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# **GCE EXAMINERS' REPORTS**

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**GCE (NEW)  
ECONOMICS  
AS/Advanced**

**SUMMER 2018**

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**ECONOMICS**  
**General Certificate of Education (New)**  
**Summer 2018**  
**Advanced Subsidiary/Advanced**  
**AS ECONOMICS**

**Overall summary**

The 2018 AS Economics papers worked very well in terms of discriminating between candidates. This is shown by the high levels of standard deviation in both Unit 1 and Unit 2. The key challenge for all candidates in both units is to apply their economic knowledge to unfamiliar situations. Candidates who view economics as a purely theoretical subject generally performed poorly - especially where questions have cut across specification areas or where contexts are non-textbook. Often these candidates use throwaway, generic evaluation points in discuss questions such as 'it depends' or 'these policies are expensive' ... such evaluation gained few, if any, marks and are likely to attract even less in the future.

The best candidates frequently displayed the following skills:

- Evaluation. This was a particular weakness this year. In Unit 1, a number of candidates struggled to evaluate the effectiveness of tariffs on unemployment in Q19 and offered fairly limited responses in Q17(c) on factors affecting wage growth. In Unit 2 Q1(c) many candidates simply didn't acknowledge the other side of the argument whilst in Q2(c) candidates found it difficult to evaluate SSPs in terms of investment.
- Could use the data to support their judgements. For example, in Unit 2 Q2(d) and Q2(e), assertions about the likely effects of fiscal and monetary policy needed to be justified by linking back to the data, which had lots of hooks.
- Understood all areas on the specification. It was clear from Unit 1 Q19 (tariffs) and Unit Q1(f) (tradeable pollution permits) that candidates who had revised, and understood, all elements of the specification were not caught out in the examination. Both questions were written to be highly accessible; both questions had decent mean scores but the standard deviations were very high, showing that they were very polarizing questions.
- Knew their billions from their millions. Candidates must be exposed to more 'real' numbers and start to become more familiar with what looks like an appropriate number for things like GDP, average wages and budgets. Those that are confident with looking at numbers and judging whether it 'feels right' quickly, can move on quicker.
- Were adept at all quantitative questions on the paper.

# ECONOMICS

## General Certificate of Education (New)

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#### UNIT 1: INTRODUCTION TO ECONOMIC PRINCIPLES

##### General Comments

There was certainly no indication of any great time pressure with regards to Unit 1 and almost everyone made an attempt. The facility factor was relatively constant, indicating that each question was at a similar level of 'easiness' than the one before. The mean average score was 33/55 (60%) but the standard deviation is relatively high, which indicates that this paper was very good at pulling candidates apart.

##### Question specific comments

##### Questions 1-15

This was the third time that multiple choice had appeared on a WJEC Economics exam. Candidates for 2019 will now have a bank of three past exam sets to refer back to in their revision. The mean score this year was 9.4 out of 15 (last year it was 11) and carried a standard deviation of 2.9 indicating that this set of MCQs discriminated very well. This year there was a good blend of knowledge based questions and highly contextual (data-based or diagram-based) questions too.

##### Question 16

Q16 discriminated very well. The mean score was 3.1 (surprisingly low perhaps) and the standard deviation was 1.8. The question did highlight real weaknesses in many candidates' understanding of division of labour both as a term and also its effects on the PPF.

##### Question 17

Overall, Q17 was the 'easiest' question on Paper (facility factor of 63.4).

Q17(a) was a relatively straight-forward supply and demand analysis of labour markets, in which most candidates scored top marks. If they did not, it was most likely a diagrammatical error.

Q17(b) was designed to challenge the candidates' ability to describe data trends. This was the first time such a question had been asked on this paper. Like Q17(a), however, most candidates scored top marks. If they did not, it is likely that they did not use the data well enough in support of their descriptions.

Q17(c), in contrast to (a) and (b), was answered quite poorly and very few candidates received full marks. In particular, the question highlighted that many candidates were not confident with the term 'economic growth' and they also showed a lack of evaluative skills, necessary for the AO4 element.

### **Question 18**

Q18(a) asked candidates to calculate an exchange rate change (%) from a set of data. Many did this well – although a surprisingly large number could not identify that the US dollar was depreciating rather than appreciating.

