AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.1.8.6 MARKET IMPERFECTIONS

SCORE	PERCENTAGE
/342	%

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1.

For relevant definitions, e.g. commercial success, in terms of trade and profitability **(2 marks)**, market failure, in terms of opportunity costs / externalities **(2 marks)**	**Up to 2 marks per point defined or explained to a maximum of 4 marks**
For explanation – award 1 mark for each link in a logical chain of reasoning to a maximum of 15 marks.	
Possible explanations include • A major international airport, such as Heathrow has multiplier effects on the local economy **(1 mark)**. It is also important to the national economy as a transport hub **(1 mark)**. The airport itself is these days likely to be a private sector enterprise **(1 mark)** and many other private sector organisations (shops, cafes, suppliers, contractors) will benefit from the economic activity **(1 mark)**. If profitable, the whole enterprise will be a significant commercial success **(1 mark)**. However, the government will be expected to provide infrastructure **(1 mark)** with an opportunity cost **(1 mark)**. The taxpayer might not get an adequate return **(1 mark)**. There are also environmental costs **(1 mark)** such as noise, air pollution and road congestion (**1 mark for an example**). Commercial success is measured by profits, whereas externalities and other market failures are difficult to measure **(1 mark)** therefore they can co-exist **(1 mark)**. • An airport, such as Heathrow, as a major employer	
Use of diagrams to support explanations, e.g. Internal / external costs and benefits	**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]

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2.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction	• meaning of environmental market failure) • examples of supply-side policies • reasons why landfill exemplifies market failure, eg missing markets for recycled products, negative externalities, local / national decisions favouring landfill over its alternatives
Developing the response to the question	• general policies, e.g: ◦ market-based policies ◦ command-and-control policies • specific methods / strategies, eg reduction, re-use, recovery, recycling, disposal (alternative methods of, eg landfill, incineration) • specific policies (some but not all mentioned in the data) aimed at supporting these methods / strategies, eg: ◦ landfill tax (polluter pays / market based) ◦ fines for dumping (command-and-control) ◦ subsidies for favoured recycling schemes ◦ targets for re-cycling ◦ subsidies / carrot and stick approaches • the alternative of non-intervention / allowing markets to work (the extract mentions market forces and price signals in scrap metals and suggests that a market for 'mined' recyclables from landfill could emerge in due course).
Evaluation	• comment on scarce / finite resources and the possibility of re-cycling in the case of metals, so that they become, in a sense, 'renewable' • role of government / legal sanctions • market failure versus government failure • the need for international / global action • pros and cons of particular policies, eg composting, incineration. Examiners should note that it may be possible to award some marks for basic evaluation such as consideration of a number of pros and cons. However, this must be considered as low-level evaluation and rewarded accordingly. Stronger evaluation would prioritise the arguments for and against, and / or give economic reasons for justifying a particular course of action.

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Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised

[25]

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4.

The issues identified below are intended to provide an indication of some of the areas which might be discussed. Candidates can only be expected to consider a few of these and / or other issues in the time available.

Issues and areas for discussion include:

Introduction:	• an explanation of the problems in terms of MSC / MSB analysis • a clean environment as a public good • environment can be damaged by market forces (ozone layer, coal tips) • environment can be protected by market forces (property rights / the 'tragedy of the commons') • polluting activities and demerit goods.
Developing a response to the question:	• What markets can do alone, eg ◦ Treat a clean environment as a scarce resource ◦ Supply and demand, price incentives ◦ Assertion of property rights • How markets can be 'nudged' by government, eg ◦ Carbon trading / pollution permits ◦ Road pricing ◦ Taxation (the polluter pays) ◦ Creation of property rights where they do not exist ◦ Creation / assertion of communal / societal rights (eg a right to clean air) • How markets can be 'nudged' by government, eg ◦ Command and control methods ◦ Bans and regulations • command and control versus market based policies
Evaluation:	• market failure and government failure • equity implications of reliance on markets (eg costs and benefits might accrue to different people / groups / countries).
Also give credit for:	• reference to the UK and / or other economies • diagrams

[25]

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5. **Issues and areas for discussion include:**

Introduction	• Meaning of market failure • Reasons for and examples of market failure, eg ◦ distinction between public and merit goods ◦ positive and negative externalities ◦ public goods, merit goods • Reasons for and examples of government failure.
Developing the response to the question **Application/ Analysis**	• Policy options for public/merit goods ◦ taxation (the ability to pay principle) ◦ charging (the beneficial principle) ◦ subsidies ◦ direct government provision ◦ public/private partnerships • Opportunity cost • Efficiency arguments • Rationale for govt. intervention in providing MSC = MSB, therefore providing a socially optimum level • Consequences of policy options, eg ◦ consumer welfare and producer surplus ◦ national/international competitiveness ◦ prices, employment • Reasons for and examples of government failure • Discussion specific to the local TV station example
Evaluation	• effectiveness of different types of policy • intended and unintended consequences • the option of allowing market forces to work without government intervention (in the local TV case, challenging the apparent view of the minister that there is a 'missing market'); consumer sovereignty arguments) • problems of determining social optimum • market vs govt failure. *Examiners should note that, for some of the weaker or average students, 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.*
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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6.

