How to Evaluate in Economics

If you are studying AS or A2 economics, the chances are that you are being told to “evaluate, evaluate, evaluate”. It's true that evaluation is the key to getting the highest marks, particularly on the longer questions. But unfortunately most of my students are very confused about what it means and how you make sure you do it right. This short note is aimed at clarifying what evaluation means and giving you some practical tools and tips for applying it in your exams.

What evaluation is, and is not

What evaluation means depends on the question being asked but in general you won't go far wrong if you remember that evaluation means *coming to a full and balanced judgement about the question based on an appreciation of the evidence and uncertainties involved*. So for example, if the question is “Evaluate the economic consequences of a rise in house prices”, then your answer should include a statement along the lines of “Generally a rise in house prices will lead to an increase in output, a rise in inflation, a fall in unemployment and a worsening of the balance of payments. The effect may be quite a strong one, as housing is the main source of wealth for consumers. However the size of the effect depends on how consumers respond to the rise and also what is happening to other components of AD such as government spending and investment.” Of course your actual answer will be much longer than this brief statement but this should roughly correspond to what you would say in the conclusion.

Notice a few things about this. First, it directly answers the question posed, it does not simply say “On the one hand this, on the other hand that” as many weaker answers often do. Second, it is a full answer to the question - it discusses all the 4 macroeconomic objectives – not merely one or two. Third, it gives an assessment of the significance of the effect, i.e. how big it is, and what that depends on. Last, it shows an awareness that nothing is certain in economics, and there are many other factors at work. This is why such an answer would get the highest marks. If you ensure that your answers provide these four main features, you will do well.

Evaluation is not – despite what some students and teachers believe – simply saying one thing, then the opposite, e.g. “An increase in house prices will increase aggregate demand, but on the other hand it might decrease it.” Such statements are just nonsensical and will gain you no marks.

Some useful frameworks

But as I said above, you can't apply exactly the same approach to evaluation to all questions, because the questions aim at differing things. Fortunately there are 3 main types of evaluation questions you are likely to encounter and there is a good structure you can apply to each of them.

1) “Evaluate the economic consequences of...” e.g. “Evaluate the economic consequences of a fall in interest rates on the UK economy.”
   This sort of question is common on U2 and U4 papers in the new syllabus and a good answer can secure you a lot of marks.
   The best structure for answering this is as follows,
   1. **Describe the effect on AS/AD** and show it on a diagram (i.e. a shift outwards of the AD curve).
   2. **Deduce the likely effects on output and inflation** (i.e. an increase in output and inflation). You might mention here whether these effects would be immediate or take some time to emerge.
3. Deduce the likely impact on the balance of payments and unemployment (i.e. a worsening of the BofP and a fall in unemployment). Again you might mention whether these affects would be delayed or occur straight away.

4. Assess the significance of the effect, i.e. is it a large one or only a small one? In this case it would probably be a large one because interest rates affect consumption, investment and net exports.

5. Discuss what the effect depends on, e.g. how consumers and firms will respond to the change, i.e. to what extent will they increase consumption and investment. This might depend e.g. on how confident consumers are about the future. You might also discuss what determines how much the shift in AD will affect output and inflation. This would depend on the size of the output gap, for instance.

6. Highlight anything that could happen that might change your conclusion. For example, you might say that a fall in interest rates might not lead to an increase in AD if it is offset by a big increase in taxation.

2) “Evaluate the effectiveness of 3 policies...” e.g. “Evaluate the effectiveness of 3 policies government could use to reduce a current account deficit.”

This is another common type of question which requires a slightly different approach.

1. State the three main policies you are going to discuss, e.g. increasing taxes on consumption, improving education, and increasing tariffs.

2. You then discuss each one in turn. The key questions to ask are:
   a. Will the policy have the desired impact?
   b. Does it have a cost to the taxpayer or does it raise money?
   c. Will it have the impact straight away or is there a time lag?
   d. What could cause the policy to fail or not work so well? Could people find ways of avoiding it, or might they react in a way that isn't what you expected?
   e. Could the policy have other undesirable effects? (For example, to other macroeconomic objectives, or to consumer surplus)

3. Then given the above you assess which policy is the best, for example “Increasing taxes is probably best in the short-run, but perhaps improving education is more effective in the long run.”

3) “Evaluate the causes of...” / “Evaluate the reasons for...” e.g. “Evaluate the causes of globalisation”

This is similar to the above, but somewhat simpler. The basic structure should be:

1. Describe the main causes you are going to discuss (e.g. improved technology, lower tariffs etc)

2. Discuss each cause in turn, explaining how it contributed to the effect being explained and giving examples to illustrate points.

3. Last, assess which cause(s) are the most significant and why. (For instance, the fall of Communism would be more significant than improved technology because it was necessary for China, Russia etc to start trading with the rest of the world.)

So that's evaluation for you. I hope it's useful. Please let me know if you think this is useful, or if you think there is something I've missed.