Q18(b) was a relatively straight-forward calculation, in which candidates needed to re-arrange the PED formula. Many succeeded. A lot did not respond to the command word: calculate.

Q18 (c) was, again, a relatively straight-forward analysis (no evaluation required!) linking exchange rates to imports/ exports.

### **Question 19**

Q19 was a really polarising question. Marked out of 9, the mean score was just 5 but carried a standard deviation of 2.4. It really pulled candidates apart. In essence the question was set-up to be fairly open and any candidate with a good knowledge of tariffs (advantages and disadvantages) should have done very well here. Indeed, many did. But, on the other hand, it is clear that a number of candidates simply did not have the required level of understanding. A great many could not draw the diagram accurately and many did not evaluate well.

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### UNIT 2: ECONOMICS IN ACTION

#### General Comments

The facility factors suggest that Data 1 (plastic bags) was much more accessible than Data 2 (Brazil). This is further evidenced by the mean scores: 23.5/40 for Data 1 and 20.5/40 for Data 2. These numbers are extremely similar to last year.

There are some signs of timing issues. The attempted % rate for Q1(f) and 2Q(e) are quite low (96.1% and 97.3% respectively). In the case of Q1(f) this may be more to do with understanding of the subject matter.

#### Question specific comments

##### Data 1

Q1(a) asked candidates to use their own mathematical example in order to justify the idea of regressive levies (though the term 'regressive' was not required at any stage). In general, candidates dealt with this slightly unusual approach very well. The best answers explained that people from different income groups still bought similar numbers of plastic bags and did not focus their calculation on the purchase of 1 bag only. Not that it made any difference to candidates' marks, but this was a rather revealing question in the sense that many candidates clearly do not have a good appreciation of UK average wages.

Q1(b) was a relatively straight-forward question (it had the second-highest facility factor on paper 2). Candidates had learnt the concept of perfectly elastic supply well and applied it well to the data.

Q1(c) discriminated very well. The mean score was 3.3 (surprisingly low perhaps) and the standard deviation was 1.5. Many candidates did not appreciate the need to evaluate from the command word consider.

Q1(d) was meant to be much simpler. Candidates generally applied very well and could identify negative externalities from the text. In addition, they defined market failure well and had decent knowledge of relevant economic terminology. The discriminating aspects were the diagram (which was, on the whole, done well), and the higher-order analysis which required candidates to talk about market failure in terms of socially optimum levels and MSB/MSC etc ...

Q1(e) was a very positive question. It carried a high mean score (6.7 out of 10) and a high facility factor. In general, candidates understood a tricky topic (government failure) well and applied really well to the data. If anything, it was usually the evaluation elements that restricted candidates from getting full marks.

Q1(f) was a very open question on tradeable pollution permits. There was no application required; it was an advantages v disadvantages 8-marker. The mean score for Q1(f) was just 4.1 and it has the lowest attempt % at 96% (meaning 4% of candidates simply didn't bother with it!). Given that this question is in the middle of the paper, this was not a timing issue. Instead, it highlights the fact that many candidates did not revise this topic well enough.

## Data 2

Most candidates gave Q2(a) a good stab and many will have gained good marks. The issues in the data were clear and the question simply required candidates to be able to illustrate those issues on an AD/AS diagram. Completed well overall.

Q2(b) a standard percentage calculation, which few people got wrong. Again, WJEC Economics is committed to specifying how many decimal places are required in similar questions in the future. Candidates should make sure they are comfortable with numbers in the billions and millions. Again, this question was quite revealing in the sense that many candidates do not have a satisfactory appreciation of the sorts of GDP figures they might expect.

Q2(c) supply-side policies are a perennial problem. In this question, candidates had the added difficulty to applying SSPs to the issue of investment. That said, there were lots of 'hooks' in the data and candidates with a robust understanding of SSPs will have found the application to Brazil relatively straight-forward. On the other hand, many candidates still find SSPs very tricky to discuss. The difficulty is not just limited to evaluation (although that is a real problem as well), but the articulation of what an SSP is/ is designed to, poses serious problems too. This question had the lowest facility factor of all questions across the 2 papers (meaning it was the 'hardest'). It also had a standard deviation of 2.7, indicating that those candidates who did well here really did have an advantage over others.