For candidates who:

Explain (e.g. define/describe) ‘market failure’, eg in terms of failure to reach an optimal allocation of resources, and ‘imperfect information’, e.g. in terms of a missing feature of a ‘perfect’ market’ (where ‘perfect information’ on the part of both buyers and sellers is assumed) **or** merit and demerit goods

Explain linkages between imperfect information and the consumption of merit / demerit goods, e.g.

- the difficulty of measuring externalities
- consumers might, for example, base decisions on whether to use a car on the basis of average rather than marginal costs
- in the absence of price signals or regulations, the socially sub-optimal course of action might seem rational to the consumer
- some goods are excludable (eg road space) but are treated by the government as ‘public goods’, whereas the arguably more environmentally friendly option (rail transport) is charged as a private good. This is related to ‘information’ in the sense that inappropriate ‘signals’ are being sent out
- asymmetric information (doctor / patient; professor / student)
- short term versus long term (eg long term effects of drinking alcohol)
- markets can tell us that, say, oil is in demand now and coal is not; they do not predict demand in 20 years’ time
- lack of awareness of all costs and benefits.

[15]

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7. **Issues and areas for discussion include:**

Introduction	• Description of 'market forces' in housing • Tenures • Subsidies • Intervention methods.
Developing the response to the question: (Application)	• Comments from own economic knowledge or based on the data, e.g. ◦ Supply and demand theory ◦ Relationship between new houses (the flow) and existing houses (the stock). The flow is small in relation to the stock; therefore, house building has little immediate effect on prices. ◦ Data hints that the distinction between social and private housing is muddied (Extract E). Students might mention the bedroom tax (as a 'withdrawal of subsidy') in a relevant way • Further discussion of **Extract D**, e.g.' ◦ Rise in homes owned outright, with fall in mortgages, indicates possible validity of the quote about Germany ◦ Fall in social housing, together with fall in mortgages and rise in private renting indicates right to buy has led to a rentier class rather than a nation of individual owner occupiers. • Tenure and types of housing, **Extract E** • Houses and equality, **Extract F**.
Developing the response to the question: (Analysis)	• Basic reasons why governments of developed countries are involved in provision of housing. • Arguments for intervention, e.g. ◦ market failure ◦ externalities ◦ need for price stabilisation ◦ imperfect information ◦ mobility of labour ◦ income and wealth distribution. • Arguments against, e.g. ◦ rationing/signaling ◦ consumer choice ◦ opportunity costs (pressure on government budgets) ◦ efficiency ◦ problems with government failure, e.g. poor town and country planning.

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Evaluation	• Market failure versus government failure • Consequences of government involvement (e.g. costs to the taxpayer) versus consequences of non-involvement (e.g. costs to the consumer and to society) • Unintended consequences (e.g. Help to Buy being used by private landlords rather than first time buyers) • Discussion of the clear distinction between the flow of newly built houses and the stock of existing houses • Alternatives to house building/'predict and provide', the argument that supply of houses creates its own demand; alternatives (e.g. town centre living) • Critical assessment of the movement from council houses towards private renting, and from directly subsidised rents to the use of housing benefits. *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.*
Also give credit for	• Diagrams • An overall judgement on the issues raised.

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

[25]

8. 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**.

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*

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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]

10. 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**.

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*

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Issues and areas for discussion include

Introduction	• Definitions, examples ◦ Economies of scale ◦ What is meant by “small” or “large” in this context
Developing the response to the question: **Application/Analysis**	• Distinction between short run and long run • Diminishing returns and returns to scale • Advantages of large firms, e.g. ◦ Types of economy of scale ◦ Other advantages of size, e.g. opportunities for collusion, price making, monopoly, oligopoly, dominant firm price leadership • Disadvantages: diseconomies of scale; x inefficiency ◦ Globalisation and concentrated markets ◦ Government policy (eg sweetheart tax deals) • Advantages of small firms, e.g. ◦ Niche markets ◦ Barometric price leadership ◦ Disruption, e.g. easyJet, Uber ◦ Government policy favouring small firms (eg small business support, start-up grants; business advice agencies) ◦ Government policy hindering small firms, e.g. business rates, VAT, red tape
Evaluation	• Ways in which small firms can fight back, e.g ◦ Reducing costs (internet / weightless economy ◦ Technical change reducing the need for scale economies (eg nuclear power stations versus windmills) • The importance of small firms in the economy ◦ As employers ◦ As motors for growth ◦ As innovators ◦ As ethical producers ◦ Serving specialised markets ◦ Having the potential for growth – large firms start out small • Arguments for and against government intervention to support / promote Small & Medium Enterprises • The question of whether government intervention is necessary • Overall view of advantages and disadvantages of large and small firms *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.*
Also give credit for	• Diagrams • An overall judgement on the issues raised • Examples

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

[25]

11.

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]

12. 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**.

