



Skoolumy

CAMBRIDGE A LEVEL ECONOMICS TOPICAL ESSAY
QUESTIONS

MARKET FAILURE AND GOVERNMENT INTERVENTION

PAST QUESTIONS

1. Discuss the desirability of the direct provision of goods and services by the government. [12]

2. The Lagos economy is working

Nigeria discovered oil 50 years ago and is now the world's sixth biggest oil exporter. The recent increase in global oil prices has had a very large positive effect on the country's balance of trade and has also improved the country's terms of trade.

Lagos is the largest city in Nigeria, with a population of over 20 million, and has undergone a successful economic transformation in recent years. It has used the private sector to become the most productive and dynamic part of Nigeria's economy. The owner of one of Nigeria's largest companies has stressed the enormous economic progress that the country has made in recent years: "I'm a great believer in Nigeria because the opportunities here are enormous." His company's success shows what private enterprise can achieve in a mixed economy especially if it is provided with the right incentives by the government.

Most Nigerian entrepreneurs are operating in Lagos and entrepreneurship has certainly played a key role in the modern Lagos economy. Start-up initiatives have been encouraged and the need to be innovative has been increasingly recognised, leading to the development of new goods, services and markets. The city is the centre of thriving music, fashion, film and technology industries that have significant influence throughout Africa.

A 'free trade zone' on the edge of Lagos has been established where private sector firms pay no business taxes to the government and there are now numerous start-up enterprises that are thriving. The government aims to lower costs, reduce bureaucracy and make the economy more flexible and efficient with the hope of boosting trade. The zone is located next to a deep sea port and has good road connections with both the rest of Nigeria and other countries in the region.

Lagos is an important transport hub, with three major ports and West Africa's most important international airport. In 2016 the output of Lagos was valued at US\$136 billion while Nigeria's total national output was valued at US\$405 billion.

A former governor of the Nigerian central bank, has stated: "Since 2000, Lagos has been transformed. In terms of an improved infrastructure and a supportive economic environment, the government has given firms a greater opportunity to thrive."

Source: Adapted from The Financial Times, 26 March 2018

Discuss whether government intervention to encourage private sector firms, in a mixed economy such as Nigeria, is always likely to be successful. [6]

3. Discuss the view that the only goods a government should produce are public goods. [12]

4. (a) Explain whether private goods, free goods and public goods will all be sold in a free market economy. [8]

(b) Discuss whether the direct provision of goods and services by the government prevents the price mechanism from working effectively. [12]

5. When a planned economy introduces the price mechanism to allocate some resources, a mixed economy arises.

Explain, using examples, why merit goods are classified as private goods rather than public goods. [8]

6. Discuss why some goods and services are provided by private enterprise and others are provided by the government in a mixed economy. [12]

7. (a) Using examples, explain the difference between a merit good and a public good. Explain why a profit can be made from the provision of one of these types of good, but not the other. [8]

(b) Discuss whether it is better to impose an indirect tax or conduct an awareness campaign to deal with the problem of demerit goods such as alcohol. [12]

8. (a) Explain why both merit goods and demerit goods are examples of private goods. [8]

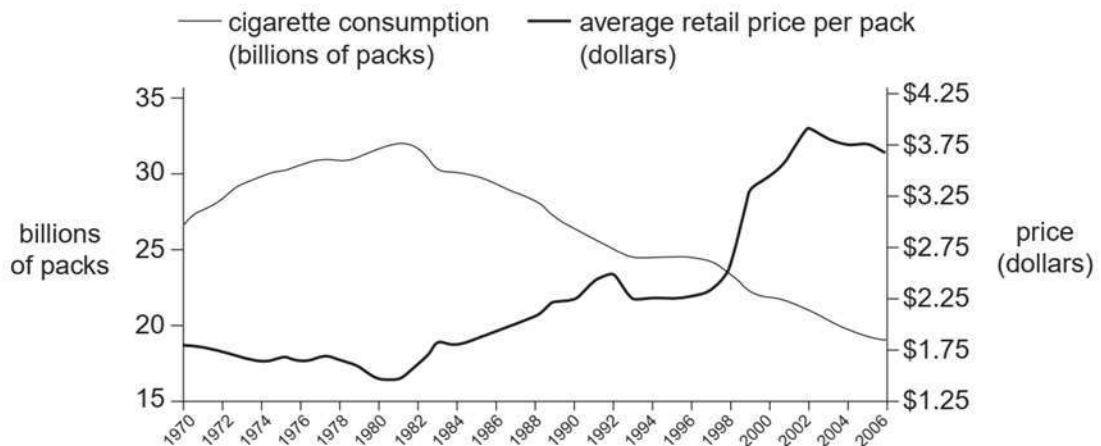
(b) Discuss whether merit goods and demerit goods are best provided by a market economy. [12]

9. Economic Aspects of Cigarette Smoking

Smoking cigarettes is a controversial matter that illustrates a number of economic issues. As with most products, the key influence on the level of consumption is the product's price.

