AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.1.2 INDIVIDUAL ECONOMIC DECISION MAKING

SCORE	PERCENTAGE
/176	%

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Mark schemes

1. C

[1]

2. C

[1]

3. B

[1]

4. C

[1]

5. B

[1]

6. D

[1]

7. **Relevant issues include:**

- define the terms anchoring and loss aversion
- why anchoring and loss aversion may result in irrational decision making
- how the previous price that the person paid for the product, or perhaps the first price at which they were offered the product, acts as an anchor and affects their consumption decisions in the future
- loss aversion leads people to prefer to put their money into a safe but low-yielding investment rather than one that is a bit more risky but has the prospect of very high returns
- explain using examples how anchoring may affect spending decisions, eg how people moving from different parts of a country may take a long while to adjust to different rents for a similar type of accommodation
- explain using examples how anchoring may affect savings decisions, eg the impact of a significant change in interest rates on people's decisions regarding savings
- explain using examples how loss aversion may affect spending decisions, eg after a period of falling house prices, people are often reluctant to move because they are unwilling to sell their house for less than they paid for it even though the prices of properties that they were thinking about buying have also fallen
- explain using examples how loss aversion may affect savings decisions, eg people's unwillingness to sell their shares at a lower price than they paid for them, even if they could invest the money in other shares that they believe are a better investment.

The use of examples to illustrate anchoring and loss aversion in any consumer market should be taken into account when assessing the quality of response.

[15]

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8.

Areas for discussion include:

- distinction between traditional economic theory, which assumes people are rational decision makers, and behavioural economic theory
- market failure and people's choice of diet, eg asymmetric information, 'unhealthy food products' as demerit goods, inequitable distribution of income
- advertising and product promotion strategies employed by the food industry and how they influence people's choices
- policies that might help to correct information problems, eg compulsory food labelling, publicity campaigns
- policies to restrict advertising that misinforms or misleads consumers
- the impact of imposing legally enforced restrictions on, for example, the fat or salt content of processed foods
- policies that can be adopted to encourage people to adopt a healthy diet, eg indirect taxes, subsidies, better information
- relevance of elasticities
- behavioural factors that might affect people's choices, eg habit, other people's choices, social norms, motivation to 'do the right thing', people give inadequate weight to the long-term consequences of their actions
- policies related to behavioural economic theory that can be used to encourage people to adopt a healthy diet, eg nudges, framing, influencing attitudes
- whether providing better information and leaving it to individuals to make their own choices would lead to an improvement in people's well-being
- whether people are 'predictably irrational' and whether government policies that do not take this into account are likely to be ineffective
- whether the individual is the best judge of their own welfare; and whether behavioural solutions are paternalistic
- the unintended consequences of various policies.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

[25]

9. B

[1]

10. A

[1]

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11.

Areas for discussion include:

- the existence of market failure
- explanation of how taxes reduce consumption
- distinction between specific and ad valorem tax
- the argument that if demand is inelastic, this will result in larger tax revenues which can be put towards public health spending to the same effect
- the extent to which the burden of the sugar tax will be passed on to consumers rather than hitting profits of producers
- the likely extent to which producers change their recipes to avoid the tax
- the fact that the tax only applies to some sugary drinks, and not others (eg milk-based or fruit-based drinks), and does not apply to sugary foods such as chocolate bars
- unintended consequences (positive and negative) which have emerged (or could emerge) from the policy
- alternative policies such as a minimum price per litre, a rationing of quantity, a ban in school vending machines, quantitative limits on the sugar added to drinks in the production process, subsidy for healthier alternatives
- policies to increase uptake of healthier alternatives such as water or milk including information campaigns, subsidies, free school milk, etc.
- whether more prominent labelling (perhaps using a “teaspoon of sugar” measure) is more or less effective
- whether consumer drinks choice is an appropriate area of interference by the Government, or alternatively evidence of the “nanny state”
- whether insights from behavioural economics offer possible solutions, e.g. nudge economics, social norms
- government failure arguments

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate’s response to the question.

Level of response	Response	Max 25 marks
5	**Sound, focused analysis and well-supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion.	**21 – 25 marks**
4	**Sound, focused analysis and some supported evaluation that:** • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation.	**16 – 20 marks**
3	**Some reasonable analysis but generally unsupported evaluation that:** • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these are not well-supported by arguments **and/or** data.	**11 – 15 marks**
2	**A fairly weak response with some understanding that:** • includes some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • includes some limited application of relevant economic principles to the given context **and/or** data to the question • includes some limited analysis but it may lack focus **and/or** become confused • includes some evaluation which is weak and unsupported.	**6 – 10 marks**
1	**A very weak response that:** • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which, at best, is very weak • includes attempted analysis which is weak and unsupported.	**1 – 5 marks**

