AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.1.8.1 HOW MARKETS AND PRICES ALLOCATE RESOURCES

SCORE	PERCENTAGE
/41	%

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Mark schemes

1.

For relevant definitions e.g. imperfect information **(2 marks)**, merit goods **(2 marks)**, demerit goods **(2 marks)**, market failure **(2 marks)** .	**Up to 2 marks per point defined or explained to a maximum of 4 marks**
For explanation – **Award 1 mark** for each step in a logical chain of reasoning **up to 15 marks**.	
Examples include • Poor information **(1 mark)** or asymmetric information **(1 mark)** are among a number of possible reasons for market failure **(1 mark)**. When merit goods are consumed benefits do not stop with the prime consumer **(1 mark)**, but spill over into the neighbourhood **(1 mark)** as positive externalities **(1 mark)**. The consumer will not necessarily be aware of these benefits **(1 mark)** and so will not base spending decisions on this information **(1 mark)**. Since individual consumers under-estimate the social benefits of their consumption, **(1 mark)** merit goods tend to be under-consumed **(1 mark)**. It follows that they are also under-supplied **(1 mark)**. Demerit goods are those where costs do not stay with the consumer **(1 mark)**, but spill over into the neighbourhood **(1 mark)** as negative externalities **(1 mark)** • Imperfect information might affect consumers in the LONG RUN, causing them to demand too much or too little, compared with what they might have consumed if they were fully aware of the future consequences to themselves. • Market signals tell us about what is happening now, they are not adept at foreseeing the future; current market signals might, for instance, tell us to close down an industry, a decision that might be regretted some time later when conditions change (e.g. the policy of closing branch railway lines in favour of roadbuilding in the 1960s)	
Use of diagrams to help support explanations, e.g. short run and long run cost curves.	**Up to 2 marks per diagram (1 mark for labelling, 1 mark for information shown) to a total of 4 marks.**
Relevant real world examples and/or relevant reference to the UK and/or other economies.	**1 mark per reference to a maximum of 2 marks**

[15]

2. C

[1]

3. In this part of the question, candidates will need to demonstrate that they are able to evaluate issues and arguments to support a conclusion if they are to be awarded **more than 15 marks**.

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Level 5	**Good analysis <u>and</u> good evaluation**	**22 to 25 marks** *Mid-Point 24 marks*
Level 4	**Good analysis <u>but</u> limited evaluation** **OR** **Reasonable analysis <u>and</u> reasonable evaluation**	**17 to 21** *Mid-Point 19 marks*
Level 3	**Reasonable including some correct analysis <u>but</u> very limited evaluation**	**10 to 16** *Mid-Point 13 marks*
Level 2	**Weak with some understanding**	**4 to 9** *Mid-Point 7 marks*
Level 1	**Very weak**	**0 to 3** *Mid-Point 2 marks*

Issues and areas for discussion include

Introduction	• Definitions, examples ◦ Economic welfare ◦ Merit goods, distinguished from public goods ◦ Asymmetric information ◦ Missing markets
Developing the response to the question: **Application/Analysis**	• Reasons for government provision, e.g. • Positive externalities • Negative externalities • Unequal income distribution • Relative and absolute poverty; unequal life chances • Merit goods ◦ Social objectives : health, education ◦ Economic objectives; infrastructure, efficiency ◦ Equity arguments ('social wages' from public services) ◦ Imperfect information ◦ Missing markets • Public goods ◦ Social or strategic importance (e.g. defence, law & order) ◦ Non-rivalry ◦ Non-diminishable ◦ Non-excludable / pure / non-pure • Arguments for involving markets, e.g. ◦ Efficiency ◦ Competition ◦ Trickle down arguments ◦ Incentive arguments
Evaluation	• Critical discussion of the quotation • Different approaches to ◦ Merit goods and public goods ◦ Different types of merit good ◦ Merit and demerit goods • Is this a really case of either / or? • Can the private sector function efficiently without a public sector (and vice versa) • Can the private sector be trusted to function properly without intervention? • Possibility of public / private partnerships • Money costs and opportunity costs • Real world examples such as public and private transport, primary, secondary, tertiary education; tuition fees versus graduate taxes; public universities, private universities • Overall view of advantages and disadvantages of private and state provision *Examiners should note that, for some of the weaker or average candidates, parts of the above represent quite sophisticated evaluation and so it is important to ensure that more basic evaluation is adequately rewarded where a genuine effort has been made to display that skill.*

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Also give credit for	• Diagrams • An overall judgement on the issues raised • Examples

It will only be possible for students to consider a few of the above. They may also discuss issues not discussed above.

[25]

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