

AQA A-LEVEL ECONOMICS • 7136

ECONOMICS



EXAM QUESTION PACK

3.1.8.9 GOVERNMENT INTERVENTION IN MARKETS

SCORE

/1206

PERCENTAGE

%

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1.

INVESTIGATION

Scenario

You are an economist working for the Ministry of Housing, Communities and Local Government (MHCLG).

You have been asked to investigate the state of the UK housing market.

As part of this investigation, you are to provide answers to three questions.

Referring to the **Extracts A, B, C and D**, use them and your knowledge of economics to help you answer this question.

After considering **Extract E**, and the original evidence in **Extracts A, B, C and D**, would you recommend that the Government should increase its spending on housing? Justify your recommendation.

[25 marks]

2.

‘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]

3.

Sony, one of the largest electronics and entertainment companies in the world, started out as a two-man operation in a back-yard garage. Facebook, now a huge global company, was created by two college students to enable their circle of friends to communicate with each other.

Since economies of scale give major advantages to large firms, is there any future, without government intervention, for small firms in a global economy? Justify your answer.

[25 marks]

4.

During 2015, the European Commission investigated allegations that people booking at Disneyland Paris, and on the cruises of some shipping lines, paid substantially different prices for the same holiday. British and German customers appear to have paid more than French customers.

Evaluate the view that price discrimination is always good for producers and bad for consumers, and should therefore be banned by regulators such as the EU Commission.

[25 marks]

5.

‘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]

6.

'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]

7.

'75% of British workers had no idea of the importance of the EU in creating and guaranteeing many key rights at work' (**Extract F**, lines 5 – 7).

Evaluate, using the data and your knowledge of economics, whether governments should attempt to influence aspects of the labour market such as wage levels, wage differentials and working conditions, or whether such matters should be left to market forces.

[25 marks]

8.

In 2018, the UK Government will impose a new tax on sugary drinks, aimed at tackling obesity. Behavioural economists believe that taxation alone is unlikely to be very effective in reducing consumption. By 2050, obesity is predicted to affect 60% of adult men, 50% of adult women and 25% of children. It is associated with a range of health problems including type 2 diabetes, cardiovascular disease and cancer.

Evaluate the view that imposing a tax is the most effective government policy for reducing the market failures arising from overconsumption of unhealthy food and drink.

[25 marks]

9.

Attempts by governments to equalise incomes are well-intentioned but counter-productive. They destroy incentives for people to lift themselves out of poverty.

To what extent can the problem of poverty in the UK be solved through the operation of market forces? Justify your answer.

[25 marks]

10.

Which one of the following provides a reason for government intervention in a market?

A Firms in an oligopolistic market may limit price competition.

☐

B Market failures can only be corrected by using regulations.

☐

C Monopolistically competitive firms earn abnormal profits in the long run.

☐

D Public goods are excludable and rival.

☐

[1 mark]

11.

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]

12.

Extract E (lines 14–16) states that ‘The market economy is not going to create the jobs by itself for those workers who are most affected by the change.’

Extract F (lines 4–5) states that ‘taxing productivity-enhancing tools like robots or machines makes no economic sense.’

Use the extracts and your own knowledge of economics to evaluate whether governments should allow markets to respond freely to the opportunities and challenges presented by technological progress, without any state intervention.

[25 marks]

13.

Extract B (lines 4–6) states that ‘banks do not feel enough pressure to compete on price or quality, leading some to call for the Big Four to be split into a number of smaller banks.’

Use the extracts and your knowledge of economics to assess the view that the government should intervene further in the banking sector to promote greater competition.

[25 marks]

14.

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.

Explain why the use of petrol and diesel cars may be a source of market failure.

[15 marks]

15.

Extract B (lines 16–18) states that, ‘Gig economy defenders claim that today’s flexible labour markets offer modern workers the opportunity to move freely between jobs and this gives them more choice over their working hours.’

Assess the view that government intervention in the UK labour market is necessary to protect the interests of people who are working in the gig economy.

[25 marks]

16.**INVESTIGATION****Scenario**

You are an economist working for the Ministry of Housing, Communities and Local Government (MHCLG).

You have been asked to investigate the state of the UK housing market.

As part of this investigation, you are to provide answers to three questions.

Referring to the **Extracts A, B, C and D**, use them and your knowledge of economics to help you answer this question.

Explain the likely causes of the main changes in house prices that have taken place between 2007 and 2017.

[15 marks]

17.

‘Each time the Government imposes a minimum price or wage, the result is almost always excess supply. What matters is the extent to which this is a problem.’

Discuss the view that a national minimum wage is beneficial for an economy.

[25 marks]

18.

‘Each time the Government imposes a minimum price or wage, the result is almost always excess supply. What matters is the extent to which this is a problem.’

Explain how the impact of a minimum price for a good or service is affected by its price elasticity of demand and its price elasticity of supply.

[15 marks]

19.

For a long time, supermarkets and other commercial firms have understood the benefits of behavioural economic concepts such as choice architecture and framing. The public sector has been slow off the mark, but at last governments are now taking advantage of the opportunities provided by nudging.

Using examples to illustrate your answer, assess the usefulness of behavioural economic theory compared to traditional economic policies in helping governments to correct market failures.

[25 marks]

20.

Using the data in **Extract D** (Figure 1), calculate the amount of government funding per £ of passenger income in the UK rail industry for the year 2015–16. Give your answer correct to the nearest penny.

[2 marks]

21.

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]

22.

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]

23.

Extract C (lines 14–15) states that ‘Rising prices will eventually also force builders in developing countries to explore alternatives to sand.’

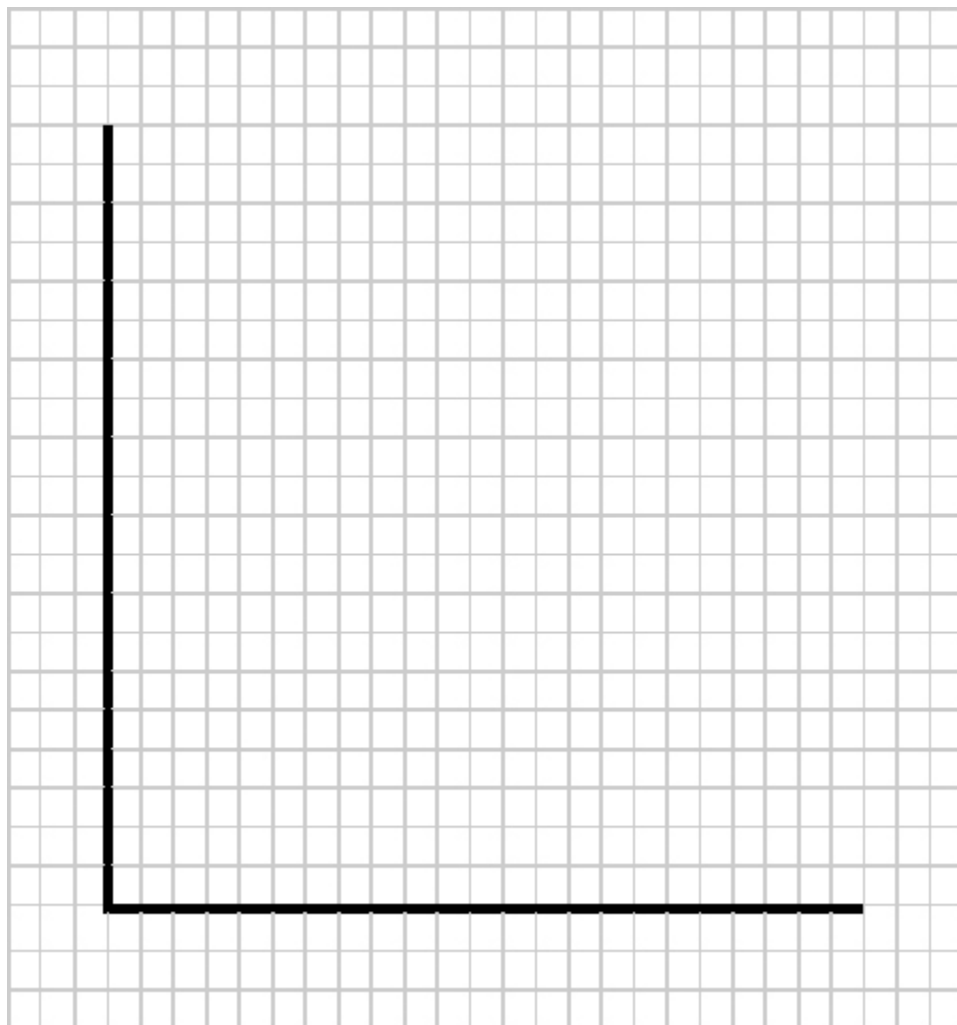
Use the extracts and your knowledge of economics to assess the view that the increasing scarcity of sand is a problem best solved by market forces, rather than through government intervention.

[25 marks]

24.

Extract C (line 20) states: ‘Perhaps a maximum price should be set for water’.

Draw a diagram to show the impact on the market for water of setting a maximum price below the equilibrium.



[4 marks]

25.

After considering **Extract D**, and the original evidence in **Extracts A, B and C**, would you recommend that the UK government provides financial and other support to companies involved in the production of commercial aircraft? Justify your recommendation.

[25 marks]

Mark schemes

1.

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 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 good application of relevant economic principles 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 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 principles but some errors are likely - includes some limited application of relevant economic principles 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 analysis which is, at best, very weak - includes attempted evaluation which is weak and unsupported.	1 – 5 marks

Relevant issues and areas for discussion include:

- adequate housing as a basic human need, indicated by the mention of housing as a merit good in **Extract E**
- population growth, leading to more households, outstripping the growth in the UK's housing stock
- different methods of dealing with the problems experienced in the housing market, some of which involve more government spending on housing, eg relaxing planning controls, eliminating other impediments to private sector provision of more houses, making it easier for people to borrow, cutting SDLT, making it more expensive for people to buy and own a second home, discouraging housebuilders from sitting on building land, 'encouraging' local authorities to build more houses, subsidising housing associations, increasing 'housing benefits' paid to people on low incomes, rent controls, measures to encourage the provision of low-cost housing, encouraging innovation and improvements in productivity in the construction of houses
- an assessment of the pros and cons of some of the above
- the impact of more government spending on housing on the budget deficit and the national debt
- the significance of the type of government spending and whether it affects the 'current budget balance' or the overall budget balance, ie ceteris paribus, more capital spending will increase the overall budget deficit but not the current deficit
- the macroeconomic consequences of an increase in the budget deficit and national debt
- possible opportunity cost of an increase in government spending on housing, eg reduced spending on other programmes, higher taxes, crowding out of the private sector
- the case for more government borrowing for capital projects when government borrowing costs are low
- are there sufficient resources, eg construction workers, available to increase the number of houses built?
- increased spending on house building and short-run economic growth, including possible multiplier effects
- increased spending on house building and long-run economic growth
- market failure in the housing market and the possibility that state intervention may result in government failure
- the case for more state provision and ownership of the housing stock versus encouraging more private-sector provision
- should private-sector provision be encouraged by deregulation and relaxing planning controls or by the state giving financial support to the sector and/or homebuyers?
- are measures that make housing more affordable likely to help by encouraging private sector providers to build more homes or are they likely to just bid up house prices, adding to the problem?