[25]

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12. **Areas for discussion include:**

- definition of imperfect information and market failure
- why imperfect information may be considered a source of market failure
- explanation of asymmetric information and how it can lead to some markets working inefficiently (or even collapsing altogether) when sellers know more about the true value of the good or service they are selling than the buyers (ie the ‘Market for Lemons’)
- explanation of moral hazard, where agents (knowing more about their risk profile than the insurer does) take excessive risk because they are protected from the negative consequences of their actions by insurance, thus leading to market failure
- how imperfect information can lead to the under-provision of merit goods and over-provision of demerit goods
- how imperfect information does not merely mean the absence of information. Information can also be imperfect if it is presented unhelpfully or incompletely such that making good decisions becomes very difficult
- agents may suffer from bounded rationality and cognitive biases
- agents may value short-term benefits too much due to a lack of information which could lead to poverty, eg lack of saving for pensions
- examples of markets in which imperfect information causes problems, eg the labour market, the cigarette market, the market for insurance.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student’s response to the question.

Level of response	Response	Max 15 marks
3	**A good response provides an answer that:** • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	**11 – 15 marks**
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1	**A weak response provides an answer that:** • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	**1 – 5 marks**

[15]

13. **Areas for discussion include:**

- explanation of market failure
- sugary drinks as demerit goods leading to over-consumption
- asymmetric/imperfect information problems as consumers may fail to recognise the true costs and benefits of what they consume
- negative externalities in consumption
- examples of negative externalities in consumption arising from sugary drinks
- explanation of the specific health concerns and their burden on the NHS
- concerns about dental hygiene amongst children
- addictive properties of sugary drinks leading to inelastic demand
- reference to ‘behavioural’ reasons why sugary drinks might be over-consumed, e.g. bounded rationality, bounded self-control, social norms and other cognitive biases
- the tendency to undervalue the long-run consequences of consuming sugary drinks (the overoptimism bias).

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[15]

14. D

[1]

15. B

[1]

16. B

[1]

17. **Areas for discussion include:**

- discussion of the field of behavioural economics, and how it differs from conventional economic analysis
- discussion of how governments are now beginning to use behavioural economics to achieve policy aims, not least in the UK where the Cabinet Office Behavioural Insights Team (Nudge Unit) has been at the forefront of international work in this field
- the types of policy which can be labelled as behavioural economics policies

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- advantages of behavioural economics policies
  - relatively simple and low-cost
  - allows people freedom of choice without coercion
  - development of policies is based on trials, so is based on evidence
  - may be able to overcome weaknesses in consumer behaviour theory including irrationality and inconsistency
- disadvantages of behavioural economics policies
  - can be considered manipulative and unethical
  - may well change people's choices but these choices may not reflect people's true preferences
  - based on relatively weak evidence, which may not be consistent over time
  - may not be as effective as traditional policies
- examples from the work of the Nudge Unit and analysis of whether their policies have been successful
- the types of traditional economic policy, including indirect taxes and subsidies, maximum and minimum prices
- advantages and disadvantages of traditional policies
- discussion of what usefulness means in this context, including the cost of the intervention and its effectiveness
- consideration of different types of market failure
- government failure arguments.

The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

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[25]

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18.

Areas for discussion include:

- explanation of the traditional assumption that economic agents are rational utility maximisers
- explanation of the behavioural assumption that for a number of reasons consumers act irrationally
- explanation of 'rules of thumb' which economic agents use to make decisions in practice
- why people use rules of thumb rather than attempting to consider all costs and benefits at every decision
- computational problems
- examples of how firms can exploit such rules of thumb in their marketing
- explanation of biases to which consumers may be vulnerable eg availability bias, anchoring
- bounded rationality and bounded self-control
- emotional factors; social norms.

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[15]

19. C

[1]

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20. C

[1]

21. D

[1]

22. A

[1]

23. D

[1]

24. **Areas for discussion include:**

- definitions of rational, maximise, utility, economic agents
- assumptions underlying traditional economic theory
- explanation of total and marginal utility
- the hypothesis of diminishing marginal utility and how it links to the downward-sloping demand curve
- discussion of utility maximisation
- the importance of the margin when making choices
- problems with measuring utility and thus being able to maximise it
- the importance of information for decision making and the problems faced by utility maximisers when dealing with imperfect information
- how the assumptions of behavioural economics compare with those of traditional economic theory
- bounded rationality and bounded self-control
- biases in decision-making such as: rules of thumb, anchoring, availability and social norms
- how behavioural economic actions can be used to suppress rationality (eg by marketing) or to improve rationality (eg by public health adverts)
- the existence of alternative objectives to utility maximisation, eg focusing on relationships, altruism, self-sufficiency
- consideration of the word ‘always’.

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[25]

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