

AQA A-LEVEL ECONOMICS • 7136

ECONOMICS



EXAM QUESTION PACK

3.1.8.8 PUBLIC OWNERSHIP, PRIVATISATION, REGULATION AND DEREGULATION

SCORE

/426

PERCENTAGE

%

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1.

Extract C (lines 17–19) states: ‘Many environmental economists suggest that making firms pay for the costs of landfill associated with their products, or taxing raw material inputs, will be necessary to ensure a sustainable future for all.’

Using the extracts and your knowledge of economics, evaluate policies, if any, that governments in developed countries should pursue to reduce waste and encourage the recycling of waste products.

[25 marks]

2.

Telephone services in the UK were once publicly owned, and there was only one supplier of these services to most British households. Today, consumers can choose their telephones and networks from a variety of privately-owned companies.

Discuss whether utilities, such as gas, electricity and water, are better left in the private sector and open to competition or whether all, or some, should be taken back into public ownership.

[25 marks]

3.

‘The UK’s strong reliance on landfill indicates the existence of widespread environmental market failure’ (**The Global Context Extract B**, lines 16 –17).

Using the data and your economic knowledge, evaluate alternative methods of correcting market failure arising from waste disposal.

[25 marks]

4.

Using the data and your economic knowledge, evaluate the view that mergers, such as the one proposed between *British Airways* and *Iberia Airlines*, are usually ‘good for consumers as well as for the companies involved’ (**The European Union Context Extract D**, lines 22–23).

[25 marks]

5.

‘...given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised’ (**The Global Context Extract B**, lines 12–14).

Using the data and your economic knowledge, do you agree with the view that enterprises such as the MHPA should be privatised? Justify your answer.

[25 marks]

6.

Explain what is meant by ‘property rights’ (**The Global Context Extract B**, line 20) **and** analyse how an absence of property rights can worsen the environmental market failures of **both** pollution **and** the rapid depletion of natural resources.

[9 marks]

7.

Pollution and Climate Change Extract F (lines 9–10) states ‘Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel’.

Using the data in the extracts and your knowledge of economics, evaluate the possible impact on UK businesses of policies to reduce pollution.

[25 marks]

Extract B: Supplying the energy market: the case of Milford Haven

For hundreds of years, the harbour of Milford Haven in West Wales has responded to changes in the global economy. It has accommodated many global activities, including trade, defence, transport and tourism. These activities are often in potential conflict with the environment. Although it is surrounded by the Wales coastal footpath and the *Pembrokeshire National Park*, Milford Haven contains two massive oil refineries, several leisure marinas, an international car ferry port and quays for what little remains of the West Wales fishing industry. 1 5

Milford Haven Port Authority (MHPA) is a nationalised enterprise, accountable to the *Department of Trade and Industry* in London. Ports have often developed historically as 'public works' due to their strategic importance and because of the large amount of investment needed to build port installations. Governments are trying to reduce the size of the public sector in order to improve efficiency and competition. However, given the activities with which it is involved, there are commercial and wider economic and social arguments against a body such as the MHPA being privatised. For example, the MHPA has argued that privatisation would reduce its ability to take part in infrastructure projects in public-private partnerships. These partnerships involve a variety of companies and government bodies at local, regional, national and international levels. 10 15

A major strategy adopted by the MHPA involves anticipating and reacting to changes in the global energy market. The boom years of North Sea oil and gas, which created high wages in skilled jobs for northern ports such as Aberdeen, are drawing to a close. Global oil and gas markets are often concentrated markets. For this reason, as well as for reasons of ensuring security of supply, new sources such as biofuels and other diverse forms of energy are being sought. 20

The MHPA, together with the UK government, has negotiated a long-term deal with the government of Qatar in the Arabian Gulf for the supply of liquefied natural gas (LNG). This is sent to Milford Haven in refrigerated container ships and then stored in huge tanks at the port. When the gas is warmed up, it expands to 600 times its liquefied volume. The gas is sent through a new pipeline to a pumping station 150 miles away in Gloucestershire. It is then distributed into the UK national grid for industrial and domestic use. This is an example of a public-private partnership in action. 25 30