United States

Fig. 1 US cigarette consumption and cigarette prices 1970–2006



Malaysia

A study of cigarette smoking in Malaysia estimated the short-run and long-run price elasticity of demand (PED) and the income elasticity of demand (YED) for cigarettes between 1990 and 2004. The results are shown in Table 1.

Table 1: Demand elasticities for cigarettes in Malaysia

Short-run PED	Long-run PED	YED
−0.08	−0.57	+1.46

Europe

In Europe, taxation of cigarettes is particularly heavy. In 2006 it was 76.4% of the final selling price in Germany, 77.1% in the UK and 80.4% in France. European countries are increasingly banning smoking in enclosed public areas and workplaces. Some anti-smoking campaigners are calling for the smoking of cigarettes anywhere to be made illegal.

Discuss the possible economic consequences of making cigarette smoking illegal. [6]

10. Discuss why certain goods and services are usually supplied directly by the government rather than through the market. [12]

11. Discuss the economic reasons for subsidising public transport and taxing private transport. [12]

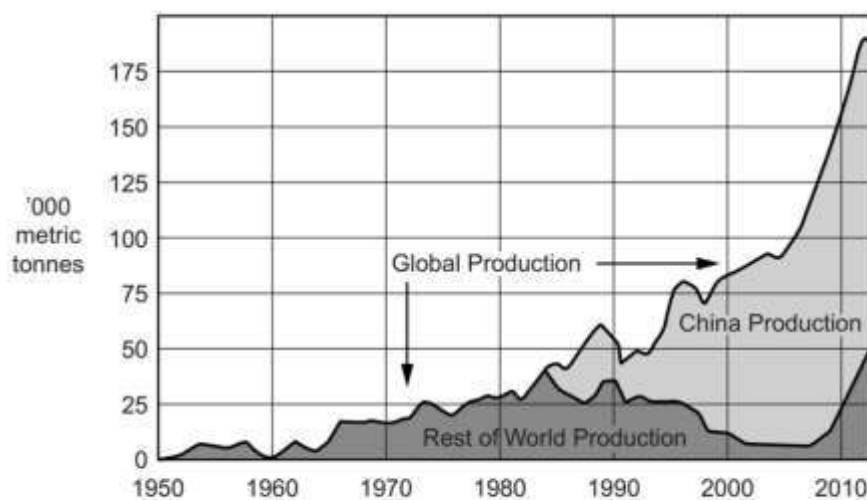
12. China and Rare Earth Elements (REEs)

Rare earth elements (REEs) are a group of 17 minerals, some with unusual names such as gadolinium and praseodymium that have become increasingly important in recent years. They are vital in the production of glass, petrol, flat-screen televisions, laptops, lasers, satellites, energy-saving light bulbs, jet engines and wind turbines. As many as eight REEs are used in an electric car and military hardware depends on them. World demand for REEs is expected to continue to increase.

There are problems with mining these minerals. They are found in many countries but are not concentrated enough to make it easy to exploit them economically. In the 1980s and 1990s China invested heavily in machinery and training labour for mining REEs. The entry of China into REEs mining pushed prices down to a level that forced many rivals in the United States out of production. Most countries rely totally on imports for their supplies of REEs.

Mining them produces undesirable side-effects, such as radioactivity, air pollution and spoilt landscapes. Mining also uses highly toxic chemicals that can pollute the water supply. China, as shown in Fig. 1, is now the dominant global supplier. It also has the largest reserves.

Fig. 1 Global production of REEs, 1950 to 2012



Source: Kaiser Research Online

China imposes export taxes on REEs of up to 25% and sets export quotas that were reduced in August 2010 from 28 417 metric tonnes to 7 976 metric tonnes per annum.

Analyse the social costs associated with the increased mining of REEs. [4]

13. (a) Explain why the free market is ineffective in arriving at the correct price for merit goods and demerit goods. [8]

(b) Discuss the policies a government might adopt to ensure the correct price for merit and demerit goods is charged in the market. [12]

14. Explain the difference between private goods and public goods, and why it is possible for a business to make a profit in the supply of private goods but not in the supply of a public good. [8]

15. (a) Explain, with examples, the meaning of private costs and external costs. [8]

(b) Discuss the role that cost-benefit analysis can play in government economic policy making. [12]

16. (a) Explain, with examples, the difference between a demerit good and a merit good. [8]

(b) Discuss two methods that a government might use to influence the consumption of demerit goods. [12]

17. The British Broadcasting Corporation

The British Broadcasting Corporation (BBC) is a world-famous radio and television broadcaster.

In 2005 the services the BBC provided to the UK were part of the public sector and financed mainly by a compulsory annual licence fee of £121 on those households owning a television. There were heavy fines for those who did not pay.

The BBC has an obligation to provide programmes that are educational and cultural, as well as the more popular programmes such as comedy and sport.