Q2(d) This question was very pleasing. Candidates are required to know about fiscal policy and the largest elements of the budget and, in general, they made very sensible conclusions about both policies. Candidates could have linked their analysis to any macro-objective in this question. Yet again, however, it really is apparent that candidates do not have satisfactory understanding of real values such as the difference between billions and millions and which is more likely when talking about GDPs and budgets.

Q2(e) Like Q1(f), was a very open question on interest rates with a loose application to Brazil. There were a lot of hooks in the final 2-3 sentences in the data which were meant to give the candidates a jump-off point. As ever, the last question on a paper poses its own problems due to candidates running out of steam. Many answers were a bit bland and not well applied to the case-study despite the hooks, and many simply didn't go through enough points. Candidates did not need to go through all four strands of the transmission mechanism but only ever talking about consumption v saving is not a satisfactory analysis for 12. The best answers attempted to justify an answer one way or the other.

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#### UNIT 3: EXPLORING ECONOMIC BEHAVIOUR

##### General comments

- There was considerable improvement in AO2 / application skills in this 2018 paper, compared with 2017. No doubt this is due to centres finding their feet a little more with the new specification, and acting quickly and carefully on the feedback provided in the 2017 examiners' report. Centres are to be congratulated for being so responsive.
- As with the 2017 paper, quantitative skills continue to prove challenging for many candidates, despite the vast majority of such skills being Key Stage 3 / 4 skills. The list of skills required is provided in the appendix to the specification; it appears that, in doing a good job of teaching economics content / theory, some centres are not managing to help candidates review and practise their essential quantitative skills. A lack of numeracy / calculation skills could have meant that some candidates would lose 10% of the marks on this paper.
- Some candidates are still struggling to respond appropriately to command / directive words, in particular the command word 'assess'. This command / directive word requires candidates to evaluate.
- Nearly all candidates appeared to finish the paper in the time available very comfortably, which was also an improvement on the 2017 paper.
- The inclusion of continuation sheets at the end of this year's exam booklet proved popular with candidates and examiners, negating the need for much extra paper.

##### SECTION A

###### Question 1

The majority of candidates were easily able to identify the levels of output at which abnormal profit was made, for part (a). Part (b) proved more challenging for some candidates – many calculated average total cost rather than average fixed cost.

Part (c) provided candidates with a real chance to differentiate themselves from others in terms of their level of understanding of market structure theory. It is not good enough for candidates to have simple knowledge / recall of theory of the firm aspects; it is vital that they enter the examination hall with real understanding. Very few candidates scored above 2 marks (which they achieved for recognising that firms in perfect competition can only earn abnormal profits in the short run) and completely missed the information provided regarding revenue.

###### Question 2

This was an accessible question on which many candidates performed very well. The main error seen by examiners was candidates writing 'monopolistic market' instead of 'monopolistically competitive market'. In most cases, this was given 'benefit of the doubt', due to the subsequent explanation provided by candidates, but incorrect nomenclature in

future exams may not be so generously awarded depending on the context of the question. A number of candidates who easily picked up the AO1 / AO2 / AO3 marks failed to respond appropriately to the command word 'assess', and therefore were not awarded any evaluation marks.

### **Question 3**

Very few candidates even attempted the calculation in part (a). Those that did often calculated a very odd number adding together the unemployment rate plus the inactivity rate. A number of candidates clearly forgot to take a calculator into the exam room.

Question 3 (b) proved very challenging for some centres, in which the whole cohort of candidates appeared to have no understanding at all of an Optimal Currency Area. This is the second year running that a lack of understanding of an OCA has held back candidate marks. Centres are reminded that they must adapt their schemes of work and notes to the new specification – this topic was added into the specification compared with the old specification. Those candidates that did understand OCAs scored very high marks.

### **Question 4**

It was quite astonishing to see how many centres appear to be teaching the old version of the HDI, rather than the version updated several years ago, which is a combined index of expected years of school for primary children / years of schooling for adults, life expectancy at birth, and GNI per capita. Literacy rates are not part of the HDI. Neither is inequality, and neither is wealth. This was intended to be a very straightforward question, but the lack of basic accurate knowledge from candidates was a real shame.

