support well-developed chains of reasoning that explained how an appreciation in a country's exchange rate can help to reduce both demand-pull and cost-push inflationary pressures. Less successful responses either did not present a relevant diagram or focused on the causes of currency appreciation rather than its effects on inflation.

Question 4

This question asked students to assess whether an economy is likely to perform better with managed exchange rate rather than a floating exchange rate. The extracts explain how Singapore has intervened in the foreign exchange market (FOREX) to manage its currency. The extracts also provided a number of clues regarding the pros and cons of the different exchange rate systems. The majority of students explained the difference between free-floating and managed exchange rates, and how a government might intervene in the FOREX to manage its exchange rate. Most were also able to analyse and evaluate some of the main advantages and disadvantages of each system. The benefits of a stable, predictable exchange rate and the consequences for the conduct of monetary policy often featured in students' answers. Less effective responses tended to overlook the clues in the extracts or relied on them excessively without sufficient independent analysis. In contrast, stronger responses made use of the prompts in the extracts, such as referencing the significance of Singapore's status as a global financial centre or Norway's reliance on oil exports.

Context 2

Question 5

This question required students to calculate the difference between the percentage increase in GDP for Japan and the USA, giving the answer to one decimal place. The majority of students was able to do this successfully, with percentage points or % sign as the symbol. A significant proportion of students rounded their answer incorrectly and, as a result, only scored 1 mark. A method mark was awarded to students who included the correct working but made a mistake in their calculation.

Question 6

This question required students to explain how the data in Figure 3 showed that Ethiopia had developed at a faster rate than Japan since 2001. Similar to the responses to Question 2, the majority of students were able to identify and reference pertinent data. However, they often found it more difficult to *explain* how the data showed that Ethiopia had developed at a faster rate than Japan. A minority of students analysed population data which, on its own, did not demonstrate an aspect of development. Those who calculated changes in GDP per capita generally used the data much more effectively.

Question 7

For this question, students were required to explain how inward Foreign Direct Investment (FDI) can affect a country's level of employment. The expected diagram was an AD/AS diagram showing a rightward shift in AD and/or LRAS. Most students were able to relate inward FDI to rising aggregate demand generating more output and the derived demand for labour. More able students explained the multiplier effect and how it would lead to a further increase in employment. Some explained how FDI can create new capacity and hence more employment opportunities.

A minority of students confused FDI with hot money flows. Some others thought FDI meant that governments were investing in other governments. These misconceptions resulted in unsuccessful responses.

Question 8

A significant proportion of students were able to identify and explain several ways in which the growth of the BRICS+ countries might affect the macroeconomic performance of the G7 countries. Common themes included increased global competition, larger export markets, rising commodity prices, and environmental effects. Stronger responses frequently incorporated analysis of both short-run and long-run consequences, demonstrating an awareness of how the effects of the growth of the BRICS+ countries might vary between the different G7 countries. Many students made effective use of AD/AS and tariff diagrams to support their arguments. However, some students devoted too much of their response to the effects of protectionism, presenting an unbalanced answer. Other responses tended to focus primarily on historical aspects of the G7 countries' relationships with the BRICS (in particular China) and didn't consider the likely consequences of the expected future growth of the BRICS+ economies.

Section B

Essay 1

Question 9

Stronger responses began with a clear and accurate explanation of 'the national debt', providing a solid foundation for subsequent analysis. Many students identified an increase in government expenditure or a decline in tax revenues as reasons for an increase in the national debt. The best responses showed that they understood the connection between the government's budget balance and the national debt. Some students explained how falling GDP during a recession, along with a subsequent rise in unemployment, could lead to an increase in the national debt as a percentage of GDP. The least successful responses revealed only a limited understanding of the national debt, with some students confusing the national debt with household debt or a trade deficit.

Question 10

This question required students to assess whether raising direct taxes to fund an increase in government spending is better than raising indirect taxes. Good answers usually started by explaining the difference between direct and indirect taxes, giving examples of each. The most successful answers demonstrated a strong grasp of the relative merits of direct and indirect taxes, incorporating both demand-side and supply-side considerations, as well as distinguishing between short-run and long-run effects. These responses frequently integrated elements of relevant economic theory to support their analysis, such as: the Laffer curve; incentive/disincentive effects; demerit goods and the Lorenz curve. Stronger answers also considered the progressive or regressive nature of direct and indirect taxes.

Essay 2

Question 11

This was the most popular essay question The majority of students showed that they understood the nature of supply-side policies, often supported by relevant examples. The strongest responses provided well-developed explanations of two or three specific supply-side policies and how they might contribute to the achievement of a low, stable rate of inflation. Good answers usually included relevant diagrams and showed understanding of the difference between market-based and interventionist supply-side policies. In contrast, less successful responses tended to include general measures aimed at reducing firms' costs that did not accurately reflect the characteristics of supply-side policies.

Question 12

Although a number of high-quality responses were produced, this question proved challenging for many students. Some students confused 'a low, stable rate of inflation' with 'falling prices'. Stronger answers effectively linked low inflation to macroeconomic stability, confidence and the potential to improve international competitiveness. These responses also showed an appreciation of the differences between low inflation, disinflation, and deflation. In contrast, less successful responses often misinterpreted the question and focused on strategies for reducing inflation. Some students also incorrectly argued, using the Phillips curve, that low inflation causes high unemployment showing a misunderstanding of the underlying economic relationships.

Essay 3

Question 13

Most responses demonstrated understanding of national income data and its limitations as a measure of living standards. The strongest responses addressed a range of relevant issues, including the need to use a common currency and purchasing power parity, the need for adjustments based on population size, the exclusion of informal economic activity, quality of life indicators, environmental degradation and income inequality. These considerations reflected a well-rounded appreciation of what affects living standards and the limitations involved in using national income to measure the standard of living. Less successful responses just listed a few limitations without explaining why and how they affect the accuracy of national income as a measure of differences in living standards between countries.

Question 14

The majority of students who attempted this question demonstrated sound understanding of the concept of economic development and the distinction between interventionist and market-based strategies. Many answers concentrated on trade protection measures, particularly tariffs, which, although relevant, meant that the response had a narrow focus. The most effective answers presented a coherent and well-supported argument based on a realistic assessment of the pros and cons of interventionist strategies. In contrast, less successful responses often struggled to differentiate clearly between policies requiring government intervention and those relying on market forces, resulting in confused, or inconsistent, analysis and evaluation. Some of the less successful responses did not appreciate the characteristics of LEDCs and how they might affect the efficacy of some policies. Other less successful responses focused on growth rather than economic development.

Mark Ranges and Award of Grades

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