One economist has argued that the BBC should receive more finance, that BBC broadcasting is a public good, and that it has greater value for viewers than they have to pay for. To support his view he produced two diagrams. Fig. 1 shows the demand for BBC services among the 23 million television-owning households in the UK and Fig. 2 shows where this economist placed BBC broadcasting among a selection of public goods in 2005.

Fig. 1 Demand for BBC services in the UK

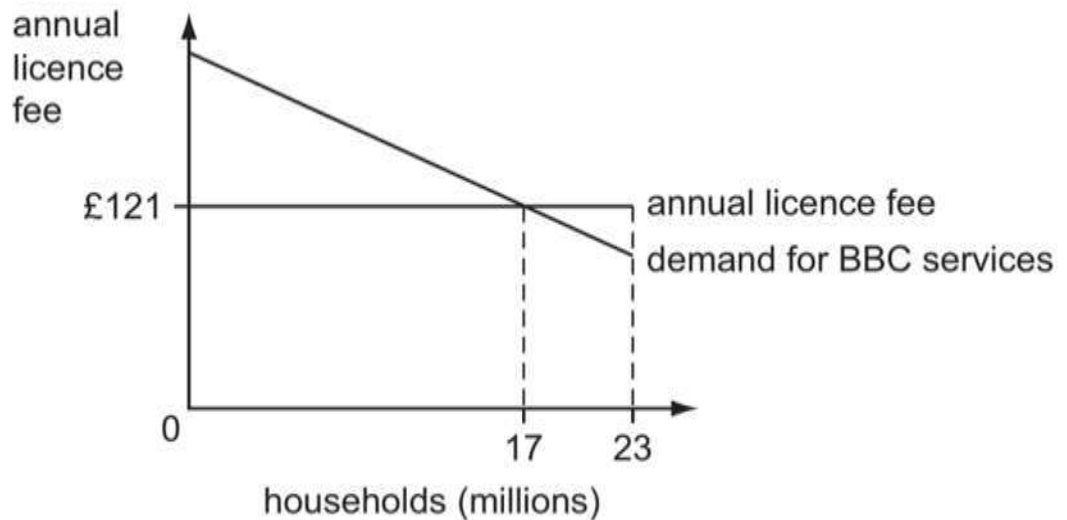
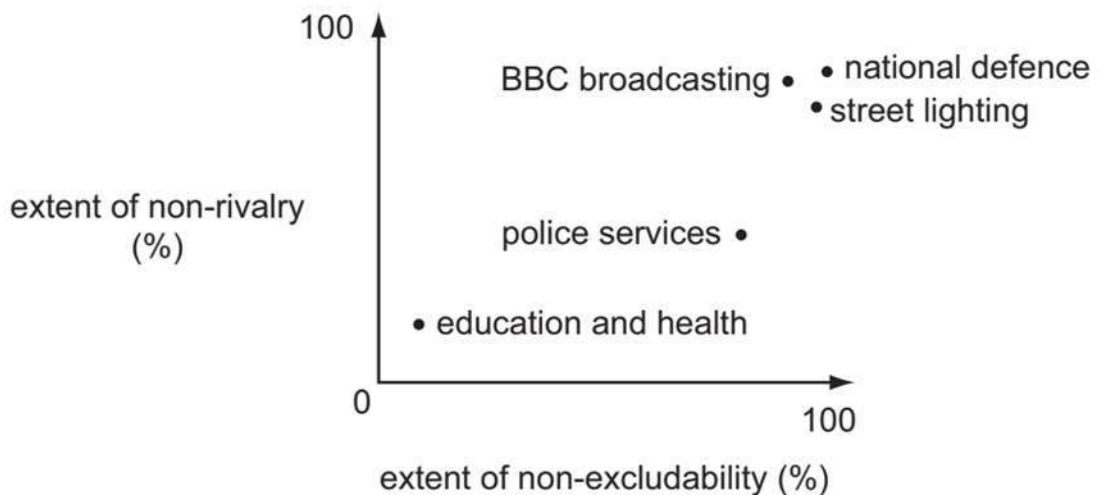


Fig. 2 Selected public goods



(a) Comment on the relative positions in Fig. 2 of national defence and police services. [3]

(b) Discuss whether it is correct to include education and health as public goods in Fig. 2. [6]

18. Discuss the advantages and disadvantages of using indirect taxes to deal with the negative externalities associated with some products. [12]

19. Assess whether the improved provision of information is likely to be the best method to reduce the consumption of demerit goods. [12]

20. With the use of examples, explain the difference between public goods and merit goods and consider whether markets will always provide enough of both goods. [8]

21. (a) Explain how the Gini coefficient is used to measure income inequality and consider the relative strength of two economic reasons suggested for such inequality in a low-income country. [8]

(b) Assess the extent to which government policies to redistribute income and wealth are likely to be successful. [12]