Good answers are likely to present and evaluate arguments for and against the government increasing its spending on housing. They are also likely to discuss other methods of dealing with the problems of the UK housing market. The significance of and the impact on the macroeconomy of increasing spending on housing are likely to be considered, as well as possible microeconomic effects of specific policies identified. The response should include a supported recommendation which could be either for or against the government increasing its spending on housing. The recommendation might also include an alternative policy or set of policies.

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

An answer that does not include ANY evaluation must not be awarded more than 13 marks.

[25]

2.

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]

3.

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

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

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

[25]

4.

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

Level 5	Good analysis <u>and</u> good evaluation	22 to 25 marks <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	Basic definitions/descriptions, e.g. producer surplus/ consumer surplus; regulation
Developing the response to the question: Application / Analysis	- Advantages of price discrimination, e.g. - Producers receive higher profits which, if re-invested, might benefit consumers through higher efficiency - Increased affordability for consumers paying the lower prices (the low cost airline model, which has been replicated by some other industries) - PD might turn a loss making firm into a profitable one - PD might enable a good / service to be produced that otherwise would be lost - Disadvantages - PD turns consumer surplus into producer surplus, so represents a transfer of resources from a less powerful group to a more powerful one (re-distribution of income in reverse) - In extreme cases, everyone pays the maximum they are willing to pay; consumer surplus disappears - Consumers paying the highest prices might switch to goods / services that are less socially optimal, e.g. consumers paying peak-time public transport fares who can afford to switch to private transport might be incentivised to do so.
Evaluation	- Critical discussion of the quotation - Overall consideration of advantages vs. disadvantages - The case for and against regulation - The spread of price discrimination from low-cost airlines and railway journeys to other business models, e.g. hotels, taxi journeys, and according to the data, theme parks and cruise ships: is this good or bad for consumers / producers? - Discussion of the word 'always' in the question <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 - Examples

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

[25]

5.

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]

6.

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]

7.

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 of • wage levels • working conditions • differentials.
Developing the response to the question: (Application)	• Comments from own economic knowledge or based on the data, e.g. further comments on wage rates and differentials, and wages increasing and recently flat-lining (Extract D) • EU context (Extract E) • Discussion of other aspects, such as bonus caps, wealth tax, fixed ratios between higher and low paid workers (Extract F) • Other possible policies, e.g. minimum wage, living wage
Developing the response to the question: (Analysis)	• Possible effects of government intervention/market forces on output and employment • Benefits of a government intervention, e.g. reduced inequality, higher morale • Increased costs of NMW / other policies, effects on sectors / general economy • Other methods of raising wage levels, e.g. productivity enhancement, skills, education and training • Taxes, benefits and welfare to work • Short and long run considerations • Opportunity costs of government subsidies for the low paid • The economic disfunctionality of inequality • The case for market forces in resource allocation
Evaluation	• General arguments for and against government intervention in labour markets • Market failure versus government failure • Consideration of the issues from different points of view, e.g. employers, employees, taxpayers • Consideration of the affordability of government intervention • Arguments to do with competitiveness • The government's own position as a major employer (local and national government) • Efficacy of NMW compared with other policies • A high-wage economy versus a low-wage economy <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]

8.

Areas for discussion include:

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

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

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

[25]

9.

Areas for discussion include:

- discussion of whether relative poverty is a problem, whether it is inevitable and insoluble.
- discussion of market forces
- the argument that some relative poverty has been created or reinforced by the state, through, for example the unemployment trap or a culture of benefits dependency
- discussion of the fact that the individual people defined as being in relative poverty have not always been so, and that the UK has reasonably good levels of social mobility with people moving in/out of relative poverty
- market forces can lead to job creation, providing one of the strongest routes out of poverty
- low labour taxes and low welfare spending provide stronger incentives for workers to escape poverty by their own means
- many problems associated with housing are linked to failures of policy rather than the market (eg lack of new homes resulting from Green Belt planning law, etc.)
- trickle down effects
- the need for government intervention to prevent wealth from being excessively concentrated in the hands of the rich
- why market forces are unlikely to deal adequately with some causes of poverty, e.g. poverty amongst the sick, disabled, the old and infirm
- arguments in favour of progressive direct taxes rather than regressive indirect taxes
- policies that retain an element of incentives, such as working tax credit
- the need for government intervention to establish a minimum level of essential human capital and physical capital investments (eg education and transport infrastructure)
- the tendency of markets to increase rather than decrease poverty
- the distinction between the impact of market forces on absolute, as opposed to relative, poverty.

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]

10.

A

[1]

11.**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]

12.

Areas for discussion include:

- what is meant by technological progress
- the historical impact of technological progress and how it has affected labour markets
- current issues around technological unemployment (eg self-service supermarket checkouts, driverless trucks, self-service ticket machines)
- the likely impact on jobs and wages
- concerns about the impact of technological progress on inequality and poverty, linked to regional and sectoral differences (making use of Extract D)
- labour market imperfections which make it difficult for unemployed worker to transfer into other jobs or locations
- how automation is now threatening well-paid, high-status jobs such as surgeons and accountants, not only manufacturing or retail work, and that the determining factor for automation risk is whether the tasks are routine or varied
- the optimists' argument that robots will only be used where profit can be made, and this requires a customer base who need to have a source of income (most likely to come from wages)
- the benefits of allowing the price mechanism to function
- analysis and assessment of the consequences of technological progress as a result of dynamic efficiency on costs, output, quality in product markets
- analysis and assessment of: the UBI proposal, a robot tax, retraining programmes, job creation programmes or any other appropriate form of intervention
- discussion of possible government failure when designing policies in such a fast-moving area
- the case against intervention, to allow market forces to redistribute labour and other factors of production to where they are demanded
- the view that the basic economic problem of scarcity is unlikely to be solved and hence new jobs will always be created to replace those that are lost
- evaluation of how much automation is actually a problem that needs to be addressed
- 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 are not well-supported by arguments and/or data.	11 – 15 marks
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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]

13.**Areas for discussion include:**

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

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

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

[25]

14.**Areas for discussion include:**

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

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

Level of response	Response	Max 15 marks
3	A good response provides an answer that: • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	11 – 15 marks
2	A reasonable response provides an answer that: • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	6 – 10 marks
1	A weak response provides an answer that: • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	1 – 5 marks

[15]

15.

Areas for discussion include:

- explanation of the gig economy and the difference between terms of employment in the gig economy and standard employment
- discussion of the emerging trends that have contributed to the rise of the gig economy, such as technological progress and online commerce
- what is meant by the 'interests of people who are working in the gig economy'
- discussion of the reasons why some roles/industries are more likely to arise in the gig economy than others
- the benefits of gig economy work to the individual, such as: flexibility over hours, ease of switching between jobs, autonomy from having no supervising manager
- the costs of gig economy work to the individual, such as lower pay and fewer non-wage benefits (for example pension, health insurance, maternity benefits)
- analysis of why wages may be lower and working conditions worse in the gig economy than in the formal sector
- benefits and costs of the gig economy to firms and the wider economy, such as greater labour mobility, lower costs of production, economic efficiency
- discussion of the impact of the pandemic on the gig economy
- discussion of possible policies, such as legislation, raising minimum wages, guaranteeing minimum hours for all roles, redefining gig economy workers as 'employed' rather than 'self-employed'
- the argument that the need for government intervention is reduced by the existence and growth of trade unions representing gig economy workers
- the argument that the need for government intervention is reduced by the fact that some firms in the gig economy are improving conditions for their workers anyway
- use of examples
- 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 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 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 is, at best, very weak - includes attempted analysis which is weak and unsupported.	1–5 marks

[25]

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

Remember: AO4, i.e. evaluation, is not being assessed through this question.

Relevant issues include:

- the distinction between nominal and real house prices; given the data, most students are likely to focus on causes of changes in nominal house prices
- use of the data in Figure 4 showing the changes in house prices over the period
- the role of the demand for and supply of houses as causes of changes in house prices
- determinants of the demand for houses, eg availability of mortgages, cost of mortgages, required loan-to-value ratios, deposit required, income, other factors affecting affordability, confidence and expectations, speculation and property price bubbles, government support, tax changes affecting the property market (may also affect supply)
- determinants of the supply of houses, including factors that determine:
 - long-term changes in the housing stock, eg building new houses, change of use, supply of building land, technological change
 - short-term changes in the flow of houses available to buy, eg building new houses and existing owners' willingness to put their property on the market

- elasticity of demand and supply of houses and their significance to house price fluctuations
- possible reasons why the average house price fell by around 15% in 2008, e.g. linked to the financial crisis, availability of credit, confidence and the general state of the economy
- possible reasons why the average house price changed little in nominal terms between 2009 and 2012 – demand and supply were both subdued, eg the hangover from the financial crisis, little growth in nominal incomes/falling real incomes, rising unemployment, but low interest rates and low levels of house building
- possible reasons for the substantial rise in the average price of a house between 2012 and 2017 (+34%), e.g. sustained period of very low interest rates, mortgage finance more readily available, economy growing and unemployment falling, returning confidence and expectations of house prices rising further in the future, the role of the Finance For Lending scheme, the Help to Buy Scheme, changes in SDLT, population/households growing more rapidly than the supply of new properties, planning and other government restrictions on the supply of building land, large house builders 'sitting on' land that could have been used for building new homes
- distinction between those factors that caused short-term changes in the average house price between 2007 and 2017 and those that resulted in a general upward trend in the nominal average house price
- consideration of causes of differences in the change in the average house price in different regions of the UK.

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

[15]

17.**Areas for discussion include:**

- discussion of national minimum wages including why they have been introduced
- discussion of the distinction between the NMW and National Living Wage in the UK
- analysis of how a national minimum wage works in an otherwise competitive market, and the consequent theoretical impact
- analysis of how a national minimum wage works in a monopsonistic labour market, and the consequent theoretical impact
- arguments for a NMW
 - prevents exploitation
 - reduces in-work poverty and inequality
 - incentivises firms to invest in labour productivity-enhancing capital
 - boosts motivation amongst workers leading to enhanced productivity
 - can remove the ability of immigrants to undercut existing workers' wages, which brings costs and benefits
- arguments against a NMW
 - can create unemployment by setting a wage higher than the marginal revenue product of some workers
 - unemployment may be concentrated amongst low-skilled workers from disadvantaged backgrounds thus reinforcing existing inequality
 - certain sectors affected more than others (e.g. careworkers, hospitality, retail). Higher wage costs may lead to falling profits and business failure
 - where firms pass on higher labour costs to consumers via product prices, this may be regressive
 - administrative costs of introducing and uprating the minimum wage, along with policing and prosecuting firms that break the rules
- labour market flexibility and supply-side considerations
- impact on the economy as a whole e.g. cost-push inflation, international competitiveness
- evidence from the UK or elsewhere about the impact on the labour market and wider economy
- consideration of the level or 'bite' of the NMW
- 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 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 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]

18.**Areas for discussion include:**

- explanation of minimum prices and why they might be introduced by a government regulator
- definition and explanation of PED and PES
- use of formulae and/or calculations to illustrate elasticity
- explanation of the determinants of PED and PES
- analysis of how the impact of a minimum price will vary according to PED. This is likely to lead to a greater proportionate change in quantity if demand is elastic rather than inelastic
- analysis of how the impact of a minimum price will vary according to PES. This is likely to lead to a greater proportionate change in quantity if supply is elastic rather than inelastic
- how excess supply is affected by PED and PES and what this might mean for the market
- analysis of how the impact of a minimum price will vary if a market has both elastic PED and elastic PES compared to an inelastic PED and PES
- analysis of how the impact of a minimum price will depend on whether the price is supported by intervention buying
- use of examples of the above situations.

