AQA A-LEVEL ECONOMICS · 7136

ECONOMICS



MARK SCHEME

3.1.8.8 PUBLIC OWNERSHIP, PRIVATISATION, REGULATION AND DEREGULATION

SCORE	PERCENTAGE
/426	%

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1.

Areas for discussion include:

- explanation of market forces and government intervention
- acknowledgement of recent rapid growth in the supply of waste
- discussion of the global market for waste, with waste from the rich world being shipped to parts of the developing world, where lower-cost labour makes sorting cost-effective and there is greater demand for second-hand materials
- discussion of how the ‘collect, sort, export” model has been threatened by China’s decision to effectively ban imports of some types of waste’
- explanation of how rich countries, by moving away from manufacturing and into service sectors, have effectively outsourced production to developing countries, thus exporting some of the environmental problems too
- explanation of the ‘circular economy’ and how it differs from the current market model of supply and demand
- how there are economic benefits to circularity as well as costs (eg job creation)
- discussion of possible policies at the national level
    - regulations
    - taxation of raw material inputs
    - subsidies
    - permits and quotas
    - forcing producers to pay for disposal of products
- discussion of problems with the above policies, including feasibility, effectiveness and cost
- the likely uneven impact across different sectors of introducing policies to promote circularity
- explanation of how international agreement may be necessary given the global nature of the problem and discussion of how such international agreements are slow to achieve and often fail to address problems identified
- discussion of EU targets for national governments to improve their recovery rates
- how the market may respond to lower waste prices via rationing, signalling and incentive effects: for example, automation may replace human sorters at waste plants, and online markets for second-hand raw materials may develop
- 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 student’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 judgments 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 attempted 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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2.

Issues and areas for discussion include

Introduction	• Definition/explanation of 'utilities' in terms of essential basic services/public goods • Definitions of private sector and public ownership
Developing the response to the question:	• Arguments in favour of privatisation, e.g: ◦ Government failure arguments, e.g: ◦ Lack of investment ◦ Lack of innovation • Burden on taxpayer shifted to consumer • Privatisation creates revenue for the government • Decentralisation, closer to the wants of the consumer • Competition and efficiency • Arguments in favour of nationalisation, e.g: ◦ Market failure arguments, e.g: ◦ Difference between wants and needs ◦ Equity: access to essential services ◦ Externalities, social benefits • The need for central control and accountability for strategic industries • The idea of 'natural monopoly' • Any revenue raised from privatisation is one-off ("selling the family silver") • Experience from the banking crisis and PFIs suggests that while profits are privatised, risks stay nationalised
Evaluation	• Considering the 'ability to pay' versus 'beneficial' principle of providing public services • Considering whether privatisation creates competition, or merely creates a private monopoly, which then needs regulating • Is it a question of either/ or; is there a role for public-private partnerships
Also give credit for:	• Reference to the UK and/ or other economies • Diagrams • An overall judgement of the issues raised

[25]

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3.

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	• basic meaning of merger • different types of merger (data refers to 'horizontal') • possible motives for merger: market share, growth, economies of scale, efficiency gains, monopoly power
Developing the response to the question:	• Reasons why mergers might be good for customers / passengers, eg: ◦ Lower prices, due to eg economies of scale, aircraft working closer to capacity ◦ Wider range of product / services ◦ Synergies, more integrated services (data refers to intra-EU, and EU-America services) • Reasons why they might be bad ◦ Higher prices, due to eg reduced competition ◦ Less choice ◦ Loss of consumer surplus • Reasons why mergers might be good for producers / airlines, eg: ◦ Economies of scale, lower costs, greater efficiency ◦ Rationalisation ◦ Less competition, higher profits ◦ Long run, dynamic efficiency, greater market power • Reasons why they might be bad, eg: ◦ Might attract attention of regulators (EU Commission mentioned in data) ◦ Monopoly, inertia, loss of efficiency
Evaluation	• costs versus benefits of merger • discussion of government role in regulating mergers • market failure versus government failure • short-run versus long-run perspectives. 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 benefits and costs, and / or give economic reasons for justifying a judgement on, for example whether benefits generally outweigh costs.