22. (a) With the help of an example of each, explain the difference between a merit good and a demerit good and consider whether a subsidy given to a merit good will always be effective in increasing its consumption. [8]

(b) Assess whether fixing a minimum price is likely to be the best policy to reduce the consumption of a demerit good. [12]

23. Can economic growth in Chile reduce income and wealth inequality?

Chile is the world's biggest copper producer with 28% of global copper production and the second biggest producer of lithium with 22% of world production. Overall, mining contributes 11% of the country's Gross Domestic Product (GDP) and more than 50% of the value of the country's total exports. World copper and lithium prices have increased quickly since 2020. This has led to strong growth in GDP which is expected to increase by 3.5% in 2022, exceeding earlier estimates of 2.5% as world demand is expected to grow following the Covid-19 pandemic. Fig 1.1 shows the world price of copper in United States dollars (US\$) per pound (lb) weight. A pound is 454 grammes.

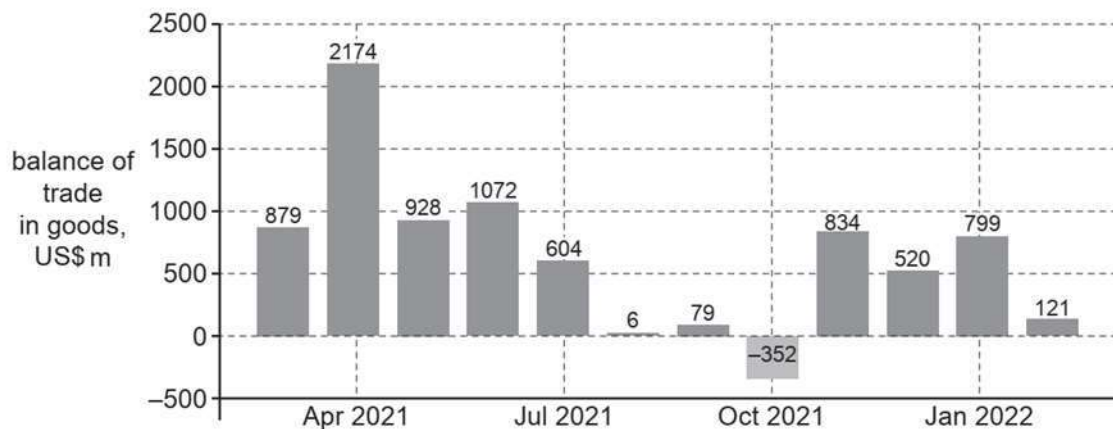


Source: tradingeconomics, April 2022

Fig 1.1: World copper price, 2017 to 2022

Economic growth in Chile has also been helped by the world's highest rate of vaccination against Covid-19 and a rapid economic recovery from the pandemic which has led to a large increase in consumer spending.

However, the trade in goods surplus has fallen substantially in February 2022. This is mainly because of a 9.2% fall in the revenue from copper exports due to the higher prices and a fall in world demand during the Covid-19 pandemic. There has also been a 38.3% increase in the value of imported consumer goods. As a consequence, the current account deficit has widened substantially to US\$7.5bn in the first quarter of 2022 from a deficit of US\$1.1bn in the first quarter of 2021 despite a surplus of US\$50m in the secondary income account.



Source: tradingeconomics, April 2022

Fig 1.2: Chile's balance of trade in goods, March 2021 to February 2022

One of the main benefits of Chile's increased prosperity in recent years has been a decline in the number of people living at or below the minimum income level of US\$5.50 per day. However, Chile remains the most unequal country in the list of largely developed countries according to the Organisation for Economic Co-operation and Development (OECD) with an income gap 65% wider than the OECD average. In addition, although the Gini coefficient has fallen from 52.1 to 44.4, this is still higher than lower-income countries such as Haiti and El Salvador.

To try and reduce this inequality in income and wealth, the Chilean government has increased its expenditure on education from 3% of GDP in 1997 to 5.4% in 2018. Further recognition of the importance of education as a merit good is shown by the government increasing its education spending by 3.4% each year since 2018. Chile has also recently made all college tuition free of charge. It is hoped that this will

reduce the gap in the quality of education received by the wealthiest and poorest students and open up opportunities for everyone.

Sources: Adapted from reuters.com 2 February 2022,
trade.gov/country-commercial-guides/chile-mining, 25 January 2022,
bcentral.cl/inicio and statista.com, April 2022

(a) Explain what is meant by the fall in Chile's Gini coefficient from 52.1 to 44.4. [2]

(b) Assess the extent to which 'the government increasing its education spending' may improve the incomes of poorer households in Chile. [6]

24. (a) With the aid of examples, explain the characteristics of public goods and free goods and consider whether free-of-charge vaccinations offered by a government should be classified as a free good. [8]

(b) Assess whether the expected benefits of providing healthcare services free of charge at the point of use exceed the likely costs. [12]

25. (a) Explain two economic reasons for inequality in the distribution of income and wealth and consider why inequality in the distribution of wealth cannot easily be measured. [8]