### **Question 5**

This question was generally done really quite well. Most candidates were awarded 2 marks for part (a) by describing changes in both passenger kilometres and passenger journeys. Those who struggled with this question were obviously a little thrown by seeing a chart presented in a different way to those that they might have previously come across. Centres are encouraged to put data / charts in front of their students on a regular basis.

Many candidates did an excellent job with part (b) of this question, combining evidence with theory. Those candidates that did not too so well were lacking one of those component parts i.e. either providing excellent theory but no use of the case study / data, or simply rewording the case study and neglecting economics. Many candidates considered the gains from being a natural monopoly provider of rail services or having different objectives to profit maximising private train companies for their analysis, and then considered government failure for their evaluation.

### **Question 6**

It was surprising how few candidates were able to define GDP per capita at PPP. A suggestion for centres is to encourage students to develop glossaries / vocab books, covering every term used in the specification, and to practise these on a very regular basis. For part (b) most candidates simply described the data provided (which they generally did very well) but then forgot to use any economics to explain why aid might lead to rising GDP per capita at PPP, and then evaluate that. The best candidates showed that they understood what was meant by aid, recognised that the data for both Botswana and Ethiopia show a slightly different relationship between the two elements, used a diagram to show rising AD/LRAS and then evaluated by considering the view that we would need more data to make a proper assessment and that we cannot infer a causation from a correlation.

## **SECTION B**

### **Question 7**

A significant number of candidates could not do this numeracy question, which required no more than basic Key Stage 3 maths skills. Examiners were extremely flexible in awarding different interpretations of 'proportion' but that still did not elicit many correct responses.

### **Question 8**

Most candidates were awarded all of the AO1 and AO3 marks for this question, but could not access the two AO4 marks available because they did not respond to the word 'assess' and therefore provided no evaluation e.g. why GDP per capita may be good for measuring living standards. The most frequently mentioned aspects were that GDP per capita does not take into inequality, nor 'black market' or 'shadow economy' activity.

### **Question 9**

There were some excellent responses to this question, although the majority of candidates wrote far too much for a 6-mark question! A couple of relevant data references (e.g. inequality, building of infrastructure, problems from over-reliance on coal and steel) combined with one argument in favour of globalisation and one argument against would have been sufficient. Some candidates forgot to evaluate, and others failed to include any data / evidence.

### **Question 10**

Candidates that simply answered the specific question asked scored very high marks. However, a significant number of candidates analysed the general macroeconomic impacts of more capital spending and more current spending rather than considering the impact on inequality, which was what the question was asking them to focus on. For the most part, the use of data was excellent, and was well integrated into answers – there was a huge array of possible examples that could have been used here.

### **Question 11**

There are some key learning points for most centres in relation to this question – very few candidates scored full marks for what should have been a very straightforward question. Key issues to note are:

- Candidates must be able to use their AS knowledge in global contexts for the A level course – this is clearly indicated in the specification.
- Diagrams should always be targeted towards the specific market in the question; in this case, that was labour markets, and so axes should be labelled 'wages' and 'quantity of labour'.
- At A level, candidates should be able to explain why prices / wages might alter when there is a change in demand or supply, rather than merely writing in words what is shown on their diagram. The best candidates were those that wrote something along the lines of 'in inland areas of China, as workers leave, the pool of available labour decreases and so they are able to bargain up their wages' or 'in coastal China, if wages did not fall after the influx of workers, then there would be excess supply of workers – workers will therefore accept lower wages'.
- The question clearly asked for diagrams (plural!) rather than a diagram (singular) – therefore two diagrams were expected (although two shifts on one diagram to illustrate the difference between coastal and inland China were accepted).

## Question 12

The theoretical ground covered by candidates in their answers to this question was generally very good. Marks were lost, for the most part, as a result of failing to consider the Chinese aspect, as required by the question. Question 11 gave many candidates a good steer here, in terms of free market forces and the impact on migration / wages evening out, and the majority also discussed the impact of the *hukou* system, and white elephant projects such as the government housing project at Ordos.