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

Introduction	• definitions/descriptions of ◦ privatisation ◦ public-private partnership (PPP).
Developing the response to the question: **Application**	• Evidence from the data used to support arguments for or against privatisation, e.g. references to ◦ competition ◦ concentration ◦ strategic industry ◦ public/private partnerships ◦ need for coordination across government levels ◦ environmental considerations ◦ employment.
Developing the response to the question: **Analysis**	• general arguments **FOR** privatisation, e.g. privatisation increases efficiency because the organisation becomes accountable to shareholders instead of politicians/taxpayers and therefore has to focus on profits. • general arguments **AGAINST**, e.g. an organisation of this type needs to have wider social objectives as well as narrow commercial objectives; the large capital costs and the strategic nature of LNG make it appropriate for the state to intervene. • reasons for the PPP format, e.g. to supply funds in the national interest; to negotiate enforceable contracts with foreign governments • reasons why the MHPA's activities might create negative externalities and impact of state versus private control.
Evaluation	• effects on competition and consumer choice can go either way; could possibly reduce competition and choice • spill-over effects from LNG industry creating costs for others in the area, e.g. tourism • possibility of market failure • possibility of government failure, e.g. wrongly predicting the market for energy • knock-on effects on the labour market • conflict of policies, e.g. with renewable energy • critique of the PPP format, e.g. may lead to ◦ inefficiency ◦ monopoly

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	• impact of regulation *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	• relevant use of evidence and examples not contained in the data • relevant diagrams • an overall judgement on the issues raised.

[25]

6.

For a relevant definition / description of property rights, e.g. a legally recognised right of ownership over a resource; or a definition of market failure.
For explaining how property rights can be lacking, e.g. on common land, on the high seas, in the atmosphere.

Pollution is an example of a negative externality. One failure is the pollution of a communal resource such as a piece of land, a lake or the atmosphere for any one example). Fresh air is a resource essential to life however the atmosphere can also be polluted by human activity. Because nobody owns the atmosphere the costs of pollution are external to the polluter and it is possible for an economic agent to pass these costs on to the wider community.
Another failure is the **depletion** of a communal resource, e.g. water reserves, fish stocks, wildlife, open spaces, and property rights incentivise conservation.
Make appropriate use of diagrams, e.g. an externality diagram.

[9]

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7.

Areas for discussion include:

- explaining: permit trading, quotas, environmental taxes, regulation, subsidising green technologies
- effects of emissions trading and alternatives, specifically on UK businesses (firms) in terms of:
  - costs
  - revenues
  - profits
- rationale for government intervention
- internalising externalities and “polluter pays” ideas
- command-and-control versus market-based solutions
- permit/carbon trading schemes in theory and practice
- alternatives and their implications compared and contrasted, e.g. quotas, taxes and subsidising green technologies
- efficacy/appropriateness of ‘offsets’
- possible conflicts between policies, e.g. environmental improvement versus growth and employment
- distortions, e.g. lenient treatment of favoured businesses/industries (mentioned in the data)
- the need for international action
- being ‘carbon neutral’ as a business objective

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]

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9. **Issues and areas for discussion include**

Introduction	• definition of market forces • distinction between insurance-based and tax-base systems • importance of the NHS 'free at the point of use' principle.
Developing the response to the question (Application)	• use of theory (monopoly, competition, efficiency) • discussion based on information from the data related to eg • practice in France • practice in Germany • practice in Spain • coordination across the EU (The EHIC) • US views of the 'European Model' • charging • internal markets • public-private partnerships.
Developing the response to the question (analysis)	• the nature of health services ◦ degree of monopoly; contestable markets ◦ imperfect/asymmetric information ◦ externalities • arguments for markets, eg ◦ rationing/signalling ◦ choice ◦ de-centralisation ◦ opportunity costs ◦ efficiency. • arguments against, eg ◦ market failure, externalities ◦ merit good ◦ income distribution ◦ imperfect information ◦ needs and wants ◦ economies of scale.
Evaluation	• efficacy of privatisation • critique of idea of increased choice for patients/competition between providers • bureaucracy of health reforms, eg doctors having to spend time commissioning services • comments on alternative arrangements, eg the German split between public, private, not-for-profit • possibility of 'cherry picking' by the private sector • NHS having to underwrite the private sector's errors, eg recent cases of implants • possibility that insurance leads to unnecessary procedures • economies/diseconomies of scale in the NHS • outcomes and results of PPPs • does the 'ownership' of assets and resources matter more than outcomes? • market failure versus government failure

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	• possibility that innovation in health care comes from government funded investment rather than private sector investment. *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.

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

[25]

11.