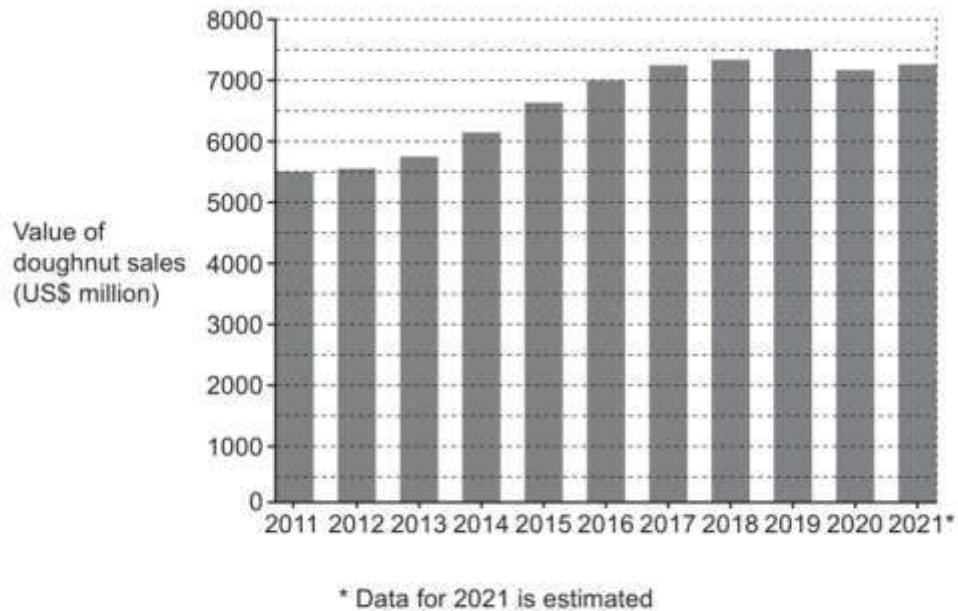
(b) Assess which policies are likely to be most effective in redistributing income. [12]

26. Explain the possible economic reasons for inequality of income and consider whether inequality of income can benefit an economy. [8]

27. Assess whether education should be classified as a public good rather than classified as a merit good. [12]

28. Are doughnuts demerit goods?

Consumers love to eat doughnuts. In 2019, 10 billion of these deep-fried sugar-coated products were consumed in the United States (US). Fig. 1.1 shows that the US market increased steadily from 2011 to 2019. Doughnuts are widely available throughout the US. There are specialist shops selling their branded products almost everywhere; local coffee shops invariably sell 'hole in one' doughnuts as a popular breakfast snack to tempt consumers on their way to work. The growing number of shops selling doughnuts has been an important reason behind overall market growth.



Source: ibisworld.com, March 2021

Fig. 1.1 Doughnut market size in the US, 2011 to 2021

The COVID-19 pandemic has had a varying impact on the US doughnut market. Despite having less income, many consumers have continued to buy small luxuries such as doughnuts which remain affordable and can provide some short-term relief from the stresses of the pandemic. Overall, sales of doughnuts fell in 2020 and are forecast to remain below their 2019 peak into 2021. Reasons for this fall in demand are that consumers are making fewer shopping trips and in cities, more people are working from home and therefore not buying their daily coffee and doughnut snack.

In the United Kingdom (UK), more so than in the US, there are growing concerns about the increase in sugar consumption amongst children. This increase comes from soft drinks, chocolate biscuits and sweets (candy) as well as from jam-filled doughnuts, all of which are widely available in supermarkets and local convenience stores. In 2021, it was estimated that a third of teenagers and two thirds of adults in the UK were overweight. This has increased the pressure on the UK government to end online advertising of a range of products including doughnuts. It has been estimated that viewing one minute of advertising for products like doughnuts leads to a child consuming an additional 14.2 calories. Moreover, a ban on advertising

sugary foods would result in children consuming the equivalent of 62 million fewer doughnuts a year in the UK.

(a) Explain why a doughnut might be regarded as a demerit good. [2]

(b) With the help of a diagram, assess how the market for sugary foods in the UK might be affected by a ban on online advertising. [6]

(c) Assess the likely effects on UK consumers and the UK government of a ban on online adverts for sugary foods. [6]

29. Explain why government intervention may be required to provide merit goods and consider why such intervention may not always be successful. [8]

30. Explain why a government might decide to increase its direct provision of essential goods and services and consider whether such a policy is always likely to be successful. [8]

31. (a) With the help of examples, explain the difference between free goods and public goods and consider the view that public goods can never be provided in a market economy. [8]

(b) The provision of merit and demerit goods differs from the provision of other private goods.

Assess the view that the consequences of imperfect information are more serious in a market economy than in a mixed economy. [12]

32. (a) Explain why the provision of bus and local rail (mass transit) services in cities is classified as a private good not a public good and consider why such services might only be provided by the private sector. [8]

(b) Assess whether bus and local rail systems in cities should receive substantial subsidies from governments. [12]

MARK SCHEME

Table A: AO1 Knowledge and understanding and AO2 Analysis

Level	Description	Marks
3	- A detailed knowledge and understanding of relevant economic concepts is included, using relevant explanations. Explanations are supported by examples, where appropriate. - The response clearly addresses the requirements of the question and explains economic issues, and fully develops these explanations. - Analysis is developed and detailed and makes accurate and relevant use of economic concepts and theories. Where necessary, there is accurate and relevant use of analytical tools such as diagrams and formulae, and these are fully explained. - Responses are well-organised, well-focused and presented in a logical and coherent manner.	6–8
2	- Knowledge and understanding of some relevant economic concepts is included, using explanations and examples that are limited, over-generalised or contain inaccuracies. - The response addresses the general theme of the question and the relevant economic issues, with limited development. - Analysis is generally accurate with some development but little detail. Uses analytical tools such as diagrams and formulae where necessary. Use of these tools is partially accurate or not fully explained. - Responses are generally logical and coherent but are sometimes lacking in focus or organisation.	3–5
1	- A small number of relevant knowledge points are included and the response is limited by significant errors or omissions. - The response has little relevance to the question. - Analysis where provided is largely descriptive. Use of analytical tools such as diagrams and formulae, where necessary, may contain significant errors or be omitted completely. - Responses show limited organisation of economic ideas.	1–2
0	No creditable response.	0

Table B: AO3 Evaluation

Level	Description	Marks
2	- Provides a justified conclusion or judgement that addresses the specific requirements of the question. - Makes developed, reasoned and well-supported evaluative comment(s).	3–4
1	- Provides a vague or general conclusion or judgement in relation to the question. - Makes simple evaluative comment(s) with no development and little supporting evidence.	1–2
0	No creditable response.	0

1. The desirability depends upon the nature of the goods and services. Private goods and services may be most efficiently supplied by the market. However in cases of market failure the government may intervene. Public goods and merit goods may not be provided or be under-provided by the market. This would include defence and education and would justify the direct provision by the government. Intervention in the provision of private goods however may result in inefficiency and reduced welfare. Governments may also use this as a way to tackle monopoly, fair prices and essential goods.

Discussion of merit and public goods

up to 6 marks

Discussion of private goods

up to 4 marks}to max

Discussion of other government motives for provision up to 4 marks} of 6 marks

2.

Role of government policy and support to private sector (up to 3 marks)

Role of private sector (up to 3 marks)

5 marks maximum

Reserve 1 mark for a conclusion

6 marks maximum

3. Up to 8 marks for Analysis

- Analysis of the production of public goods by a government, with the use of appropriate examples (Up to 4 marks)
- Analysis of the production of other goods by a government, such as merit goods, with the use of appropriate examples (Up to 4 marks)

Up to 4 marks for Evaluation

For exercising some judgement on whether the only goods that a government should produce are public goods

Reserve 1 mark for a conclusion

4. (a) For Knowledge and Understanding

For knowledge and understanding of private goods, free goods and public goods.
(up to 2 marks)

For knowledge and understanding of just two types of good. (up to 1 mark)

2 marks maximum

For Application

Explanation of the market mechanism in relation to the three types of good (Up to 2 marks for an explanation of each type of good)

6 marks maximum

Guidance:

Free goods are not sold in a free market economy:

- are not scarce and so do not have a market price attached to them
- the supply equals the demand at zero price
- have no property rights associated with them
- require no factors of production for their enjoyment

Private goods are sold in a free market economy:

- economic goods that are consumed by an individual for their own benefit
- there is rivalry in consumption, i.e. when a product is consumed by one person, it cannot be consumed by another
- there is excludability in consumption, i.e. when a product is consumed by one person, all others are excluded from it

Public goods are not sold in a free market economy:

- are non-rival
- are non-excludable
- are non-rejectable

Examples of free goods: air, sunshine

Examples of private goods: most products in an economy, such as food and clothing; can include examples of merit goods/demerit goods

Examples of public goods: street lighting, defence and police

(b) For Analysis

Analysis of the prevention of the price mechanism from working effectively.

(up to 4 marks)

Analysis of the potential fact that it does not prevent the price mechanism from working effectively.

(up to 4 marks)

8 marks maximum

For Evaluation

For exercising some judgement on whether the direct provision of goods and services by the government prevents the price mechanism from working effectively.

(up to 4 marks)

Reserve 1 mark for a conclusion

4 marks maximum

Guidance:

The effect of direct provision of goods and services by the government:

- does it prevent the price mechanism from rationing?
- does it prevent the price mechanism from signalling?
- does it prevent the price mechanism from transmitting preferences?

The direct provision of goods and services by the government will be financed through the tax system, e.g. education and health care, and so will not be allocated through a price mechanism.

However, education and health care can also be provided through a price mechanism and in this situation the mechanism can function as a rationing and signalling device and as a way of transmitting preferences

5. Knowledge and Understanding:

For knowledge and understanding of private goods. (1 mark)

For knowledge and understanding of public goods. (1 mark)

2 marks maximum

Application:

The use of appropriate examples to aid the explanation of why merit goods are classified as private goods. (up to 3 marks)

The use of appropriate examples to aid the explanation of why merit goods are not classified as public goods (up to 3 marks)

6 marks maximum

Guidance:

Private goods:

- economic goods that are consumed by an individual for their own benefit
- there is rivalry in consumption, i.e., when a product is consumed by one person, it cannot be consumed by another
- there is excludability in consumption, i.e., when a product is consumed by one person, all others are excluded from it.

Public goods:

- are non-rival
- are non-excludable
- are non-rejectable

Examples of merit goods:

- education
- healthcare

Examples of public goods:

- street lighting
- defence
- police

6. For analysis explaining how governments and private enterprise produce:

- private
- merit
- demerit and

- public goods [up to 8 marks]

For evaluative comment that considers the effectiveness of government provision and provision by private enterprise [up to 4 marks]

7. (a) For knowledge and understanding

- of the meaning of a merit good (up to 3 marks)
- and a public good (up to 3 marks).

(4 marks maximum)

For application showing

- understanding of the reasons that profit can be made in the supply of merit goods,
- but not in the supply of public goods.

(4 marks maximum)

Guidance:

The goods should be distinguished through the qualities of excludability, diminishability and rejectability.

The explanation should be based upon the free-rider problem that occurs in the supply of public goods.

(b) For analysis that explains:

- The way in which an indirect tax is used to reduce the consumption of alcohol with due reference to the strengths and weaknesses of this approach (up to 6 marks).
- The way in which an awareness campaign is used to reduce the consumption of alcohol with due reference to the strengths and weaknesses of this approach (up to 6 marks).

(8 marks maximum)

For evaluation that assesses and compares

- the relative strengths and weaknesses of each approach (Up to 3 marks)
- and for reaching a conclusion on which approach is likely to be most effective. (1 mark).

(4 marks maximum)

Guidance:

A demerit good should be explained in terms of incomplete information of the harm that it can cause. An indirect tax is designed to reduce supply and increase price.

An awareness campaign is designed to decrease demand for the demerit good.

Evaluative points include the following:

- the fact that the demand for alcohol might be price inelastic
- the fact that an awareness campaign might be costly
- the fact that an awareness campaign might take a long period to take effect

8. (a) For knowledge and understanding of merit goods and demerit goods.

Knowledge and understanding of merit goods as an example of a product that is under-consumed as a result of information failure (up to 3 marks).

Knowledge and understanding of demerit goods as an example of a product that is over-consumed as a result of information failure.

(Up to 3 marks)

(KU total: Up to 4 marks)

For application showing how merit goods and demerit goods are examples of a private good.

Application to examples of merit goods, such as education and health care.

(Up to 3 marks)

Application to examples of demerit goods, such as cigarettes and alcohol.

(Up to 3 marks)

(APP total: Up to 4 marks)

Both merit goods and demerit goods are examples of a private good because:

There is rivalry in consumption, i.e. once a product has been consumed by one person, it cannot be consumed by another person.

There is excludability in consumption, i.e. it is possible to exclude a person from consuming a product if another person has consumed it and they have not paid for it.

(b) For analysis of the provision of merit goods through a market economy.

(Up to 4 marks)

For analysis of the provision of demerit goods through a market economy.

(Up to 4 marks)

(AN total: Up to 8 marks)

For evaluative comment on whether the provision of merit goods and demerit goods through a market economy will always be the best form of provision. (1 mark for a conclusion)

(EV total: Up to 4 marks)

Guidance:

Advantages of a market economy:

Possible advantages of a market economy, such as decisions taken by individual consumers, who aim to maximise utility/satisfaction, and by individual producers, who aim to maximise profits. Important role of a price mechanism to allocate resources efficiently, with prices acting as a signalling device. There is likely to be greater efficiency arising from the existence of a profit motive and of competition, with no government intervention.

Disadvantages of a market economy:

A market economy, as well as having potential benefits, can also have potential drawbacks, such as the under-production of merit goods and the over-production of demerit goods.

9. Arguments may include:

Benefits from: reduced death rates, less hospital treatment, less sickness absence, healthier workforce, greater safety (less fires), better environment, reduced Government (G) expenditure

Costs from: enforcement costs, reduced tax revenue, welfare losses, tobacco job losses, growth of illegal activities, more G expenditure on longer lives and pensions.

Maximum of 4 marks for one side of discussion

10. Private goods can be supplied by the market system because of excludability and rivalry. Certain other goods will not be supplied in sufficient quantities or not at all if left to the market. Public goods, such as defence, are non-excludable and non-rival so it is not possible to charge for them and 'free riders' can gain benefit without paying. In this case the government provides the good or service and pays for it out of general taxation. Another case is merit goods. These provide a greater benefit than is recognised by the consumer and so will be under-consumed from society's viewpoint. Health and education fall into this category. The government will provide the goods or services from taxation and offer them at a subsidised or at no price. In both cases the government is making the judgement that providing these will raise welfare levels in society. There will be a range of other motives for supply by the government such as prevent exploitation, natural monopolies and reduce unemployment.

For understanding the nature and a discussion of public goods Max 4 marks

For understanding the nature and a discussion of merit goods Max 4 marks

For understanding the nature and a discussion of other cases Max 4 marks

11. The arguments relate to externalities. Public transport may generate positive externalities by reducing congestion and pollution. A subsidy would lower price and increase output, helping to establish a market equilibrium that took social cost and benefit into account. Private transport may generate negative externalities and a tax would raise price and reduce consumption to a level more in line with the economically desirable output. A combination of the two policies should help tackle the problems that arise when a market operates in line with private cost and benefit rather than social cost and benefit. There will be costs involved for the government and problems in altering consumers preferences

Understanding of externalities up to 4 marks

Analysis of the market outcome for transport up to 4 marks

Maximum 6 marks

Discussion of the effect of tax /subsidies on the market 6 marks

Overall evaluation 1 mark

12. Social costs are made up of private and external costs (1), private costs are incurred by the producer while external costs (negative externalities) affect 3rd parties (1), private costs of mining include e.g. labour costs (wages and training) and costs of equipment (purchase and running) (1), external costs include e.g. pollution and environment degradation with worsening health and living conditions. Alternative examples are acceptable.

13. (a) The correct price of merit goods in Economics is one that truly reflects all the benefits of consumption. These include both private benefits and positive externalities. In the case of demerit goods, the correct price is one that reflects all the costs including private costs and negative externalities. The free market price

does not reflect all costs and benefits where externalities exist because of the self-interest that motivates consumer behaviour.

- For knowledge and understanding of “correct price”, merit and demerit goods.

Up to 4 marks

- For application to show how the free market will not arrive at the correct price for merit and demerit goods. Up to 4 marks

(b) A range of policies is available including subsidies and indirect taxes, but both have difficulties in ensuring that the correct price is charged.

- For analysis of at least two policies to ensure that price is changed to reflect externalities and information failure in the case of merit and demerit goods. Up to 4 marks

- For evaluative comment on the likely effectiveness of these policies. Up to 4 marks

14. For knowledge and understanding of the distinction between private and public goods.

(Up to 4 marks)

Candidates need to show a firm grasp of the difference between the types of good in terms of excludability, rejectability and non-rivalry in consumption.

A maximum of 2 marks for a list of distinctions that are not explained.

For application to explain how it is possible to make a profit providing private goods, but not public goods based upon the free rider problem. (up to 4 marks)

Application marks will be awarded for a clear explanation of the free rider problem and why this undermines the ability to make a profit through the fact that no one can be excluded from the consumption of public goods.

15. (a) Costs borne by the agent directly involved e.g., a consumer or firm are private costs. This would include the cost of purchase of goods or factor services. External costs are felt by a third party and exist when social cost exceeds private cost. Examples would be pollution and congestion.

L3 Detailed contrast linked to social cost or use of diagram	7 – 8
L2 Understanding with examples	4 – 6
L1 Basic recognition	1 – 3

(b) Cost benefit analysis allows a wider range of influences to be introduced into decision making than might be considered in commercial terms. This would allow the government to take a social view of an action. The method has difficulties in terms of inclusiveness, valuations and normative judgements but should allow a conclusion depending upon assumptions. It is often used in transport and infrastructure planning.

L3 Discussion of the limitations of the method	9 – 12
L2 Understanding of its application to projects	5 – 8
L1 Knowledge of the method of cost benefit analysis	1 – 4

16. (a) A demerit good, such as cigarettes, has negative externalities e.g. passive smoking. Consumption results from lack of information by the consumer of the full

implications of consumption. There is over-consumption which governments are likely to discourage. A merit good, such as education, has positive externalities e.g. improved productivity. The good is under-consumed due to lack of full knowledge and governments are likely to promote consumption.

Full marks require clarification of the information gap.

For explanation of nature of demerit good [up to 4 marks]

For explanation of nature of merit good [up to 4 marks]

(b) Governments would intend to reduce the consumption of demerit goods. The usual methods are taxation to operate through the market system, bans to remove demand, education to influence consumers behaviour through information and subsidies to substitutes. In each case issues of cost, effectiveness, side effects and individual choice may be considered.

For knowledge of the methods and their operation [up to 4 marks]

For discussion of the advantages of the methods [up to 4 marks]

For discussion of the limitations of the methods [up to 4 marks]

17. (a) Defence has greater non-rivalry and non-excludability (1), