Questions matter

A-Level
Economics
7136/3 Economic Principles and Issues

Report on the examination

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Section A – Multiple Choice

General

Multiple-choice questions assess quantitative skills, including the interpretation of diagrams, and assessment objectives AO1 (Knowledge and understanding), AO2 (Application) and AO3 (Analysis). Multiple-choice questions do not assess AO4 (Evaluation). The quantitative skills are listed in Section 7 of the subject specification and the assessment objectives are included in Section 5 of the specification.

Students are awarded one mark for each multiple-choice question they get right. Marks are not deducted for a wrong answer. If a student selects two answers, they are not awarded a mark, even if one of the answers is correct (the key). A small minority of students did not provide answers for some questions and others selected two or more answers.

The mean facility for the multiple-choice questions in Section A was just under 50%, almost identical to the mean facility in 2024. There was one 'easy question' with a facility of over 80% and eight 'difficult questions' with a facility of 30% or less. The 'easy question' was Question 2 and the demanding questions, with a facility of 30% or less, were Questions 8, 10, 11, 12, 16, 18, 25 and 29. All the demanding questions had a prominent distractor. A question has a prominent distractor when one of the distractors is more popular than the key.

The eight most demanding questions are considered below.

Question 8

Over 60% of the students selected response A and approximately 30% selected response C, the correct answer. Students who selected response A did not understand that to calculate normal profit, all costs, including the cost of capital, have to be deducted from total revenue. In this question, the opportunity cost of the capital invested in the business was £300 000 x 0.35 = £105 000. Hence, normal profit was £550 000 - £475 000 = £75 000.

Question 10

It was surprising that just under half the students selected response A and only around a quarter chose the correct answer, response D. Those that selected response A confused the multiplier process with the accelerator process.

Question 11

Just over a quarter of the students selected the key, response D, but the most popular choice was response C. The number of students selecting the other responses was similar. At point D on the diagram, the rate of unemployment is rising, a characteristic of a recession.

Question 12

Just over a fifth of the students selected the correct answer, response C, whereas over 50% chose response B. The absolute difference between Finland's HDI and the UK's HDI is 0.011 but this means that Finland's HDI is more than 1.1% higher than the UK's HDI. GNI per capita is the missing dimension from the HDI data in Table 3. Ireland's HDI is higher than Finland's HDI but its performance on the other dimensions is the same or worse than Finland's performance on these dimensions. Therefore, Ireland must have had a higher GNI per capita than Finland.

Question 16

Almost a quarter of the students selected response B, the key, whereas just under half selected response C. Response C is incorrect because in each quarter the unemployment rate increases whereas the inflation rate in Quarter 3 was lower than the inflation rate in Quarter 2. The relationship between the change in inflation and unemployment rate was not positive in each quarter. Response B is correct because although the unemployment rate increased throughout the year, the inflation rate (calculated by the percentage change in the index of consumer prices) fluctuated.

Question 18

Just under 30% of the students selected the key, response D, whereas just over 30% selected response A. Those who selected response A did not appreciate that, other things being equal, a low liquidity ratio and low capital ratio are likely to enable a bank to earn higher profits than a bank with higher liquidity and capital ratios. Liquid assets are unlikely to generate much revenue for a bank and having a low capital ratio allows a bank to provide more loans to customers for a given amount of capital. Lending generates income and hence profits for a bank.

Question 25

Given the recent attention that has been given to tariffs in the media, it was surprising that very few students selected the correct answer to this question. Just over 5% chose response D, the key, whereas nearly half the students selected response C. Students who selected response C did not understand that the tariff revenue goes to the government of the country that imposes the tariff, it is not paid to the overseas firms selling imports. In Figure 8, the amount spent on imports before the tariff was US$20 x 375 million. After the tariff, Figure 8 shows that imports fell from 375 million units to 115 million units. The price paid to the overseas suppliers of imports has not changed and therefore, the amount the country has to pay to the rest of the world for its imports is US$20 x 115 million. Hence, the change in the amount the country has to pay to the rest of the world is US$5200 million.

Question 29

Just over a quarter of the students selected response A, the key, whereas it is surprising that over half the students chose response C. Whilst it is true that inflation means that prices on

average have increased, it does not mean that the price of all goods and services has risen. Even when the rate of inflation is high, it is likely that the price of some products will fall. Response A is correct because inflation leads to a fall in the real value of existing debt. Many students did not appear to understand what is meant by 'real terms'.

Section B – Investigation

General

The mean mark for the investigation was around 27, one mark higher than in 2024. The overwhelming majority of students managed their time well, but a small minority spent too much time on Question 31, often including material that was not relevant, and did not leave sufficient time for Question 33.

As in some previous years, a significant number of students did not understand when it was appropriate to use a demand and supply (D/S) diagram and when an aggregate demand and aggregate supply (AD/AS) diagram should be used. When the wrong diagram was used, it displayed a weakness in the application of knowledge and understanding. Students should understand that an AD/AS diagram is used when illustrating the economy as a whole but if they are using a diagram to illustrate a particular market, or industry, such as the market for batteries or motor vehicles, they should use a microeconomic D/S diagram.

As always, the extracts in the Insert included some numerical data. The paper is designed to assess students' competence in quantitative skills that are relevant to economics. Some students used the numerical data well, but a significant minority quoted figures inaccurately or did not use the data appropriately. A common error was to ignore the units, for example, pounds or thousands.

Accurate use of economic terminology contributes to the effective communication of ideas. Whilst many students were fluent in their use of economic terms, others defined terms incorrectly or did not use the correct terminology when describing, analysing or evaluating aspects of the questions. For example, the phrase 'the balance of trade increased' was often used in students' responses and is an example of where better use of economic terminology would have led to more effective communication of meaning.

Some students made extensive use of the prompts in the extracts when answering Questions 32 and 33 but others neglected to do so. Whilst using the extracts should support students in responding to questions, good answers included focused application of economic principles to provide meaningful analysis and evaluation of the points raised.

The writing of a few students was illegible in places. Examiners make every effort to read every part of every student's response to questions but if what has been written cannot be read, it cannot be credited.

Question 31

This question asked students to assess the extent to which the contribution that the automotive industry makes to the UK economy has declined significantly since 2015. They were directed to make use of the quantitative data in Extract B to support their assessment. As well as assessing all four AOs, including evaluation, the level achieved, and hence the mark awarded, was, in part, determined by the student's ability to make effective use of the numerical/statistical data in Extract B. Students who persistently quoted the data inaccurately were not using the quantitative data effectively. It is surprising how many students stated, for example, that the number of passenger cars produced in the UK had fallen from 1587.7 in 2015 to 905.2 in 2023. Some of the better responses calculated and quoted some of the percentage changes over the period, for example, stating that production had fallen by 43% and employment had fallen by 2.4%. Those who calculated the percentage changes were in a better position to support their assessment of the *extent to which* the contribution of the automotive industry to the UK economy had declined.

Some students discussed the decline in the automotive industry but did not make an explicit attempt to assess the *change in the contribution to the UK economy*. Depending on the other qualities demonstrated, such answers were rewarded but were unlikely to get into Level 3.

There were two main ways in which students linked what had happened to the automotive industry to its contribution to the UK economy. The first was by applying aspects of economic theory. For example, by explaining that exports are an injection into the circular flow of income and analysing the likely impact of the 41.9% fall in exports of passenger cars on UK national income and employment. The second approach was to compare the numerical data for the automotive industry with the data for the whole economy. For example, some calculated that the gross value added by motor vehicles as a share of UK GDP had fallen from 0.779% in 2015 to 0.629% in 2022. They used this to support their judgement that the contribution of the automotive industry to the UK economy had declined. Others considered the significance of the £3284m increase in the deficit in the balance of trade in motor vehicles compared to the £63495m increase in the overall deficit in the UK's balance of trade in goods.

Good answers included a final judgement, bringing together the different issues already discussed to support their assessment of the extent to which the contribution of the automotive industry had declined since 2015.

Most, but not all, students attempted to identify how limitations of the data might have affected the reliability of their judgement. Some limitations identified were invalid, some were trivial, but others were significant. A significant limitation, mentioned by some students, was that some of the data only included cars or motor vehicles and therefore might provide a distorted picture of the changes in the whole of the automobile industry and hence its changing contribution to the UK economy. An unconvincing limitation was that the fall in employment might disguise a substantial increase in labour productivity, perhaps due to an increase in investment. Given that production had fallen by 43% and employment had only fallen by 2.4%, it is implausible that an increase in labour productivity meant that the fall in employment did not reflect a decline in the industry and its contribution to the UK economy.

Question 32

Good responses to this question usually started with an explanation of what is meant by 'the balance of trade'. However, some definitions were inaccurate or imprecise. A common error was to say that it was the difference between the number of exports and the number of imports, instead of the difference between the values of exports and imports.

Extract C included a number of prompts which students could use and develop. However, they were also rewarded for explaining how factors not mentioned might affect the balance of trade in motor vehicles. A common example was the introduction of tariffs and other trade restrictions in major export markets, such as the USA. Some students included diagrams, but they were not always accurate or used effectively. Too many students drew an AD/AS diagram to represent the market for motor vehicles and talked about the aggregate demand and aggregate supply of cars.

As required by the question, most students identified more than one factor affecting the balance of trade in motor vehicles. However, the mark awarded was determined by their ability to apply relevant economic principles and to develop a logical chain of reasoning to explain how each factor identified was likely to affect the balance of trade. Where appropriate, the best answers explained how the relevant factor was likely to affect both exports and imports and included a 'punchline' explaining the impact on the balance of trade.

Some answers drifted into an unfocused explanation of how the balance of trade affects the macroeconomy, wasting time and detracting from the overall quality of the response. The inclusion of a kinked demand curve diagram and discussion of price stability in oligopolistic markets were other largely irrelevant aspects of some responses.

Question 33

Many students included a demand and supply diagram to illustrate the effects of providing a subsidy but only a minority stated whether the diagram represented the market for batteries or EVs. Often, the linked explanation suggested that their diagram represented the market for EVs when the question was about subsidising the production of batteries. Only a minority of students analysed the relationship between the markets for batteries and electric vehicles (EVs). Consequently, attempts to explain how subsidising gigafactories affected the market for EVs was sometimes muddled. Some students incorrectly used an AD/AS diagram to represent the market for batteries and/or EVs.

Many responses recognised that environmental concerns have driven the growing demand for batteries and help to support the case for the UK government subsidising gigafactories. However, the use of marginal cost/marginal benefit (MSC/MSB) analysis to support the case for government intervention often contained errors and/or was incomplete. Many asserted the EVs create positive externalities in consumption and alleged that EVs are a merit good. If done well, the positive externality argument was given some credit, but the attempted analysis was often confused. Relatively few students explained how subsidising the production of batteries would reduce the price of EVs, helping to lower the demand for petrol

and diesel vehicles, reducing the negative externalities generated from the consumption of these vehicles. A number of students drew MSC/MSB diagrams and some attempted to use the diagram to illustrate how a subsidy might correct market failure. This was not always done well. Externalities resulting from transporting and manufacturing batteries were sometimes discussed.

Many students explained that attracting firms to set up gigafactories in the UK would create jobs and referred to the JLR example in Extract D. Some recognised that the investment would represent an injection into the circular flow of income, drew an AD/AS diagram and analysed possible multiplier effects. A few also mentioned that it would increase the productive capacity of the economy and illustrated this by shifting the LRAS to the right. The argument that it would increase inflation was not very convincing.

The reference in Extract D to the UK's national debt and budget balance was frequently highlighted and used to support the case against providing subsidies. However, the extent to which this argument was developed varied markedly. The opportunity cost of providing subsidies was often discussed. The likelihood of higher taxes and possible crowding-out effects were also considered by some students.

Prompts in Extract D were used to initiate discussion of the possible benefits to the balance of payments and national security. However, a number of lower-scoring responses muddled the effects on the balance of payments with the effects on the budget balance and the national debt.

Good answers used the prompts in Extract D to help them construct a well-organised response that used economic principles to analyse and evaluate a selection of arguments for and against the government continuing to subsidise firms to encourage them to set up gigafactories in the UK. They finished with a conclusion that included a final judgement supported by bringing together and weighing up the various arguments presented.

Conversely, some low-level responses made little use of Extract D while others identified relevant issues but did not develop them. Most of the low-level responses included a final judgement but the judgement was merely stated and not supported.

Mark Ranges and Award of Grades

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