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

Level of response	Response	Max 15 marks
3	A good response provides an answer that: • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning.	11 – 15 marks
2	A reasonable response provides an answer that: • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places.	6 – 10 marks
1	A weak response provides an answer that: • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused.	1 – 5 marks

[15]

19.**Areas for discussion include:**

- discussion of the field of behavioural economics, and how it differs from conventional economic analysis
- discussion of how governments are now beginning to use behavioural economics to achieve policy aims, not least in the UK where the Cabinet Office Behavioural Insights Team (Nudge Unit) has been at the forefront of international work in this field
- the types of policy which can be labelled as behavioural economics policies
- advantages of behavioural economics policies
 - relatively simple and low-cost
 - allows people freedom of choice without coercion
 - development of policies is based on trials, so is based on evidence
 - may be able to overcome weaknesses in consumer behaviour theory including irrationality and inconsistency
- disadvantages of behavioural economics policies
 - can be considered manipulative and unethical
 - may well change people's choices but these choices may not reflect people's true preferences
 - based on relatively weak evidence, which may not be consistent over time
 - may not be as effective as traditional policies
- examples from the work of the Nudge Unit and analysis of whether their policies have been successful
- the types of traditional economic policy, including indirect taxes and subsidies, maximum and minimum prices
- advantages and disadvantages of traditional policies
- discussion of what usefulness means in this context, including the cost of the intervention and its effectiveness
- consideration of different types of market failure
- government failure arguments.

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

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 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]

20.

Calculation:

£6697 million/£9160 million:

0.731114...

£0.73 or 73p (to nearest penny)

Response	Max 2 marks
For the correct answer to the nearest penny	2 marks
For the correct answer incorrectly rounded and/or without units OR For the correct method but the wrong answer, to the nearest penny and with the correct units	1 mark

[2]**21.****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]

22.**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]

23.**Areas for discussion include:**

- explanation of market forces and government intervention
- acknowledgement of recent rapid growth in the sand market
- discussion of the increasingly global market for sand, with the commodity being transported vast distances by sea
- explanation of how the market might respond to challenges via the price mechanism (incentives, signalling, rationing)
 - price of sand rising leading to recycling and reduction in use
 - substitutes becoming more available
- ability of the market/government response to cope with future developments, including rising sea levels and the expected construction needs of rapidly developing countries
- discussion of problems created by the sand industry
 - externalities from degradation of environment
 - externalities from transport of sand
 - tragedy of the commons
 - disappearance of Indonesian islands
 - sand dredging damaging biodiversity
 - vulnerability to extreme weather
- discussion of benefits of the sand industry
 - restoring coasts of low-lying islands such as Kiribati
- discussion of possible policies at the national level
 - regulations
 - taxation
 - permits and quotas
 - price regulation
- discussion of problems with the above policies, referencing the organised criminal networks in India, black markets, etc.
- explanation of how international agreement may be necessary given the global nature of the problem
- discussion of how such international agreements are slow to achieve and often fail to address problems identified
- market failure arguments
- government failure arguments.

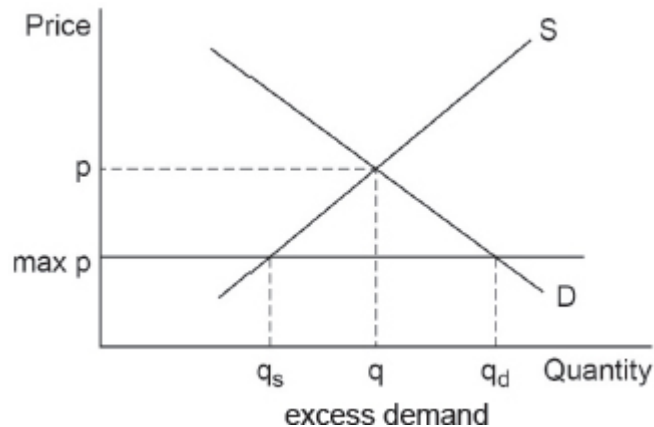
The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the student's response to the question.

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 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 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]

24.

The correct diagram involves a supply and demand diagram, illustrating an initial equilibrium point, a maximum price below equilibrium and some indication of excess demand, either by writing 'excess demand' in the appropriate place or by labelling the two coordinates for supply and demand at this new price (q_1 and q_2 would be acceptable, for example, instead of q_s and q_d).



Response	Max 4 marks
Accurately drawn D/S diagram showing initial equilibrium, a maximum price drawn below equilibrium, and the resulting disequilibrium with excess demand clearly illustrated, with both axes and all curves and coordinates correctly labelled. Excess demand could be illustrated by just showing q_d and q_s as above (for example) or by indicating the excess demand in some other meaningful way.	4 marks
Accurately drawn D/S diagram showing a maximum price below equilibrium with one label missing or incorrect (on axis or curve). OR Accurately drawn D/S diagram showing a maximum price below equilibrium with one coordinate missing or incorrect (P or Q).	3 marks
Accurately drawn D/S diagram showing a maximum price below equilibrium with two labels/coordinates missing/incorrect (treat excess demand as one label).	2 marks
Accurately drawn D/S diagram showing an initial equilibrium point with both axes, both original curves and both coordinates correctly labelled, eg p, q (max p may be missing or not below equilibrium).	1 mark

Notes: Horizontal axis allow: Quantity of water, Quantity or Q (but not QD or QS or output).
Vertical axis allow: Price, P, £ or some monetary symbol (but not Price level).

[4]

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 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 good application of relevant economic principles 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 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 principles but some errors are likely - includes some limited application of relevant economic principles 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 analysis which is, at best, very weak - includes attempted evaluation which is weak and unsupported.	1–5 marks

Relevant issues and areas for discussion include:

- market failure as a justification for government support
- damage to the environment as source of market failure in the commercial aircraft industry, eg greenhouse gas emissions, noise pollution
- the high cost and risk may, without government support, lead to inadequate spending on R&D and capital investment
- to support investment in human capital where the existence of positive externalities may be a source of market failure and, if left to the private sector, may mean spending is too low
- to support growth and employment in the less prosperous regions where market failures may mean that they do not develop sufficiently, eg immobility of labour, inertia, cumulative causation and local multiplier effects
- may help to promote improvements in productivity and competitiveness
- external benefits (spin-offs) for other industries arising from developments in the commercial aircraft manufacturing industry
- supports UK manufacturing helping to achieve a more diversified, balanced economy
- may be needed to match the support provided by other countries
- may be needed in the short run to support the industry when there is a significant economic shock
- impact on employment
- impact on short-run and long-run economic growth
- government support as an injection into the circular flow of income and related multiplier effects
- impact on exports and the balance of payments
- may lead to over-reliance on government support, inhibiting improvements in productivity and efficiency
- may make it difficult for new firms to enter the market
- distorts the pattern of comparative advantage, supporting inefficient industries reducing the gains from trade
- may breach WTO rules and allow other countries to impose tariffs and other trade restrictions in retaliation
- implications for taxation, other categories of public expenditure and the budget balance
- various arguments relating to government failure, eg information failures, administrative costs, political motivations
- a supported recommendation.

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

An answer that does not include any evaluation, either throughout the answer or in a supported recommendation, must not be awarded more than 13 marks.

[25]

1.

Assess the view that wide wage differentials are good for the economy and that governments should therefore play no part in deciding wage rates.

[25 marks]

2.

It is 'difficult to judge whether GM crops will boost productivity to feed the world and create social benefits or cause market failure through monopoly, environmental damage and adverse side effects on human health' (**The Global Context Extract B**, line 38–40).

Using the data and your economic knowledge, evaluate the view that the UK Government should support the production and use of GM crops.

[25 marks]

Extract B: Diminishing returns and food production

The British political economist Thomas Malthus (1766-1834) argued that because cultivatable land is in fixed supply, food production is subject to the law of diminishing returns and cannot keep pace with population growth. Technological improvements and international trade have meant that his gloomy predictions of famine and drought have largely been avoided, certainly for industrialised countries like the UK. Now that the world has more than 6 billion people, predicted to rise to 9 billion by 2050, there is a worry once again that diminishing returns will set in. Some estimates suggest that the world's undernourished could soon number over a billion people.

Genetically modified (GM) crops are seen by some experts as providing a way around the problem of diminishing returns. Supporters of GM technology claim that by developing crops that are resistant to disease, drought, salty soil and flooding, more land can be cultivated and existing farmland used more efficiently. The result is improved agricultural productivity. They also claim that private goods like rice and tomatoes can be turned into merit goods by being modified to contain vaccines or cures for diseases.

Anti-GM groups have mounted high profile campaigns against what the media have called 'Frankenstein foods'. In response, the British frozen food chain Iceland decided that there was a competitive advantage in announcing that all of its products would aim to be GM-free and the major British supermarkets quickly followed. Meanwhile, the UK Government's official position is that it has an open mind, and that its priority is to protect human health and the environment while being 'pro-consumer choice'. In the USA, the 'choice' argument has been undermined by the view that foods containing GM products need not be labelled as such.

Can GM crops really guarantee 'food security'? Critics claim that a lack of spending power, not food supply, is the real problem, with poor people in failing economies often starving in front of full stores and granaries. They also claim that GM crops cause negative externalities. For instance, their pollen can contaminate the crops of nearby organic businesses. Also, most GM crops are developed for resistance to weed-killers and pesticides, and this encourages farmers to use more chemicals, killing wildlife and reducing biodiversity. Furthermore, there are fears that eating GM foods might have long-term risks to human health which have yet to be fully investigated.

Regulations in Europe are so strict that it costs a seed manufacturer at least ten times as much to develop a new GM crop than a conventional crop. This means that only big companies can afford to develop them. Globally, the American company Monsanto controls the seeds on over 80 per cent of the world area of planted GM crops. Furthermore, Monsanto bans 'seed saving'. It uses patent laws to sue farmers if they save seeds for planting, rather than buying new seeds every year.

Almost every single piece of evidence on each side of the debate is contested, making it difficult to judge whether GM crops will boost productivity to feed the world and create social benefits or cause market failure through monopoly, environmental damage and adverse side-effects on human health.

Source: news reports, 2008 / 9

4. '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]

5. Discuss whether markets alone can be relied upon to reduce the problems of environmental pollution.

[25 marks]

6. 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]

THE EUROPEAN UNION CONTEXT

Extract D: *British Airways and Iberia Airlines*

Until about twenty years ago, most European countries had at least one large 'national carrier' airline which was in public ownership. When airlines were privatised, there were fears that a state-owned monopoly would simply become a private monopoly. On some routes, de-regulation took some time and it was not until 2008 that the 'Open Skies' agreement sought to eliminate anti-competitive practices among airlines flying from Europe to North America. These anti-competitive practices included denying smaller airlines the opportunity to rent landing slots (landing spaces) at major airports.