Candidates can approach the question with a focus on the UK government or government in general. Either approach can gain full marks. Also, they can focus on 'externalities' or wider 'problems' of market failure.

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Issues and areas for discussion include:

Introduction	• definitions/descriptions of, eg ◦ externalities ◦ positive and negative • clean water as a merit good • polluted water as a demerit good.
Developing the response to the question (Application)	• relevant use of theory, eg private costs, benefits, social costs, benefits • evidence from the data, eg reference to • pressures on drinking water • lowering of water tables • floods • polluted wells, sanitation • unnecessary waste (bottled water) • costs in terms of oil • private (personal) health benefits of clean water • external health benefits of clean water (avoidance of contagious disease) • environmental issues arising from above points
Developing the response to the question (analysis)	• wider environmental issues, and international comparisons, eg ◦ floods in Bangladesh, drought in southern Spain; ◦ Britain's case of universal drinking water (a result of infrastructure investment over generations). • discussion of water as a private/public/merit good • consequences of different views of the economic nature of water, in terms of government policy, eg • a private good implies privatisation and marginal cost pricing; a public good implies nationalisation and payment out of taxation • a merit good (clean water, good sanitation) implies social benefits exceeding private benefits and under supply/under consumption, and an argument for direct government provision or subsidy • a de-merit good (unfit water, poor sanitation) implies social costs exceeding private costs and over supply/over consumption, and an argument for government action to remove the negative externalities (eg making the polluter pay) • regulation versus de-regulation • policies for supply • policies for use.

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Evaluation	• reasons why market failure/externalities/environmental grounds might be a reason for having a special view of the economics of water; eg water is ubiquitous and a fundamental part of the environment; a basic of life • use of markets to distribute water (eg trade in licences to abstract water) • inequality in buying power, eg utilities can pass costs of buying water along their supply chain to customers; smaller firms, eg farmers, cannot • providing sanitation and clean drinking water cost money, and there is a role for commercialisation (eg there is a debate in the UK about how water should be priced; there is clearly a consumer demand for water in plastic bottles) • balance of advantages and disadvantages of governments regarding water as a merit good • consideration of costs and benefits of, eg ◦ government action ◦ the bottled water industry ◦ alternative uses for water • role of government in general in water-related matters • role of UK government in particular • discussion of whether the UK has consistently regarded water as a 'merit good' ('water and sewerage' businesses have been privatised; however, they have also been strongly regulated) • market failure versus government failure *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	• relevant diagrams • an overall judgement on the issues raised.

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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13. **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]

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15. **Candidates can approach the question with a focus on the UK government or government in general. Either approach can gain full marks.**

Issues and areas for discussion include

Introduction	• Definitions/descriptions of, e.g. ◦ Privatisation ◦ Public ownership ◦ Regulation ◦ Nationalisation/re-nationalisation.
Developing the response to the question: **Application**	• Comments from own economic knowledge or based on the data, e.g. ◦ Further comments on **Extract A**, (apparent disconnect between costs and prices) ◦ Profit margins, the structure of the privatised industry, role of small firms (**Extract B**) ◦ Labour costs (**Extract C**) • Prompts in the question, e.g. dominant large scale multinationals, profit margins, blurred lines between wholesale and retail markets.
Developing the response to the question: **Analysis**	• Arguments for re-nationalisation, e.g. ◦ Complicated structure of the industry ◦ Low price elasticities of demand (few alternatives for the consumer) ◦ Asymmetric information ◦ Natural monopoly ◦ Economies of scale ◦ Profits for infrastructure instead of shareholder value ◦ Commanding heights'/national security arguments ◦ A need for regulation ◦ Arguably a greater chance of energy conservation, insulation, etc. (privatised concerns may have a vested interest in selling more energy). • Arguments against re-nationalisation e.g. ◦ Efficiency ◦ Competition ◦ No guarantee of lower prices ◦ Encouragement of new entrants ◦ Cost implications ◦ Burden on taxpayers.

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Evaluation	• 'Rip-off Britain' monopoly versus competition • Market-based policies versus government intervention • Market failure versus government failure • Price transparency versus price opaqueness (asymmetric information) • Role of price elasticity of demand for an essential service (special case of older customers) • Profit margins; validity of comparisons with supermarkets • Better evaluative answers will move beyond general and basic arguments for and against privatisation, and will look at the specifics of the electricity industry. Some prompts are given in the final paragraph; some or all of these could be addressed. *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	• Relevant 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]

17. 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**.

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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Refer also to the issues and areas for discussion on the next page.

Introduction	• Definitions / descriptions of, e.g. • Market forces • Government intervention / regulation
Developing the response to the question: **(Application)**	Comments from own economic knowledge or based on the data, e.g. • Further comments on **Extract A**, (international comparisons of green / non-green energy sources) • Examples from **Extract B** of businesses behaving responsibly, e.g seeking new fuels for aircraft, developing electric cars • Market forces clashing with government predictions, e.g. seeking new oil while wanting to limit climate change **(Extract B)** • Failures of regulation **(Extract C)** • Unsustainable business model **(Extract C)**
Developing the response to the question: **(Analysis)**	Arguments for regulation / intervention e.g. • Market failure • Negative externalities • Inability of markets to make long term predictions • Health and safety issues arising from environmental problems • The need for coordinated international action Arguments for market forces e.g. • Government failure • Efficiency • Competition, enterprise, efficiency • Signalling, incentive, rationing functions of price
Evaluation	• Evaluation of policies in general, e.g. command and control vs. market-focused policies • Evaluation of some specific policies, e.g. prohibitions, regulations, vs. pollution permits, carbon off-setting, taxes, subsidies • Discussion of the quotation (perfectly performing markets vs. wonderfully wise governments) • Consideration of why environmental policies might be good for business and also why it is good for business to respect the environment • Advantages and disadvantages of a mixed economy approach • Market failure versus government failure • Need for privatisation to be accompanied by effective regulation • Discussion of the claim about privatised profits and nationalised costs *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	• Relevant 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 issues and areas noted. They may also discuss issues not mentioned in the table.

[25]

19.

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]

20. 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 / descriptions of, e.g. ◦ Privatisation ◦ Public ownership
Developing the response to the question: **(Application)**	• Comments from own economic knowledge or based on the data, e.g. ◦ Further comments on **Extract A**, (differences / similarities between different governments) ◦ Examples from **Extract B** of privatisations ◦ Dangers of privatisation mentioned in **Extract C**
Developing the response to the question: **(Analysis)**	NOTE There are two aspects to the question: privatisation vs. nationalisation, and domestic ownership vs. international ownership. To achieve Level 5 both aspects must be analysed **and** evaluated. Level 4 can be achieved by a thorough treatment of one aspect, as long as the other is addressed to some extent. • Arguments for nationalisation / against privatisation, e.g. ◦ Externalities ◦ Inability of markets to make long term predictions ◦ Health and safety issues arising from environmental problems ◦ The need for coordinated international action ◦ Merit goods, demerit good, public goods • Arguments for privatisation / against nationalisation, e.g. ◦ Efficiency ◦ Competition, enterprise, efficiency ◦ Signalling, incentive, rationing functions of price • Advantages / disadvantages of international cooperation. • Implications of inward investment; skills / knowledge transfer, comparative advantage vs. self-sufficiency, import substitution
Evaluation	• Evaluation of some specific privatisations, e.g railways, nuclear power, water • Discussion of the quotation (whether the exclusion of British state ownership can be justified if owners are nationalised by their states, or have the backing of a foreign sovereign wealth fund) • Advantages and disadvantages of a mixed economy approach • Market failure versus government failure • Need for privatisation to be accompanied by effective regulation • Globalisation and globalism • Protection vs. free trade; free movement of capital *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	• Relevant 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]

21.

Response	Max 2 marks
For the correct answer without a unit shown. The correct answer (39.8%). (The 'unit' (% or per cent) **must** be shown.)	**2 marks**
Any other answer between 39.0 and 40.0 (inclusive) irrespective of decimal places, **with** unit shown.	**1 mark**

[2]

22.

Areas for discussion include:

- explanation of privatisation and deregulation
- the arguments in favour of privatisation in general
  - efficiency
  - investment
  - greater responsiveness to customer needs
  - adoption of best practice (including from foreign firms)
  - building a shareholder culture
  - one-off impact on public finances
- the arguments against privatisation in general
  - higher prices due to monopoly/oligopoly power
  - reduced quality of service
  - reduced consistency of service
  - greater risk of externalities
  - difficulties in identifying the true value of state-owned assets at time of privatisation
  - costs incurred in the regulation of newly privatised industries
  - impact on employees and trade unions
- the arguments for and against introducing competition alongside privatisation
- impact on customer service quality, reliability and punctuality
- impact on customer price
- profitability of private operators
- impact on technological innovation and dynamic efficiency
- value for money for the taxpayer, perhaps with reference to the criticisms of the Government's handling of the sale of Royal Mail.
- impact on workers' job security, pay and conditions
- regulation of Royal Mail – the split model of competition in parcels but virtually a monopoly in letters allows for comparisons to be made about the different approaches
- reference to the fact that letter collection is more competitive than letter delivery, and the problems faced by Whistl in attempting to enter the latter market
- alternatives to nationalisation and privatisation: such as contracting out, subsidies
- the possibility of government failure, either in running a nationalised post service, or in organising the privatisation process
- market 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.