Where there is no **explicit** reference to the data, award a maximum of **21 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 of • wage levels • working conditions • differentials.
Developing the response to the question: **(Application)**	• Comments from own economic knowledge or based on the data, e.g. further comments on wage rates and differentials, and wages increasing and recently flat-lining (**Extract D**) • EU context (**Extract E**) • Discussion of other aspects, such as bonus caps, wealth tax, fixed ratios between higher and low paid workers (**Extract F**) • Other possible policies, e.g. minimum wage, living wage
Developing the response to the question: **(Analysis)**	• Possible effects of government intervention/market forces on output and employment • Benefits of a government intervention, e.g. reduced inequality, higher morale • Increased costs of NMW / other policies, effects on sectors / general economy • Other methods of raising wage levels, e.g. productivity enhancement, skills, education and training • Taxes, benefits and welfare to work • Short and long run considerations • Opportunity costs of government subsidies for the low paid • The economic disfunctionality of inequality • The case for market forces in resource allocation
Evaluation	• General arguments for and against government intervention in labour markets • Market failure versus government failure • Consideration of the issues from different points of view, e.g. employers, employees, taxpayers • Consideration of the affordability of government intervention • Arguments to do with competitiveness • The government's own position as a major employer (local and national government) • Efficacy of NMW compared with other policies • A high-wage economy versus a low-wage economy *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.*
Also give credit for	• Diagrams • An overall judgement on the issues raised

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

[25]

13. 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**.

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*

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Issues and areas for discussion include

Introduction	Basic definitions/descriptions, e.g. producer surplus/ consumer surplus; regulation
Developing the response to the question: **Application / Analysis**	• Advantages of price discrimination, e.g. ◦ Producers receive higher profits which, if re-invested, might benefit consumers through higher efficiency ◦ Increased affordability for consumers paying the lower prices (the low cost airline model, which has been replicated by some other industries) ◦ PD might turn a loss making firm into a profitable one ◦ PD might enable a good / service to be produced that otherwise would be lost • Disadvantages ◦ PD turns consumer surplus into producer surplus, so represents a transfer of resources from a less powerful group to a more powerful one (re-distribution of income in reverse) ◦ In extreme cases, everyone pays the maximum they are willing to pay; consumer surplus disappears ◦ Consumers paying the highest prices might switch to goods / services that are less socially optimal, e.g. consumers paying peak-time public transport fares who can afford to switch to private transport might be incentivised to do so.
Evaluation	• Critical discussion of the quotation • Overall consideration of advantages vs. disadvantages • The case for and against regulation • The spread of price discrimination from low-cost airlines and railway journeys to other business models, e.g. hotels, taxi journeys, and according to the data, theme parks and cruise ships: is this good or bad for consumers / producers? • Discussion of the word 'always' in the question *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.*
Also give credit for	• Diagrams • An overall judgement on the issues raised • Examples

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

[25]

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14.

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]

15. A

[1]

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16. **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**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows 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.	**6 – 10 marks**
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]

17. **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).

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.

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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**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows 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.	**6 – 10 marks**
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]

18. A

[1]

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19.

Areas for discussion include:

- explanation of competition and the range of government policies to foster competition
- discussion of the nature of the UK banking sector and the historic dominance of Lloyds, Barclays, RBS Natwest and HSBC
- awareness of recent changes to the market structure, eg
  - 2008 financial crisis – Northern Rock, Bradford & Bingley bankruptcies
  - Lloyds-HBOS merger, TSB demerger
- innovation in the banking sector, resulting in a move away from FIIC accounts towards packaged accounts and cashback
- Big Four problems over unwieldy and costly IT infrastructure, diseconomies of scale and scope
- barriers to entry in the banking sector, including
  - legal/regulatory
  - physical, eg branch network
  - financial, eg start-up capital required
  - customer inertia (link to behavioural economics)
- comparison with other utilities' contestability
- discussion of possible policies, including
  - breaking up large banks (eg demerger of TSB and Lloyds, and attempted sale by RBS of Williams and Glyn)
  - price regulation
  - improving information in the market, eg price comparison websites and Customer Switching Service
  - nudge/behavioural policies (as per CMA Review)
- recent rise in new entrants and connection to the rise of internet banking
- benefits of competition
- benefits of concentration, eg economies of scale, high MES, high profits facilitating innovation
- the impact of market forces, creative destruction and new technology in the banking sector
- are the banks exploiting consumers, including possible collusion?
- the role of the Bank of England, the PRA and the FPC
- market failure arguments
- 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**

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20. **Areas for discussion include:**

- definition of market failure
- distinction between MSB and MPB (allow MSC and MPC)
- explanation of why MPB is greater than MSB
- analysis of the negative consumption (allow production) externalities produced by driving petrol and diesel cars
  - air pollution
  - noise pollution
  - congestion
  - accidents
- why the existence of negative externalities leads to over-production and consumption
- discussion of current government interventions such as licences, speed limits, age restrictions, congestion charge
- information asymmetry problems, for example the fact that diesel cars used to be thought of as cleaner than petrol cars.

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 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**
2	**A reasonable response provides an answer that:** • focuses on issues that are relevant to the question • shows 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.	**6 – 10 marks**
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]

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