In the face of greater competition from smaller, more innovative airlines such as *Virgin Atlantic* and the low-cost carriers such as *easyJet*, there has been increasing collaboration between some of the larger, traditional companies. *British Airways (BA)*, *Iberia Airlines (Spain)* and *American Airlines (AA)*, together with five other airlines, belong to *One World Alliance*, an arrangement which enables member airlines to sell seats on each other's flights.

With BA reporting a pre-tax loss of £401m in May 2009, its Chief Executive proposed a 'tie-up' with Iberia and AA which would come closer to a full-blown horizontal merger, enabling not only the marketing of flights but also joint pricing and a sharing of revenues. The proposal needed to be cleared by both EU and US anti-monopoly authorities, but it quickly failed when the European Union's Competition Commissioner objected, mainly on the grounds that it would raise prices and reduce consumer choice.

In October 2009, two European members of <i>One World Alliance</i> , <i>BA</i> and <i>Iberia</i> , tried again to reach a preliminary agreement for a full merger which they aimed to complete in late 2010. They claimed that a merger would be good for consumers as well as for the companies involved because duplicated European routes could be rationalised, while the routes operated in North America by <i>BA</i> and in South America by <i>Iberia</i> were complementary rather than competitive. The merger would need to be approved by the European Commission but there was a precedent because, in 2004, <i>Air France</i> was allowed to merge with Dutch airline <i>KLM</i> .	20 25
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The merger between *BA* and *Iberia* would create Europe's biggest airline. Critics raised concerns about the new company's market share and claimed that *BA*'s dominance at Heathrow Airport would increase to even more than its existing 44% of landing slots. Meanwhile, both *BA* and *Iberia* workers were planning strikes over cost-cutting proposals and pay offers.

Source: news reports, 2009

8.

Explain the term ‘public ownership’ (**The European Union Context Extract D**, line 2) and analyse **two** economic reasons that could be used to support public ownership of industries such as airlines.

[9 marks]

9.

'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]

10.

'...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]

11. THE GLOBAL CONTEXT

Extract B: The recycling market

Scrap metal dealers are once again touring housing estates in their pick-up trucks obtaining steel and other metals from householders. Increased demand for steel and other metals on world markets has led to a change in the fortunes of these dealers, who are price takers. 1

Recycling has become a global activity. In 2009, with gold selling internationally at well over \$1000 an ounce, there were TV adverts from companies wanting to buy unwanted jewellery. A mobile phone also contains tiny traces of precious metals which can be extracted profitably from the millions of phones discarded each year. This is done at large processing centres, usually near sea ports, and much of the recovered material is exported to factories in China. The Olympic stadium in Beijing, China, was built almost entirely using recycled steel. 5 10

Germans, Scandinavians and Canadians are used to sorting their rubbish into different coloured bins. But instead of matching the recycling rates achieved in some countries, the UK still dumps many potentially useful materials. These include plastics, glass, paper and metals, which are buried in landfill sites partly because there are insufficient market incentives for recycling. The UK's strong reliance on landfill indicates the existence of widespread environmental market failure. Landfill creates greenhouse gases, threatens to pollute water sources and wastes scarce resources. 15

Some critics suggest that it would be better for the UK to aim at waste reduction, eliminating unnecessary packaging and other 'bads' at the production and retail stages. The UK pressure group *Waste Watch* also suggests more reuse, for example encouraging people to buy second-hand clothes from charity shops. However, other methods, such as returnable milk bottles, are in sharp decline. 20

There are now landfill taxes and regulations which provide incentives for recycling. Households could face the prospect of fines for breaking 'bin-bag rules'. However, this may lead to unintended consequences such as illegal dumping of waste. *Waste Watch* wants national targets and other policies to promote composting because, by weight, garden and kitchen waste make up the majority of material sent to landfill. *Waste Watch* also suggests increasing the landfill tax each year and extending it to cover incineration and other waste-disposal methods. 25 30

Recovery is a further option. In less developed countries, some homeless people live on city rubbish dumps making a living from what they can find and sell. In the UK, market conditions are such that the metal in a 2p coin is now actually worth 3p. Some experts even predict that within ten years it will be economic to excavate landfill sites to 'mine' the tin cans and other scrap materials that have been buried there.

Source: news reports, 2009–10

12. An oligopolistic firm is trying to decide on the selling price and output of its product, and is also considering colluding with other firms in the industry.

Evaluate policies which a UK government could use to control the activities of oligopolists.

[25 marks]

THE GLOBAL CONTEXT

Extract B: Climate change

In 2004, Russia signed up to the Kyoto Protocol, an international agreement on policies to manage climate change. This committed Russia to a United Nations programme to reduce emissions of greenhouse gases. In 2010, Russia's emissions were as low as their 1990 levels, but this was less to do with environmental policy and more to do with the collapse of heavy industry following the fall of the Soviet Union. A large contribution towards the UK's Kyoto targets also came from deindustrialisation. However, China, like the USA, did not sign up to the Kyoto Protocol.

International action to control carbon emissions is necessary. One policy is known as 'carbon trading'. Countries agree overall emissions limits and try to create an international market for permits to pollute. The idea is to put a money value on emissions and, over time, to create incentives for businesses to invest in less-polluting technology. As well as the large compulsory 'compliance' market for carbon credits, there is also a smaller voluntary market for 'carbon offsets'.

For example, an organisation can be paid to plant trees to allegedly offset the damage that an airline journey does to the ozone layer. Some companies are using these offsets, together with greater energy efficiency and reduced polluting activities, to claim to be 'carbon neutral'. Some environmentalists are suspicious of offset schemes and claim, for instance, that offset schemes have hidden environmental costs.

Some economists argue that the pollution and depletion of communal resources such as clean air, water reserves and fish stocks are made worse by a lack of property rights.	20
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.	25

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.	30
	35

Source: news reports, 2010

14.

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]

15.

Which combination of example and policy, **A**, **B**, **C** or **D**, is most likely to be consistent with the source of market failure identified?

	Source of market failure	Example of market failure	Policy to correct market failure	
A	Missing market	Health care	State provision	☐
B	Positive consumption externalities	Education	Minimum price	☐
C	Merit good	Petrol	Indirect taxation	☐
D	Negative production externalities	Electricity generation	Pollution permits	☐

[1 mark]

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

17.

'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]

18.

In recent years, the EU has decided that the agricultural sector must become 'more responsive to market forces' (**The European Union Context Extract F**, line 12).

Using the data and your economic knowledge, discuss whether UK farming would benefit from greater responsiveness to market forces and less intervention by the UK government and the EU.

[25 marks]

19.

'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]

20.

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 5
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.	
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

21.

A government has a policy of reducing taxes on income while increasing taxes on spending, such as Value Added Tax (VAT).

Distinguish between equity **and** equality and explain the effects of this government policy on both equity **and** equality.

[15 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

23. THE GLOBAL CONTEXT

Extract B: Poverty and age

The UN estimates that half the children in the world live in poverty. The 40 poorest countries in the world contain 500 million people who share a total annual income which is less than the total personal wealth of the 40 richest people in the world. 1

When measuring poverty within countries, economists generally use an indicator of relative poverty. In the UK, government statisticians generally view people as being 'at risk of poverty' if their household disposable income after housing costs is less than 60% of the average. Politicians in the UK often focus on child poverty, because children from poor families are likely to grow into poor adults, and remain poor into old age. In 1999, the then Prime Minister, Tony Blair, promised to eliminate child poverty by 2020. In 2012, the Office for National Statistics (ONS) reported that relative poverty, as measured by the gap between a family's income and the national average, had fallen since 2008. However, this was likely to be because people in the middle had become worse off, rather than the poorest becoming better off. People aged 18 to 24 saw their risk of poverty rise, due to rising unemployment among that age group. However, it is not necessary to be unemployed to be poor. It has been said that some UK government benefits, such as tax credits, subsidise low wages paid by employers to many workers whose jobs are essential but may require few specialist skills. Training schemes and minimum wage legislation are among government policies aimed at reducing the number of 'working poor' in the labour market. 5 10 15

Sources: news reports, government statistics, 2013

24. '...any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation' (**The Global Context Extract C**, lines 21–23).

Using the data and your economic knowledge, evaluate whether governments, such as those of the UK or China, should intervene in labour markets to increase trade union membership.

[25 marks]

25. '...children from poor families are likely to grow into poor adults, and remain poor into old age' (**The Global Context Extract B**, lines 7–8).

Using the data and your economic knowledge, evaluate whether it is better for the UK government to reduce poverty by using policies to improve people's ability to earn higher wages during their working lives, rather than through the provision of state benefits to those who are poor for various reasons.

[25 marks]

Extract C: *Walmart* and China

Some global companies are willing to negotiate with trade unions, whilst others try to avoid them. US company <i>Walmart</i> , the world's largest retailer and owners of <i>Asda</i> in the UK, has been known to stop operating in some countries rather than have to recognise unions.	1
With over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Some of these large companies, such as <i>Walmart</i> , <i>McDonalds</i> and <i>FedEx</i> , have adopted an anti-union stance in the countries in which they operate.	5
In China, however, <i>Walmart</i> has signed 'collective bargaining' agreements with the <i>All-China Federation of Trade Unions</i> (ACFTU). The Federation has 193 million members and is a monopoly, given that no other trade unions are allowed to operate in China. Officially, signing the agreement was a voluntary action on <i>Walmart's</i> part. However, firms which refuse to sign such agreements are likely to face many difficulties in gaining access to Chinese markets. <i>Walmart</i> gets a say in the appointment of the trade union Chairman at its workplaces. This official invariably has close links with the Chinese government. So now, if <i>Walmart's</i> management in China wants to close stores, lay off employees, change workloads or amend working hours, it must consult ACFTU. In effect, this gives the Chinese government a say in the running of the business.	10 15
ACFTU discourages strikes at a time when working conditions in China have come in for international criticism. ACFTU has also been accused of failing to represent its members properly because the Chinese government prefers to promote business investment and business growth at the expense of workers' rights. However, there is a view that any negative economic effects of trade unions are outweighed by the positive effects of trade union activities on wages, discrimination and exploitation. For this reason, it is argued, the UK government should encourage businesses, wherever they operate in the world, to engage fully with trade unions.	20 25

Source: news reports, 2011

Extract F: The EU milk market

Over recent decades, the governments of most industrialised countries have intervened in their agricultural markets to offer support through subsidies and other measures. In Europe, agriculture employs less than 5% of the workforce, while agricultural intervention has traditionally taken about 50% of the EU budget. 1

Aimed at limiting state spending on the dairy sector, controlling milk production, and stabilising both milk prices and producer incomes, the EU introduced a milk quota system in 1984 as part of the Common Agricultural Policy (CAP). Milk quotas place a limit on the amount of milk that a farmer can sell every year without paying a 'levy' or penalty to the EU. The CAP has forced dairy farmers to work below capacity and even to dump milk, damaging the EU's reputation for economic efficiency. 5 10