The distribution of fuels such as gas and oil involves some negative externalities. There was controversy when the new pipeline was laid through attractive Welsh countryside, including the *Brecon Beacons National Park*. Some 15 years ago, the oil tanker *Sea Empress* sank near the entrance to Milford Haven and it took the local economy several years to recover from the environmental impact of the resulting pollution. Given the recent environmental experiences of BP in the Gulf of Mexico, environmentalists are concerned about the possibility of some sort of disaster arising from the storage or movement of LNG. 35

There are also concerns about the UK's possible over-reliance on a single product (LNG) from a monopoly source (the state of Qatar) and a single distribution channel (the Pembroke-Gloucester pipeline). Supporters of the MHPA strategy claim that the LNG business actually aids consumer choice and competition through diversification, adding gas installations to the existing oil and renewable energy installations in and around the port. The MHPA states that safety and the prevention of environmental incidents are the 'most important priorities' of their business. 40

Sources: news reports and industry information, 2010

9.

'Many ideas in the UK for coping with rising health care costs are imported from other EU countries' (**The European Union Context Extract F**, lines 1 and 2).

Using the data and your economic knowledge, assess whether the UK Government should encourage greater use of market forces in the provision of health care.

[25 marks]

10.

THE EUROPEAN UNION CONTEXT

Extract F: UK health reforms

Many ideas in the UK for coping with rising health care costs are imported from other EU countries. For example, in 2002, the Labour Government introduced the idea of 'Foundation Trust Hospitals', which had been tried in Spain. These not-for-profit organisations are able to set their own clinical and financial priorities and have greater freedom to borrow money, invest their surpluses, and form public-private partnerships.	1
Meanwhile, in Spain, some doctors were complaining that their newly formed Foundation Hospitals had fewer beds, fewer staff and more complaints from patients than before. Some hospitals were returned to their former status because they were said to be bureaucratic, inefficient and 'cherry-picking', that is choosing the easiest patients to treat.	5
During 2011 and 2012, the UK Coalition Government legislated for NHS reforms, promoting the idea of an 'internal market' in health provision, with local doctors working in groups to buy hospital services on behalf of their patients. In February 2012, a hospital in East Anglia was the first in the NHS to be taken over by a private company, which hoped to clear the hospital's £45m debts and make it 'profitable' by 'competing' for patients with neighbouring hospitals.	10
	15

11.

'The supply and use of water result in many externalities, both positive and negative' (**The Global Context Extract B**, line 16).

Using the data and your economic knowledge, evaluate UK government policies that could be used to deal with problems associated with the supply and use of water.

[25 marks]

Extract B: Water, water everywhere

Access to clean water is closely linked to production, income and wealth, both within and free good. However, only a small proportion can be used to support human life and even this is not freely available to all. 1

As underground water levels drop in industrialised countries, and as waterways become polluted, some places, like southern Spain, are desperately short of water. Meanwhile, poorer countries, such as Bangladesh, sometimes suffer from too much water, with sudden disastrous floods. Unlike developed countries, such as the Netherlands, they cannot afford flood defence infrastructure. In Kenya, people living in villages without drinkable water can see irrigation systems in nearby fields spraying water over vegetables and flowers being grown for export to Europe. 5 10

There are problems with property rights to water. Indeed, some experts have predicted that, during the twenty-first century, countries controlling the world's fresh water supplies will be in a similarly powerful position to that of the twentieth century's oil producers, and that wars might even take place because of disputes over water. 15

The supply and use of water result in many externalities, both positive and negative. One-third of the water used by UK households is flushed down the toilet. The water used to carry human waste through sewers has to be kept separate from drinking water. When the water industry was privatised by the UK Government, shares were sold in 'water and sewerage businesses', and these companies were regulated by OFWAT (The Water Services Regulation Authority) for their commercial activities as regional monopolies, and by the Environment Agency for their wider impact such as the extraction of water from rivers. 20