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Level of response	Response	Max 25 marks
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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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23.

Areas for discussion include:

- analysis of the main sources of air pollution (road vehicles, ships, factories, energy production)
- analysis of the main impacts of air pollution (localised health problems, smog, acid rain, global warming)
- the impact that existing policies have had, eg air passenger duty, fuel excise duty, regulations surrounding emissions (NB Volkswagen scandal), price controls
- explanation of regulation
- the benefits of regulation (simple, easy to change, easier to enforce)
- the costs of regulation (blunt and inefficient tools, create rent-seeking behaviour, unresponsive to changing markets)
- explanation of property rights and how a clear allocation of property rights might help,
- the limitations of property right allocation as an effective policy
    - how the initial allocation of property rights can be extremely problematic
    - how difficult it can be to identify when a right is being breached. For example, if an individual has a right to clean air, how is “clean air” to be defined?
- the success or otherwise of tradable permit systems such as the EU Emission Trading Scheme and the Californian trading system
- explanation of environmental taxation and how it might be applied in this context
- the benefits and costs of taxation
- the international nature of the problem, meaning that interventions taken by individual countries can address localised problems such as smog, but that problems such as global warming require coordinated global action
- examples of successful/unsuccessful regulatory interventions
- whether improved information can be an effective antidote to polluting behaviour
- 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.

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24. **Areas for discussion include:**

- what is meant by renationalisation
- explanation of natural monopoly
- arguments in favour of renationalisation
  - simpler consumer offering, less baffling ticketing options, more consistent service
  - economies of scale, eg purchasing of rolling stock, marketing
  - greater consideration of externalities, eg safety
  - necessary for making much-needed investment in new tracks and technology, although government currently subsidising network rail so perhaps little impact here
  - no great upfront cost as nationalisation occurs when franchises come to an end
  - successful state-run railways across much of Europe
  - current situation appears to nationalise the risks, but privatise the rewards (East Coast mainline)
  - the relative success enjoyed by the East Coast mainline when run by the state
  - current situation isn't true competition anyway as consumers rarely have a choice of suppliers for a given journey
- arguments against renationalisation
  - passenger numbers have expanded enormously since privatisation, with UK rail being used very intensively
  - recent increase in investment under private hands
  - big improvements have occurred in safety, innovation and comfort
  - no excessive profits being made consistently by rail firms, with small profit margins being the norm
  - many current concerns about railways (eg overcrowding, punctuality) are unlikely to be resolved by a change of ownership
- market failure arguments
- government failure arguments.

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[25]

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25. **Areas for discussion include:**

- definitions/explanations: supply-side, supply-side improvements, interventionist policies
- explaining why supply-side improvements may be necessary
- the difference between interventionist and free-market approaches
- the differences in targeting labour markets or product markets
- explaining interventionist supply-side policies such as:
  - education
  - apprenticeships/vocational training
  - infrastructure
  - regional policy
  - health spending
  - housing supply policies
- explaining free market supply-side policies such as:
  - privatisation
  - deregulation
  - tax and welfare benefit system changes
  - flexible labour markets including trade union reform
  - promoting free trade
  - removing red tape/bureaucracy
  - policies to promote immigration
- the effects of supply-side policy on the macroeconomic goals or living standards
- considering that some supply-side policies require 'intervention' to make them more 'free-market' such as legislation reducing trade-union power to allow the market system to work
- the problems that so called 'carrot and stick' policies may create
- the merits of interventionist versus free-market approaches
- the unintended consequences of policies or government failure
- the real-life experiences and effectiveness of policies: for example, has privatisation worked in all markets such as railways?
- the potential financial costs or cost effectiveness of supply-side policies
- considering that supply-side policies can affect AD
- the difficulties of measuring the effectiveness of supply-side policies and time lags.

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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