The EU plans to end milk quotas in 2015 and wants agriculture to be less influenced by government intervention and more responsive to market forces. As quotas are removed, farms might be expected to become fewer, larger and more intensive. In Spain, for example, the industry has been allowed three times as much milk output since 1993, while the number of dairy farms has fallen drastically and productivity has risen. Meanwhile, like the UK government, the Spanish government has intervened to try to negotiate new pricing contracts between farmers, food processors and retailers. There is always a risk that government intervention in such negotiations in any market can adversely affect efficiency. 15

Sources: news reports and government information, 2012

28. THE GLOBAL CONTEXT

Extract C: Pensions and poverty

A major factor in tackling global poverty is the provision of adequate pensions. According to the think tank, Pensionwatch, four out of five older people around the world have no access to a pension, with many millions living in poverty or working well into their old age. Around 80 countries have some form of state pension which gives a basic income in old age. 1

An important question is whether individuals should take responsibility for their old age by choosing to contribute to a scheme provided by the state, or an employer, or via the insurance industry. Only a few wealthier countries also have a basic 'universal' state pension, financed from general taxation rather than contributions. These have a cost to the taxpayer but they reduce the social costs of old age poverty. 5

Statisticians can make long-term predictions of population changes and yet many private and public sector pension schemes are in crisis as countries are faced with ageing populations and rising levels of national debt. This can be seen as government failure, caused by poor forward planning. There has also been some market failure. For instance, due to the selling of inappropriate insurance-based private pension schemes, and a significant fall in the value of pensions being provided by even the better schemes, many consumers have lost trust in the private sector pensions industry. 10 15

It could be that many people are simply too poor to be able to afford to save, or it might be that people often prefer current consumption over future consumption. This form of market failure could be tackled by the government imposing a high rate of compulsory pension saving, as in Chile and Singapore. There was a small step in this direction in the UK in 2012 when the government launched 'auto-enrolment', an occupational pension scheme pioneered in Australia and New Zealand where employees are automatically included unless they opt out. While rich countries argue over who should pay for pensions, and by what methods, in poor countries, where pensions are needed the most, they are likely not to exist at all. 20

Sources: news reports, government statistics, 2013

29. Explain what is meant by 'market failure' (The Global Context Extract C, line 13) and analyse two reasons why markets might fail to provide adequate pensions.

[9 marks]

30. In August 2011, the UK Secretary of State for Culture said that while there were many local television stations broadcasting in the USA, they did not exist in the UK due to 'market failure'. He proposed a subsidy of £40m from public funds to help create stations which would then be financed by advertising.

Evaluate the view that attempts by governments to eliminate market failure by intervening in markets for public goods and merit goods will inevitably lead to government failure.

[25 marks]

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

Introduction	• meaning of 'differentials' • measurement of inequality • types of intervention (eg min/max wage).
Developing the response to the question Application/ Analysis	Application • candidate knowledge of, eg • inequality in the UK • recent issues, eg 'bonus culture' • the argument that inequality is economically dysfunctional. Analysis • arguments in favour of differentials, eg ◦ incentive arguments ◦ trickle-down ◦ encouraging enterprise ◦ encouraging work rather than welfare promoting efficient resource allocation • arguments for government action ◦ market failure ◦ counter-arguments to trickle-down ◦ general disadvantages of inequality (micro/macro). • examples of government action affecting equality, eg ◦ income/wealth taxes ◦ encouraging/discouraging a bonus culture ◦ minimum/maximum wages/ratios between top and medium pay • effects of government action, eg on patterns of spending (synoptic macro point: mpc and mps of low/high income groups) • the role of the government as an employer.
Evaluation	• overall assessment of whether inequality is 'good' for the economy • possible economic disfunctions of inequality (eg negative externalities, social costs, inflationary pressures, recession) • costs versus benefits of government action/inaction • equality of opportunity versus equality of outcome • equity, efficiency • market failure versus government failure • long run versus short run. <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>
Also give credit for	• diagrams • an overall judgement on the issues raised. • examples.

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

[25]

Issues and areas for discussion include

Introduction	• Links between the quotation and economic issues that are contested e.g: ◦ Positive/ negative externalities ◦ Consumer choice/ monopoly power ◦ Food security/ distributive issues
Developing the response to the question	• Arguments for government support of production and use, e.g: ◦ Consumer sovereignty (assuming consumers want them) ◦ Efficiency arguments ◦ The need to feed a rapidly expanding population ◦ The need for technical progress ◦ Alleged external benefits • Arguments against, e.g: ◦ Consumer sovereignty (European consumers appear not to want them) ◦ Market failures such as Environmental damage, Other negative externalities such as damage to organics; health concerns, Monopolistic practices, Asymmetric information ◦ Government failure
Evaluation	• Market failure versus government failure • Consideration of whether consumers/governments/farmers have sufficient information, or whether they are influenced by the media, pressure groups and interested parties (both for and against GM crops) • Very perceptive and aware candidates might discuss whether the word 'support' in the question simply means 'allow' or 'facilitate' or whether there is an argument about actively encouraging GM growers, e.g. through subsidy. • Discussing whether intervention: is likely to correct or reduce any perceived market failure, eg the negative externalities produced by petrol/diesel fuelled cars; might lead to government failure; might increase or reduce economic efficiency; might increase or reduce economic welfare. <i>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 policy decision.</i>

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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It will only be possible for candidates 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]

5.

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

Issues and areas for discussion include:

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

[25]

6.

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

[25]

8.

For candidates who:

Explain 'public ownership', eg:

- in terms of a business or organisation that is owned by the state / taxpayer / the community.
- and might take the form of eg a nationalised industry, government department, majority shareholding, public corporation, public / private partnership.
- examples: BBC, Royal Mail, etc.

Analyse **two** reasons, in terms of airline or another appropriate example, eg:

- airlines tend to be monopolistic and could therefore exploit monopoly power with lower output and raised prices and public ownership is one way of dealing with monopoly.
- air travel underpins other aspects of a modern economy (transport, aerospace etc) and is therefore too important for strategic economic reasons to be left to the private sector
- 'commanding heights arguments' or their modern variant : 'too big to fail'
- airlines are 'flag carriers' and important businesses in terms of national prestige / image building; they support a great deal of employment, both directly and indirectly.
- aircraft pass over sovereign territories so there are issues of international coordination and security matters, and these are better dealt with by government than by the private sector
- efficiency, including allocative, productive, dynamic.

Make use of a suitable diagram in the analysis

[9]

9.

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
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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]

Issues and areas for discussion include:

Introduction	• reasons why oligopolists might be considered to need regulation, eg ◦ complex monopoly ◦ anti-competitive practices ◦ allocative inefficiency.
Developing the response to the question: Application / Analysis	• policy options, advantages and disadvantages, eg ◦ ending oligopoly, breaking up larger firms into smaller ones ◦ amending oligopoly ▪ policing collusive activities, fining colluding companies (the EU approach) ▪ use of criminal law (the US approach) ▪ administrative means for investigating monopolies and mergers (the traditional UK approach) ▪ preventing potential monopolies becoming actual monopolies by restricting merger activity among oligopolies ▪ regulation ▪ privatisation / nationalisation ▪ removal of barriers • consequences of policy options, e.g. for ◦ research and development ◦ consumer and producer surplus ◦ productive and allocative efficiency ◦ dynamic, static efficiency ◦ barriers to entry ◦ scale economies ◦ national / international competitiveness ◦ employment.
Evaluation	Consideration of ◦ effectiveness of different types of policy ◦ effectiveness of individual policies ◦ intended and unintended consequences ◦ the option of allowing market forces to work without government intervention (the IBM / Microsoft argument). ◦ market vs govt failure ◦ contestability of market. <i>Examiners should note that, for some of the weaker or average students, parts of the above represent quite sophisticated evaluation</i>

	<i>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 students to consider a few of the above. They may also discuss issues not discussed above.

[25]

14.

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]

15.

D

[1]

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]

Issues and areas for discussion include:

Introduction	• Definition/explanation of 'more responsive to market forces' • Basic reasons why governments of developed countries support agriculture.
Developing the response to the question (application)	NOTE: Students are not confined to discussion of direct intervention on farm prices; they can discuss government intervention anywhere along the supply chain (e.g. government attempts to modify the behaviour of supermarkets/powerful buyers), and they could then discuss effects working backwards along the chain to the farm source. • Comments from own economic knowledge or based on the data, eg • S & D theory (elasticities, shifts, potentially unstable prices; price support through quotas shifting S to left) • Possible policies for stabilising prices and incomes ◦ national government: competition policy, regulation ◦ EU level: quotas, intervention buying, buffer stocks ◦ milk as a staple foodstuff, an 'essential' ◦ effects of free trade and globalisation (imports are mentioned in Extract E) ◦ production and productivity (Extract F; further discussion of Extract D) ◦ intensity of production (mentioned in Extract F) ◦ economies of scale (Extract F)
Developing the response to the question (analysis)	• Arguments for markets, eg ◦ rationing/signalling ◦ consumer sovereignty and choice ◦ decentralisation ◦ opportunity costs ◦ efficiency ◦ problems with government failure. • Arguments against, eg ◦ market failure, externalities ◦ need for price and Income stabilisation ◦ imperfect information ◦ influence of supermarkets • changes in demand and supply conditions • globalisation, free trade • need for government to act as a broker between producers and retail sector.

Evaluation	• Market failure versus government failure • Consequences of government involvement (eg costs to the taxpayer) versus consequences of non-involvement (eg costs to the consumer; danger of a break in supply) • Free trade versus protection • Power of the supermarkets/small number of processors • Policy appropriate at national level or EU level? • Difficulties of identifying and acting for public interest/interests of consumers/producers • Unintended consequences, eg effects of quotas; milk as a raw material, impacting on many other industries; environmental side-effects of intensive farming • There is information in the data regarding Spain and UK which appears to indicate that quotas discourage economies of scale, and lifting quotas therefore increases efficiency. <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]

19.

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]

21.

- **Distinguishing between equity and equality**, eg basic definitions of equity (to do with 'fairness'), equality (to do with reducing 'differentials'/increasing opportunities/affecting outcomes).
- **Vertical equity**: The treatment of people in different income and wealth positions. Taxes can be progressive proportional or regressive. Switch to VAT is likely to be regressive because, assuming a wide range of goods and services are taxed, and as a general rule consumption expenditure represents a decreasing proportion of income the actual amount of tax paid will increase with expenditure but fall as a percentage of income.
- **Horizontal equity**: The treatment of people in similar earning positions. Policy effects depend on, eg the 'universality' or otherwise of the VAT, and whether, say, 'luxury' items can be identified and taxed at higher rates.
- **Equality**, eg it could be argued that the switch will affect life chances of both the better off and less well off by increasing 'incentives', and hence affect equality through trickle-down; or that the regressive nature of the switch and the resulting inequality is economically dysfunctional and will cause further inequality; or that the effects are neutral, and wealth taxes would have greater effects on equality than tinkering with income and expenditure taxes.
- Use of diagrams to help support explanations.

[15]

Issues and areas for discussion include:

Introduction	Definitions/descriptions of eg trade union, collective bargaining.
Developing the response to the question (application)	- Relevant use of theory, eg effects of collective bargaining - Evidence from the data, eg reference to - British trade unions (Extracts A, B) - Chinese experience (Extract C) - multinational behaviour, eg Walmart (Extract C) - candidate's own knowledge, eg relevant application of 'minimum wage' concepts to this particular context.
Developing the response to the question (analysis)	- Possible 'negative' effects of trade unions, eg - slow down productivity gains - reduce competitiveness, by, eg - increasing costs of production - reducing flexibility - creating barriers to exit from a market - Possible positive effects, eg - protect members' earning power - fight discrimination in the workplace - improve working conditions, eg - health and safety of employees - working hours and holiday entitlement - may <u>reduce</u> costs (easier to negotiate with a single entity) - Use of the perfect competition model in the labour market - Use of the imperfect competition model in the labour market.
Evaluation	- positive versus negative aspects - consideration of the value-laden word 'exploitation' in the question - challenging basic assumptions, e.g. that employers do not want to be part of a high wage industry, or that unions are not interested in flexibility or efficiency, e.g. through multi-skilling or training - consideration of when is a union not a union (critical view of the Chinese model) - role of government in general in trade union matters - role of UK government in particular - question the implication contained in the data (Extract C), that workers rights are incompatible with investment in and growth of businesses. <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>

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]

25.

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, eg - absolute poverty - relative policy - welfare benefits.
Developing the response to the question (application)	- Comments from own economic knowledge or based on the data, eg - further comments on Extract A (international comparisons) - various reasons for poverty (Extract B), eg - child poverty - working poverty - labour market failure: lack of earning power due to skills, etc - trade unions in the labour market - dependence on state benefits to subsidise low wages - poverty and pensions (Extract C) 'social costs' of inadequate pensions (Extract C) - policies of other countries (Extract C).
Developing the response to the question (analysis)	- Re-distribution (taxes and benefits) and 'pre-distribution' (education, training, skills, life chances). Note; the phrase 'pre-distribution' need not be expected - Relationships between benefits and poverty - Low wages and poverty - Examples of policies on the supply side of the labour market, eg - education and training - minimum wage/living wage 'workfare' - Example of pensions as a merit good - pensions are not a public good, but they could be treated as if they were: arguments for/against - externalities imply under supply/under consumption, and an argument for direct government provision or subsidy.
Evaluation	- Different policies for the state sector and private sector - External influences, eg life expectancy, policies to balance government budgets, high income countries and low income countries - Spending on education and training: consumption or investment? - Market failure versus government failure, eg - poor/asymmetric information - markets tend to assess what is happening now, and are not good at looking ahead - governments can look ahead, but can make incorrect assumptions, or come up with inaccurate forecasts. <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]

29.

Relevant issues/logical chains of analysis include:

- relevant explanation of market failure, e.g. in terms of markets failing to achieve socially optimum price or output
- there is a lack of consumer information . Consumers do not know when they are likely to need a pension. They might have a high rate of time preference, i.e. prefer current consumption to saving for future consumption, because pensionable age seems a long way off
- asymmetric information between consumers and pension providers (mis-selling of inappropriate pension products)
- strong externalities give pensions some characteristics of merit goods; there is an argument that they are more efficiently provided by the state
- inability of insurance-based pension providers to produce results in adverse economic conditions; e.g. falling pension fund returns due to low interest rates
- failure of occupational pension schemes due to weak regulation, the raiding of pension funds by directors during hard times
- appropriate use of diagrams, e.g. marginal private benefit, marginal social benefit

[9]

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

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

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

[25]

1.

Trade Unions Extract C (lines 21–22) states that ‘....any negative economic effects of trade unions are outweighed by the positive effects of trade union activities...’.

Using the data in the extracts and your knowledge of economics, evaluate the view that trade unions protect the interests of workers and consequently improve the economic welfare of the society in which they operate.

[25 marks]

2.

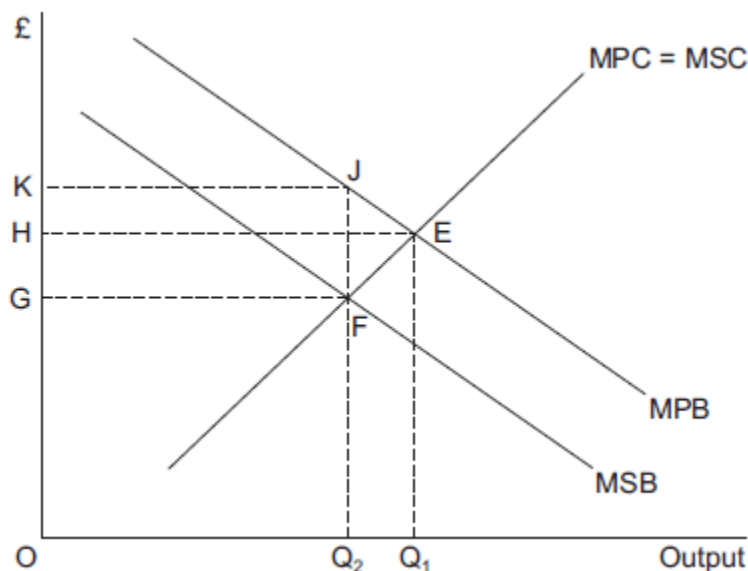
‘In future, many young British people will have to adopt the German tradition of renting rather than buying, unless they eventually inherit a house from their parents. This has major implications for many aspects of the economy, including the mobility of labour and the distribution of wealth.’ (**The 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]

3.

The diagram below shows the marginal private benefit and marginal social benefit (MPB and MSB) curves and the marginal private cost and marginal social cost (MPC and MSC) curves for Good X.



To reduce the market equilibrium output from Q_1 to Q_2 , the government could

A introduce a subsidy of GH.

☐

B set a minimum price of OG.

☐

C introduce a per unit tax of FJ.

☐

D set a maximum price of OH.

☐

[1 mark]

4.

Over the past 35 years, successive governments have reduced taxes on income whilst increasing taxes on spending, such as excise duties and Value Added Tax (VAT).

Assess the economic costs **and** benefits of government action which results in greater inequality in the distribution of income and wealth in the UK.

[25 marks]

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

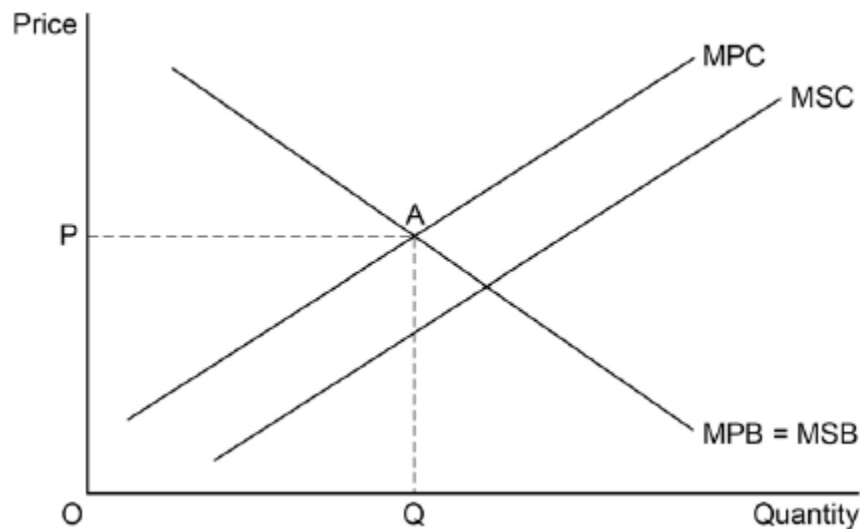
The authors of a report published by the Institute of Economic Affairs have recommended that the NMW for apprentices and under 18 year olds should be abolished and that each region of the UK should have its own minimum wage.

Taking into account the information in **The National Minimum Wage After 15 Years Extract E** and the original evidence, do you support these recommendations? Justify your answer.

[25 marks]

7.

The diagram below shows the marginal private benefit and the marginal social benefit (MPB and MSB) curves and the marginal private cost and marginal social cost (MPC and MSC) curves for good X.



Assuming the free market equilibrium is at point A, what action taken by the government is most likely to lead to output being produced at the socially optimal level?

- A Increase in unit taxes on good X ☐
- B Subsidies to the producers of good X ☐
- C Regulation to reduce consumption of good X ☐
- D Issue of permits designed to reduce output of good X ☐

[1 mark]

8.

The National Minimum Wage after 15 years

Extract E: The National Minimum Wage: silver bullet or poisoned chalice?

Since its introduction in 1999, the NMW has increased by 75%, whilst average earnings have risen by 61% and the Retail Price Index by 53%. A new report, published by the Institute of Economic Affairs, argues that the NMW should be abolished for apprentices and under 18-year-olds in the UK to tackle persistently high youth unemployment. The rate for 16 and 17 year olds is due to rise to £3.79 per hour in October 2014 and to £2.73 per hour for apprentices. The authors of the report also believe that setting a single NMW is likely to have adverse effects on private sector employment in the regions. In Wales, for example, the NMW is 70% of median hourly earnings in the private sector, compared to just 42% in London. The report recommends that the minimum wage should be regionalised. When determining the minimum wage for each region, differences in productivity and economic conditions should be taken into consideration.

Source: News Reports accessed May 2104

9.

In August 2013, the UK government argued that there needed to be greater competition in energy markets in the UK.

Evaluate the view that if markets can be made more contestable there is no need for further government intervention.

[25 marks]

10.

Over the past 35 years, successive governments have reduced taxes on income whilst increasing taxes on spending, such as excise duties and Value Added Tax (VAT).

Distinguish between equity **and** equality and explain the effects of this government policy on the distribution of income.

[15 marks]

11.

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]

12.

Pollution and Climate Change Extract E (lines 18-20) states 'They argue that the pollution and depletion of communal resources such as clean air, water reserves and fish stocks are made worse by a lack of property rights'.

With the help of a diagram, explain how the absence of property rights can worsen the environmental market failures of **both** pollution **and** the rapid depletion of natural resources.

[9 marks]

13.**Trade Unions****Extract C: Walmart and China**

Some global companies are willing to negotiate with trade unions, whilst others try to avoid them. US company Walmart, the world's largest retailer and owners of Asda in the UK, has been known to stop operating in some countries rather than have to recognise unions. 1

With over a billion people and rising prosperity, China is an irresistible market for the world's largest manufacturers, distributors and retailers. Some of these large companies, such as Walmart, McDonald's and FedEx, have adopted an anti-union stance in the countries in which they operate. 5

In China, however, Walmart has signed 'collective bargaining' agreements with the All-China Federation of Trade Unions (ACFTU). The Federation has 193 million members and is a monopoly, given that no other trade unions are allowed to operate in China. Officially, signing the agreement was a voluntary action on Walmart's part. However, firms which refuse to sign such agreements are likely to face many difficulties in gaining access to Chinese markets. Walmart gets a say in the appointment of the trade union Chairman at its workplaces. This official invariably has close links with the Chinese government. So now, if Walmart's management in China wants to close stores, lay off employees, change workloads or amend working hours, it must consult ACFTU. In effect, this gives the Chinese government a say in the running of the business. 10 15

Some economists believe that trade unions, by threatening industrial action, can force up wages and make it difficult for management to adopt changes that improve productivity. This, they believe, reduces firms' competitiveness and, in the long run, leads to job losses. However, others argue that any negative economic effects of trade unions are outweighed by the positive effects of trade union activities in counteracting the monopsonistic power of large employers, and in preventing discrimination and exploitation. 20

Source: news reports, 2011

14.**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. 1 5

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. 10 15

Source: news reports, 2010

15.**Pollution and climate change****Extract E: Climate change**

In 2004, Russia signed up to the Kyoto Protocol, an international agreement on policies to manage climate change. This committed Russia to a United Nations programme to reduce emissions of greenhouse gases. In 2010, Russia's emissions were as low as their 1990 levels, but this was less to do with environmental policy and more to do with the collapse of heavy industry following the fall of the Soviet Union. A large contribution towards the UK's Kyoto targets also came from deindustrialisation. However, China, like the USA, did not sign up to the Kyoto Protocol.	1
International action to control carbon emissions is necessary. One policy is known as 'carbon trading'. Countries agree overall emissions limits and try to create an international market for permits to pollute. The idea is to put a money value on emissions and, over time, to create incentives for businesses to invest in less-polluting technology. As well as the large compulsory 'compliance' market for carbon credits, there is also a smaller voluntary market for 'carbon offsets'.	5
For example, an organisation can be paid to plant trees to allegedly offset the damage that an airline journey does to the ozone layer. Some companies are using these offsets, together with greater energy efficiency and reduced polluting activities, to claim to be 'carbon neutral'. Some environmentalists and economists are suspicious of offset schemes and claim, for instance, that offset schemes have hidden environmental costs. They argue that the pollution and depletion of communal resources such as clean air, water reserves and fish stocks are made worse by a lack of property rights.	10
	15
	20

Source: news reports, 2010

16.