In recent years, several regions of the UK have repeatedly been declared to be suffering from 'drought', and there has been some debate over which policy responses are appropriate. These include hosepipe bans, metering of water supplies, a national 'grid' for transporting water around rivers and canals, and more reservoirs. The privatised companies have made massive investment in infrastructure which has transformed polluted rivers such as the Wandle, near London, from open sewers into trout streams, but further measures are necessary to prevent annual droughts. 25

'In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth.' (**The European Union Context Extract F**, lines 17–20)

Should government intervene in the UK housing market, for example using subsidies, or leave the provision of housing to market forces? Using the data and your knowledge of economics, justify your answer.

[25 marks]

14.**THE EUROPEAN UNION CONTEXT****Extract F: Housing and inequality**

The EU Commission has said: 'Decent housing at an affordable price in a safe environment is a fundamental need and right. Ensuring this need is met, which is likely to alleviate poverty and social exclusion, is still a significant challenge in a number of European countries.' Housing inequality can result in part from income inequality and can, in turn, help cause wealth inequality. Most houses are bought using mortgages which are issued by banks and building societies on the basis of income. The UK's 'Right to Buy' policy, dating from the 1980s, makes a one-off redistribution of wealth from the state to low income families when tenants buy their council houses at a subsidised price. Regional and international differences enable some house owners to convert their housing assets into other forms of wealth. For example, someone who sells a former council house they have owned for 30 years in south-east England might release enough profit to be able to purchase a similar house in north-west England, or even two houses in Bulgaria, while still having cash left over.

In most EU countries, 'austerity' pressures on public finances can be expected to cause a further withdrawal by government from a direct role in housing. The financial crash of 2007 was made worse in Europe by excessive property speculation, particularly in the UK, Ireland and Spain. In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth. Moreover, in 2013, a government 'Help to Buy' scheme, intended to assist first-time buyers with their deposits, has also subsidised would-be landlords buying property to rent out. Yet the UK remains short of social housing and affordable private housing.

Source: News reports, 2014

15.

'Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets.'
(**Extract C**, lines 15–16).

Using the data and your knowledge of economics, assess the arguments for and against the UK electricity industry being brought back into public ownership.

[25 marks]

16.**THE GLOBAL CONTEXT****Extract C: Some international trends**

Some of the costs facing firms in the electricity market are domestic, such as, the charges levied by the companies who own the transmission cables. However, many input costs are determined internationally, including coal, gas and even labour costs. For example, npower, which is owned by a German company, recently announced plans to cut 1400 office and call centre jobs (about 15% of its UK workforce) as part of a major re-structuring, outsourcing them to India. While reducing labour costs this way, it increased prices by 10.4 per cent. 1

The costs of producing electricity could go down if the UK adopts fracking, a process widely used in the USA. Fracking involves the use of chemicals to extract oil and gas from rocks deep underground. In the USA, electricity prices have fallen as a result of the production of shale gas using this controversial process. Would there be a similar reduction in electricity prices in the UK? Some economists predict that this will not be the case. American shale gas is sold within the USA, whereas, without government intervention, UK gas is more likely to be exported via pipelines to generators on the Continent, to take advantage of high prices there. 5

Critics of the Big Six might argue that electricity companies should not have been privatised as they can never behave or perform like supermarkets. They claim that this is due to differences between the two industries, such as the type of product sold, entry barriers, minimum efficient scale, company objectives, effects of technological change and international factors. 10

15

Source: News reports, 2013

17.

'In tackling environmental problems there is not really a straight choice between perfectly performing markets on the one hand, and wonderfully wise governments on the other' (**Extract C**, lines 18 – 19).

Using the data and your knowledge of economics, assess the relative importance of market forces and government intervention in encouraging businesses to behave responsibly towards the environment.

[25 marks]

18.**Pollution and climate change****Extract F: Issues over carbon trading**

Critics say that carbon trading amounts to 'privatisation of the atmosphere', with property rights in this vast new market being grabbed by speculators or by those who already pollute the most. They also claim that activities such as buying credits from Russia are an 'accounting fraud' because they do not necessarily arise from energy efficiency but from the collapse of heavy industry. There is concern that carbon trading is a further blow to manufacturing and that service industries are treated more leniently. If the UK relies on manufactured imports, it can be argued that factories located in China are actually creating UK emissions.

Some major UK businesses appear happier with permit trading than with alternative policies such as quotas on emissions or the taxation of fuel. There is a suspicion that carbon trading might mislead the public into believing that pollution from airlines and other industries is no longer damaging. Governments are accused of being overgenerous in allotting permits to industries that they see as nationally important, such as car manufacturing and electricity generation. While the UK might reduce its domestic demand for carbon, it continues to contribute to the world supply of fossil fuels through activities such as oil prospecting and opencast mining. Russia, China and less-developed countries with coal reserves show few signs of reducing their output of this form of carbon.

Source: news reports, 2010

19.

'A third runway at Heathrow is essential for the success of the economy of London and the UK.'

'A third runway at Heathrow would be an environmental disaster and cause huge market failure.'

Explain how an investment project, such as airport expansion, can be commercially successful and yet produce market failure.

[15 marks]**20.**

'The UK government would be happy with state control of British railways "as long as it's not the British state"' (**Extract C**, lines 19 – 21).

Evaluate, using the data and your knowledge of economics, the case for and against the UK government privatising public services while allowing foreign ownership of these services.

[25 marks]**21.**

Calculate, to **one** decimal place, the percentage of total privatisation receipts collected by Chancellor George Osborne, using the data in **Extract A, Figure 1**.

[2 marks]**22.**

Extract C (line 2) states that 'Many competitors are using digital technology to drive innovation'.

Use the extracts and your knowledge of economics to assess whether the benefits outweigh the costs when the Government privatises organisations such as Royal Mail and opens up the market to competition.

[25 marks]

23.

According to Public Health England, poor air quality is the largest environmental risk to public health in the UK. In particular, diesel cars are estimated to be responsible for 40 000 premature deaths each year. In response, the Government announced in 2017 that it would ban the sale of new petrol and diesel cars by 2040.

Assess the view that regulation is a better policy for dealing with the problem of air pollution than the allocation of property rights or taxation.

[25 marks]

24.

Extract F (lines 9–10) suggests that ‘the British public really don’t care about who runs the trains; what they care about is reliability, comfort and price.’

Use the extracts and your knowledge of economics to evaluate the case for renationalising railways in the UK.

[25 marks]

25.

Essay 2

In 2018, the European Commission estimated that Bulgaria and Romania were both experiencing positive output gaps whilst the UK was experiencing a negative output gap. Persistent output gaps can cause problems for economies which may be addressed by supply-side improvements.

Evaluate the view that supply-side improvements in the UK economy can best be achieved through the use of interventionist policies.

[25 marks]

Mark schemes

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]

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]

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.

Also give credit for:

- relevant use of evidence and examples not contained in the data
- diagrams
- an overall judgement on the issues raised

[25]

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.

Also give credit for:	• relevant use of evidence and examples not contained in the data • diagrams • an overall judgement on the issues raised
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[25]

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

	• impact of regulation <i>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.</i>
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]

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]

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

	possibility that innovation in health care comes from government funded investment rather than private sector investment. <i>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.</i>
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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]

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.

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.

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 <i>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.</i>
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]

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 muddled (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.

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. <i>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.</i>
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]

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.

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

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 <i>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.</i>
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 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**.

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

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 <i>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.</i>
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]

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.

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]

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.

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]

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.

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 aren't 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 principle 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1 – 5 marks

[25]

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.

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 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 is, at best, very weak • includes attempted analysis which is weak and unsupported.	1–5 marks

[25]