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#### UNIT 4: EVALUATING ECONOMIC MODELS AND POLICES

##### General comments

- Candidates used an interesting array of diagrams in their answers, taken from across the full A-level course, which was very pleasing to see. However, there were cases in which candidates from entire centres mis-labelled axes (e.g. using price and quantity in macro AD/AS diagrams rather than price level and real GDP), or consistently mis-labelled curves (e.g. LRAC instead of LRAS).
- There was, as ever, continued confusion amongst candidates regarding the difference between budget deficits/surpluses and current account deficits/surpluses; this was not only in the Section C essay question regarding current account surpluses but throughout the exam paper e.g. in relation to the impact of falling unemployment
- A significant number of candidates wrote, in their answers to a number of questions, that if tax revenue rises then government spending will rise – there is no relationship between G and T in this sense. Governments may simply accept running a budget surplus, or repaying debt interest.
- The best answers across all questions were, generally, those that used real-world examples and data to assess the credibility of the theoretical points that they were discussing. Some centres have clearly done a fantastic job in helping candidates to apply their economics to the world around them – economics is not a subject that can be learned merely from textbooks.

##### SECTION A

###### Question 1a

Very few candidates were able to write confidently and accurately about contestability. The majority of candidates wrote something about contestability relating to low barriers to entry, and then proceeded to outline how firms in either perfect competition or monopolistic competition would end up earning normal profits in the long run. There was very little reference to low sunk costs or the fact that new entrants in contestable markets will have access to the same technology as incumbents. Furthermore, any market at all can be contestable – even those that look like they are a monopoly or oligopoly if we consider concentration ratios alone. The key element missing from the vast majority of answers was the notion that incumbent firms will be forced to lower their prices (i.e. engage in limit pricing), even if no new firms enter the market, because they do not want to appear to be earning abnormal profits and therefore attract new entrants / hit-and-run competition. Merely the threat of competition or new entrants in a contestable market will cause normal profits to be earned.

### **Question 1b**

There were three key elements of knowledge that candidates needed to demonstrate here: an understanding of oligopoly, an understanding of collusion, and an understanding of regulation. In most cases, the latter element was lacking. Many candidates wrote confidently about how collusion occurs (and furthermore, considering overt and tacit collusion) and the impact of higher prices on consumer welfare. However, they then failed to consider how a regulator might act and the success/otherwise of regulatory intervention. A good portion of candidates answering this question decided to use kinked demand curve theory to try and explain why firms might have to work together to raise prices. However, not one candidate in the scripts seen by the Principal actually managed to draw a kinked demand curve and accompanying MR curve correctly / accurately, which was odd. Some candidates took a page or two to outline some simple Prisoners Dilemma game theory, but failed to make this relevant to the question. The very best answers were those that really considered the nature of the industry in question, using relevant examples e.g. high competition and seeking market share in the supermarket/grocery sector, versus collusion in the oil industry on goods that are essential with price inelastic demand.

### **Question 2a**

Most candidates were able to give a good outline of the nature of monopoly – those that limited themselves to referring to the majority of the market share held managed to limit their AO1 marks quite significantly. Many candidates analysed two reasons why firms in monopoly would benefit from lower average costs than those in perfect competition – economies of scale, and using abnormal profits to be dynamically efficient. Some candidates carefully analysed why monopolies can benefit from lower average costs but forgot to consider why firms in perfect competition might not be able to benefit from the same factors. Another common error was for candidates to forget the concept of average costs and write about why monopolies might benefit from lower costs – precision really is important in part (a) questions on this paper.

### **Question 2b**

A large minority of candidates confused concentrated and non-concentrated markets, which would inevitably limit their marks somewhat. This was often a centre-wide issue, and something that centres who notice that their marks for this question are low should consider altering with their teaching. Those candidates that did manage to correctly interpret the meaning of concentrated and non-concentrated markets sometimes limited their marks by simply comparing monopoly and perfect competition, rather than taking a broader interpretation of the meaning of concentration. The Principal saw two centres in which virtually every candidates wrote out an essay that they must have previously practised, comparing the efficiency of perfectly competitive and monopoly markets – given that the question was much broader than efficiency, and required candidates to think more broadly about the impact of such structures on the economy, such answers struggled to score much more highly than a low Band 2 mark. That said, there were some outstanding answers to this question which considered the impact of such structures on a wider range of stakeholders from both a micro and macro perspective.