Inequality Extract E (lines 6–7) states that 'growing inequality would create incentives, kick-start enterprise, boost growth and is good for us all'.

Using the data in the extracts and your economic knowledge, assess the view that inequality is 'good for us all.'

[25 marks]**17.**

Government intervention will result in a more efficient allocation of resources if

- A** it leads to a reduction in the consumption of demerit goods. ☐
- B** it leads to a reduction in the subsidies received by firms. ☐
- C** it reduces the number of competing firms in an industry. ☐
- D** consumers are charged for the provision of public goods. ☐

[1 mark]

18.

It is generally accepted that we need to adopt new ways of charging for the use of our roads. This is partly because of worsening congestion, but is also due to the reduction in revenue generated from taxes on fuels as a result of more fuel-efficient vehicles.

Assess the view that a system of road-pricing is the best way to tackle the problem of worsening traffic congestion in the UK.

[25 marks]

19.

It is generally accepted that we need to adopt new ways of charging for the use of our roads. This is partly because of worsening congestion, but is also due to the reduction in revenue generated from taxes on fuels as a result of more fuel-efficient vehicles.

Explain why, in the absence of government intervention, too many journeys are likely to be made by road and too few by rail.

[15 marks]

20.

Traditional economic theory assumes that consumers make rational decisions that maximise their economic welfare, but behavioural economists disagree.

The Government would like to improve the well-being of the population by encouraging people to adopt a healthy diet. Using your knowledge of **both** traditional economic theory **and** behavioural economics, assess alternative policies that the Government might adopt to try to achieve its objective

[25 marks]

21.

Explain how the data in **Inequality Extract D** show that taxes and benefits have been successful in reducing inequalities in household income in the UK.

[4 marks]

22. The UK energy market

Extract C: Are price rises inevitable?

Do UK consumers pay too much for energy? Department of Energy & Climate Change research shows domestic electricity prices were fourth lowest and gas prices second lowest in a survey of 15 EU countries. Firms claim profits, averaging a return of 5% in 2012, are not excessive and are used to fund much-needed investment in both infrastructure and future energy supplies.	1 5
Will Morris, Group Managing Director of SSE, claims many factors are responsible for driving up prices: "Buying wholesale energy in global markets, delivering it to customers, and government-imposed levies collected through bills all cost more than last year."	
Ed Miliband, Leader of the Opposition in the UK, promised that a future Labour government would impose "a price freeze for twenty months because the market is not working", and that the regulator would make the market more competitive.	10
In the longer term, the UK needs to become less dependent on imported energy and use 'greener' sources such as wind, solar and nuclear. One in five UK power stations will be obsolete by 2023 and there is a risk of power shortages in coming years. The Government guarantees high prices to firms producing energy from renewable and nuclear sources but these costs are then passed on to consumers.	15
The Government claims that high guaranteed prices for power generators makes good long-term sense. Gas prices are expected to rise over the longer term, despite the discovery of shale gas in the UK. Could more be done to encourage households to reduce their demand for energy? Energy conservation could result in lower bills but few households are making use of the 'Green Deal' scheme to make homes more energy efficient.	20

Source: News reports, October 2013

23. Inequality

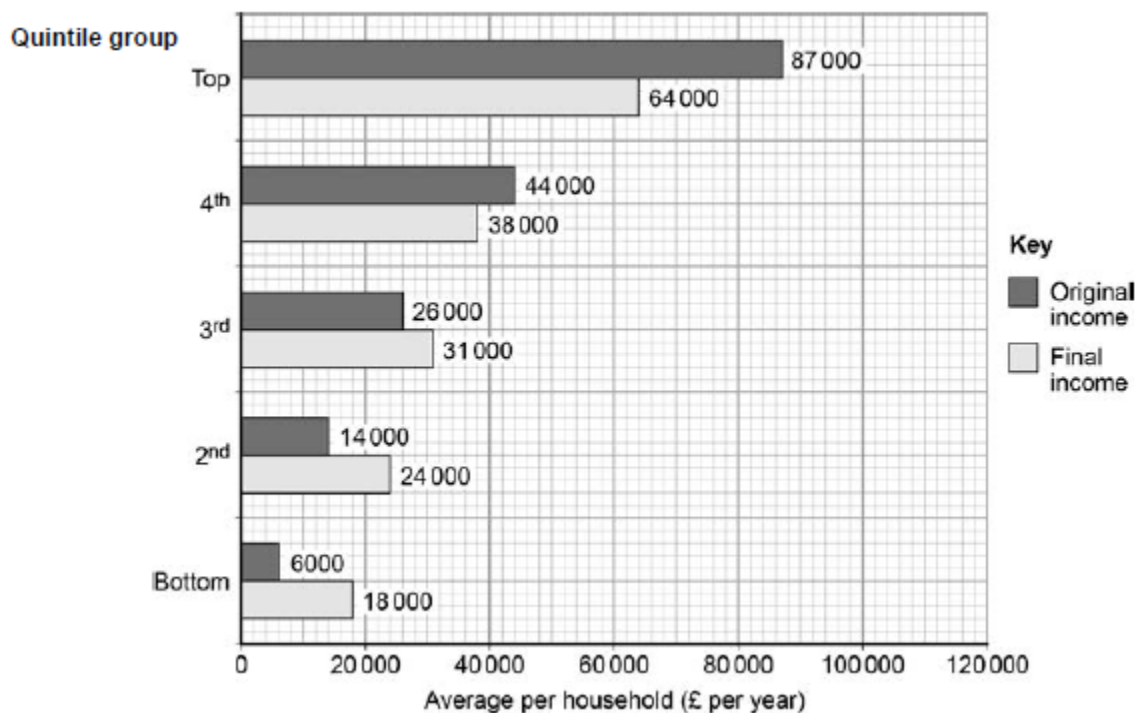
Extract E: In favour of inequality

The way in which society's resources are distributed has long been of major concern to economists, directly affecting as it does the level of social welfare. Changes in the size and distribution of national output raise important questions of efficiency and also involve basic issues of equality. However, what is equitable is a matter of considerable debate amongst economists of different political persuasions.	1 5
It has been argued by the supporters of free-market capitalism that growing inequality would create incentives, kick-start enterprise, boost growth and is good for us all. Free market economists would argue that justice automatically arises from the interaction of demand and supply and the existence of competitive markets. In such a scenario, each factor receives what it is worth in terms of the value of its marginal revenue product. Disparities in income and wealth are justified by such factors as greater levels of innate or acquired skills which enable some factors to be more productive than others and earn a greater amount. Differences in the distribution of income and wealth are therefore viewed as inevitable and also desirable in that they provide the necessary incentives for individuals to study, train, supply their factor services and set up new businesses. These differences help the smooth operation of the price system and lead to an efficient resource allocation.	10 15
Moreover, an unequal distribution of income is seen as necessary to ensure economic efficiency and a faster growth rate – by making the rich richer, the size of the national cake, that is real GDP, will grow, and the benefits will trickle down to the less well off.	

Source: News reports, November 2013

24. Inequality

Extract D: The effects of taxes and benefits in the UK on household income by quintile groups, 2011–2012



Source: Office for National Statistics licensed under the Open Government Licence v. 1.0.

25. In **The UK energy market Extract C**, (lines 9–10) Ed Miliband is quoted as saying that a future Labour government would impose “a price freeze for twenty months because the market is not working”.

Using the data in the extracts and your economic knowledge, assess whether you agree that fixing a maximum price for energy that is sold to households is the best way of dealing with market failure in the UK energy industry?

[25 marks]

Mark schemes

1.

Areas for discussion include:

- criteria upon which 'the economic welfare of society' may be judged
- general discussion of the role of trade unions
- how trade unions can 'protect the interests of workers'
- trade unions as monopoly suppliers of labour
- trade unions and collective bargaining
- trade unions help to restore the balance of power between an individual worker and a dominant employer
- trade unions in an otherwise competitive labour market
- trade unions bargaining with employers who have monopsony power
- ways in which a trade union can influence the outcome of collective bargaining, e.g. thorough negotiation, working-to-rule, strike action
- influence of trade unions on government social and labour-market policies
- evidence from the data, eg reference to British trade unions, Chinese experience, the behaviour of multinational companies, eg Walmart
- possible 'negative' effects of trade unions, eg slow down productivity gains, reduce competitiveness, increase costs of production, reducing flexibility, create barriers to exit from a market
- possible positive effects, eg protect members' earning power, fight discrimination in the workplace, improve working conditions, health and safety of employees, working hours and holiday entitlement, may reduce costs (easier to negotiate with a single entity, contribute to improvements in productivity)
- challenging basic assumptions, e.g. that employers do not want to be part of a highwage industry, or that unions are not interested in flexibility or efficiency, e.g. through multi-skilling or training
- consideration of when is a union not a union (critical view of the Chinese model)
- role of governments in general in trade union matters, e.g. through legislation

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	• 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]

3.

C

[1]

4.

Areas for discussion include:

- the meaning of income and wealth
- meaning and measurement of inequality
- examples of government action resulting in inequality, eg
 - regressive taxes
 - reducing inheritance taxes
 - encouraging a bonus culture
 - removal of universal benefits
 - raising entry barriers (eg. tuition fees)
 - reducing the 'social wage' (reducing or slowing down increases in spending on public and merit goods)
 - policies that inhibit equality of opportunity
- benefits of inequality, eg
 - incentive arguments
 - impact on labour mobility and resource allocation
 - trickle-down
 - encouraging enterprise
 - encouraging work rather than welfare
 - impact on saving and investment
- costs of inequality, eg
 - waste of talent
 - social cost, unrest, riots
 - lack of safety nets
 - wider costs, correlations between inequality and wider economic and social issues
- normative arguments relating to fairness and justice
- costs and benefits of inequalities income may be different from inequalities in wealth
- macroeconomic effects of inequality (synoptic points), eg multiplier effects, national income and welfare, impact on output and employment of policies to promote equality/inequality.
- questioning of individual alleged benefits, eg do managers receiving annual 'compensation' measured in millions really have an 'incentive' to improve efficiency?
- questioning of individual alleged costs, eg is social unrest caused by inequality as such, or by wider social factors?
- overall assessment of costs versus benefits
- impacts depend on the nature and extent of the inequality, eg due to age differences, social mobility over time

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]

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 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 good application of relevant economic principles 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 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 principles but some errors are likely - includes some limited application of relevant economic principles 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 is shown - includes analysis which is, at best, very weak - includes attempted evaluation which is weak and unsupported.	1-5 marks

Relevant issues and areas for discussion include:

- the impact on youth unemployment, e.g. does having a minimum wage for young workers encourage firms to substitute older, more experienced workers?
- the significance of elasticity of demand for labour
- productivity of young workers, especially trainees and apprentices
- the cost of training young workers
- impact on skill acquisition and investment in human capital
- the significance of the level at which the minimum wage is set for apprentices and young workers
- young workers who are living at home, may not be 'in poverty'
- equity issues
- short-run versus long-run effects
- regional differences in the cost of living
- differences in regional unemployment rates
- variations in the demand for labour and the supply of labour in different regions
- regional variations in types of employment
- the role of wage differentials in a market economy, e.g. the signalling and incentive functions
- wage differentials and labour mobility
- the significance of labour market imperfections
- the relevance of the level of welfare benefits, the replacement ratio and 'voluntary' unemployment
- costs of implementing and enforcing regional differences in the minimum wage and the risks of government failure

An answer that does not include any evaluation must not be awarded more than 13 marks.

[25]

7.

B

[1]

9.

Areas for discussion include:

- what is meant by contestable markets
- nature of entry/exit barriers
- why lack of contestability leads to market power
- outcomes in terms of conduct/performance if markets are more contestable
- whether “perfect” contestability is possible
- hit and run competition
- examples of contestable markets
- role of technology is making markets more contestable
- how technology may make markets less contestable
- natural monopoly arguments
- role of regulators/state in creating contestability
- effectiveness of policies to create greater contestability
- whether contestability will solve the problems of potential market power
- the need for other forms of intervention to correct the possible abuses of market power
- other forms of government intervention and their effectiveness

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]

10.

Relevant issues include:

- the meaning of equity, eg basic notions of equity (to do with fairness and justice)
- the meaning of equality eg how evenly income and wealth are distributed amongst individuals, regions, ethnic groups etc.
- equality versus equality of opportunity, which is more subjective
- equity as a normative concept whereas equality/inequality can generally be measured and is positive concept
- the Gini coefficient as an indicator of the degree of inequality
- explaining vertical equity: treatment of people in different income and wealth positions based on their 'ability to pay'
- explaining horizontal equity: the same treatment of people with identical income and wealth
- describing how taxes can be progressive, proportional or regressive
- explaining how the switch to taxes on spending is likely to be regressive - as a general rule consumption expenditure represents a decreasing proportion of income
- however expenditure taxes can be made more progressive by applying different tax rates to different types of product, eg most food is zero-rated for VAT, could apply high rates of tax to 'luxuries'
- explaining the nature of taxes on income and why they can be made very progressive
- general conclusion that, other things being equal, such a policy is likely to make the distribution of income less equal
- use of evidence from the UK economy
- wider issues that might be considered either to reinforce or contradict the basic conclusion that such a policy will increase inequality, eg increases incentives and hence reduces the dependency culture, trickle-down effects, inequality in income inhibits equality of opportunity, cumulative causation – inequality generates more inequality.

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.

[15]

11.

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]

12.

Level of response	An answer that:	Max 9 marks
3	• is well organised and develops one or more of the key issues that are relevant to the question • shows sound knowledge and understanding of relevant economic terminology, concepts and principles • includes good application of relevant economic principles and/or good use of data to support the response • includes well-focused analysis with a clear, logical chain of reasoning • includes a relevant diagram that will, at the top of this level, be accurate and used appropriately.	7-9 marks
2	• includes one or more issues that are relevant to the question • shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles and/or data to the question • includes some reasonable analysis but it might not be adequately developed and may be confused in places • may include a relevant diagram.	4-6 marks
1	• is very brief and/or lacks coherence • shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • demonstrates very limited ability to apply relevant economic principles and/or data to the question • may include some very limited analysis but the analysis lacks focus and/or becomes confused • may include a relevant diagram but the diagram is not used and/or is inaccurate in some respects.	1-3 marks

It is expected that a MSC/MSB diagram will be used but a relevant, correctly explained demand and supply diagram is also acceptable.

Relevant issues include:

- description of property rights, eg a legally recognised right of ownership over a resource
- negative externalities and the spill-over effects on 3rd parties
- why a lack of property rights can lead to negative externalities, ie some costs are not internalised
- the distinction between private optimal outcomes and socially optimal outcomes
- why property rights can be lacking, eg on common land, the high seas, in the atmosphere
- reasons for too rapid depletion of a communal resource, eg water reserves, fish stocks, wildlife, open spaces; property rights incentivise conservation

[9]

16.

Areas for discussion include:

- what is meant by inequality, eg income, wealth, health, social background
- inequality in the UK
- causes of inequality, eg differences in innate or acquired skills, differences in the marginal revenue product of individuals, inheritance, social factors
- inequality and incentives to work and enterprise
- inequality, resource allocation and the operation of the price mechanism
- the trickle-down effect
- inequality as a consequence of market failure
- inequality as a cause of market failure
- inequality and poverty are likely to result in a waste of human talent
- inequality resulting from and leading to the concentration of economic power
- how inequality might contribute to 'asset price bubbles' and macroeconomic instability
- impact of inequality on people's well-being and social factors such as crime, life expectancy and obesity
- why and how the consequences of different types of inequality may vary
- the impact of measures designed to reduce inequality
- the degree of inequality as a determinant of whether inequality is 'good for us all'
- is inequality good for any of us?
- the importance of value judgements, including fairness and justice.

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]

17.

A

[1]

18.

Areas for discussion include:

- roads as a scarce resource
- the negative externalities associated with congestion, eg the longer journey times for other road users
- what is meant by road-pricing and how it might be implemented (allow both tolls and congestion charges as forms of road-pricing or as alternative policies)
- other policies that might be employed such as: higher taxes on fuels, increasing the road fund licence, building more roads, subsidising public transport, investing in and improving public transport
- the extent to which roads display the characteristics of a public good and how has this been affected by developments in technology.
- congestion is most prevalent on certain roads and at certain times of the day
- how road-pricing might be implemented, eg charging drivers a price for each mile travelled with different prices for different roads and for different times of the day, perhaps mentioning automatic number plate recognition systems
- setting up tolls on major roads with the toll charge varying between peak and off-peak times
- how higher taxes on fuels would help to reduce congestion and the relevance of price elasticity of demand
- how subsidising, for example, bus and rail transport, will help to reduce congestion and the relevance of cross elasticity of demand
- the budgetary and cost implications of the different options
- possible unintended consequences of the different methods, eg the impact of road pricing on city centres, such as empty shops, higher prices for products as transport costs rise
- equity arguments, eg are indirect taxes regressive, should the road user pay or the taxpayer, the impact of the different policies on the poorest members of society, town versus country dwellers, commuters and businesses
- the likelihood of government failure, eg inadequate information means that the government may set an inappropriate price for using roads, eg a price that doesn't reflect the true cost of congestion, government policy is likely to be affected by public opinion and the reactions of voters.

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]

19.

Relevant issues include:

- sources of market failure in transport, eg externalities, roads as a quasi-public good
- examples of externalities associated with journeys by road and rail, eg congestion and longer journey times for other road users, pollution and associated health problems, environmental damage
- explaining why roads may exhibit some of the characteristics of a public good, ie they are, up to a point, non-rival and may be non-excludable.
- why, in the absence of government intervention, the existence of negative externalities means that the user will not bear the full cost of the activity
- free market equilibrium level of output ($MPB=MPC$) and the social optimum level of output ($MSB=MSC$)
- negative externalities associated with rail journeys are likely to be less than for journeys by road, hence road journeys will be under-priced by more than rail journeys, ie there will be a greater divergence between the marginal social cost and the marginal private cost for road journeys than rail journeys
- rail companies charge for the use of the rail network but, in most cases, road users are not directly charged for the use of roads
- taxes imposed on the motorist mean that some, or all, of the costs of building and maintaining the road network are borne by the motorist.

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.

[15]

20.

Areas for discussion include:

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

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

[25]

21.

Response:	Max 4 marks
- includes evidence that shows that taxes and benefits have been successful in reducing inequalities in the distribution of household income in the UK - clearly explains how this data is evidence of reduced inequality	4 marks
- includes evidence that shows that taxes and benefits have been successful in reducing inequalities in the distribution of household income in the UK - unclear explanation of how this data is evidence of reduced inequality	3 marks
- includes evidence that shows that taxes and benefits have been successful in reducing inequalities in the distribution of household income in the UK - limited explanation of how this data is evidence of reduced inequality	2 marks
- includes evidence that does not clearly show that taxes and benefits have been successful in reducing inequalities in the distribution of household income in the UK - no explanation of how this data is evidence of reduced inequality	1 mark

Relevant issues include:

- Evidence that the gap between those on the top quintile group and those on the bottom has narrowed because of the impact of tax and benefits is an indication of reducing inequality.
- Evidence that overall the final distribution of income between quintile groups is more even than original distribution of income is an indication of reducing inequality.
- the distribution of original income is more unequal than the distribution of final income, eg the bottom quintile has an original average household income of £6000 per year, whereas the top quintile has £87 000 (14.5 times as much). In terms of final income, the figures are £18 000 and £64 000 respectively (approx. 3.5 times as much)
- for the first 3 quintile groups, the final income is more than the original income but for the 2 richest quintile groups, final income is less than original income, eg bottom quintile £6000 and £18 000, 2nd £14 000 and £24 000, 3rd £26 000 and £31 000, whereas 4th quintile £44 000 and £38 000 and top quintile £87 000 and £64 000. This indicates that taxes and benefits have helped to make the distribution of household income more equal

[4]

25.

Areas for discussion include:

- what is meant by 'fixing a maximum price' in relation to intervention regulating the prices charged for retail energy to UK households
- market failures that may exist in the UK energy market, eg lack of effective competition in the supply of energy, possible collusion, inefficiency
- the relationship between prices charged to households and the cost of supplying energy
- the need for high profits to fund investment
- under-investment and possible energy shortages leading to power cuts
- high prices to compensate for the additional cost of supplying 'green' energy and to fund energy conservation schemes
- whether negative externalities in the production and consumption of energy justify high prices
- whether energy companies are making excessive profits
- impact of rising energy prices on the cost of living, low income households and fuel poverty
- the imposition of a maximum price as a temporary measure until the energy market is investigated and reformed
- the possibility of government failure and unintended consequences resulting from the imposition of a maximum price
- alternative policies that might be adopted, eg tougher regulation, attempting to reduce entry barriers and encouraging new suppliers to enter the market, renationalisation, eliminating the green levy and subsidising energy conservation through taxation, controls on the profits of energy companies.

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]