## **SECTION B**

### **Question 3a**

Most candidates were able to draw the neoclassical AD/LRAS/SRAS diagram, and were able to show a temporary output gap and how the economy adjusts back to full employment by shifting production costs (thereby shifting SRAS). The main element lacking from these answers, which scored quite highly, was demonstrating some understanding of the beliefs of neoclassical economists e.g. flexible labour and product markets etc.

### **Question 3b**

Most candidates outlined how contractionary fiscal policies and supply side policies might bring down inflation – the best answers amongst those candidates that considered these two policy approaches were those that were able to explain exactly why inflationary pressure would fall, rather than merely drawing an AD/AS diagram to show the price level falling. However, the answers that were most likely to catch the examiners' eyes were those that were a little more imaginative e.g. reversing QE, using an exchange rate policy, or perhaps even direct wage / price controls. The very best answers were those that moved beyond a mere UK perspective, and considered the view that other economies may tackle inflationary pressure in a different way. Many candidates struggled to evaluate effectively in this question. For example, the majority outlined the unwanted side-effects of their chosen policies, rather than actually addressing the question and considering whether the policies discussed would actually be effective in tackling inflation. Whether or not a particular policy would cause unemployment, for example, was not really relevant, unless candidates linked the rising pool of available labour to lower wage pressure and therefore lower inflationary pressure.

### **Question 4a**

Many candidates were able to explain how governments could intervene to correct cyclical unemployment, but not why Keynesian economists thought such intervention would be essential. Some candidates tried to tackle this element of the question, and wrote something about sticky wages via trade unions / minimum wages, but then couldn't use this knowledge to explain why governments would have to intervene (i.e. the economy is not self-correcting). A minority of candidates did not understand what was meant by cyclical unemployment, and instead wrote about either seasonal or structural unemployment. The examining team was fairly perplexed by this!

### **Question 4b**

In general, this question was answered very well by many candidates, who raised a number of excellent points on both sides of the debate. Many candidates scored at the top of Band 2 for AO3 and AO4 (despite top of Band 3 for AO1) because of the lack of depth in their explanations of each point – in some cases this would have been alleviated by selecting fewer points to include, and examining these points in more detail. The very best answers at the top of Band 3, especially for AO4, were those that considered the issue from a range of different economic perspectives e.g. different countries, economies at different stages of development etc, rather than taking a UK-dominant perspective.

## **SECTION C**

### **Question 5a**

This was the worst answered question on this exam paper. Very few candidates appeared to understand what was meant by the Terms of Trade. Many assumed it meant the same thing as being internationally competitive, which is not correct. Those that attempted to write down the formula often got confused: one common error was to have the formula upside down (price of imports / price of exports), and a second common error was to neglect the price factor and instead consider volumes. Those that did get the formula correct generally went on to score very high marks for this question.

### **Question 5b**

There were some good answers to this question. The best answers were those that really focused on LEDC issues (e.g. deficits can be more beneficial because it allows LEDCs to import essential capital) and those that really got to grips with the nature of the overall balance of payments and the impact that a current account surplus might have on the financial account (note – some candidates are clearly still being taught the older-view of the BOP with simply a current account and capital account, rather than current, capital and financial accounts). Sadly, some candidates scored very little because they confused the current account with government current spending. A final, quite significant error (which examiners have seen for some years!) is the misunderstanding amongst candidates that it is the government who receives the revenue from a current account surplus rather than businesses – a current account surplus is unlikely to directly provide a government with more revenue to then spend on developing infrastructure, as many candidates wrote!

### **Question 6a**

There were some lovely answers to this question, showing a range of examples of resource curses and their causes. The key element to success in this question was the understanding that over-dependence on one resource is detrimental to other industry sectors, rather than there just being a range of negative consequences of over-exploitation of a particular resource. Candidates awarded full marks for this question were those that really showed an understanding of the impact on exchange rates due to exporting essential commodities, and the impact that this has on other export sectors (i.e. making them less competitive).

### **Question 6b**

Whilst there were some very good answers to this question, very few candidates were awarded full marks. This was predominantly because most candidates took FDI to solely mean “inwards activity by multi-national companies”, rather than the broader meaning of FDI. Indeed, examiners were surprised to find that many candidates were writing about the activities of “FDI’s”! As ever, the best answers were those that used a range of examples, and recognised that FDI will have different consequences in different economies.



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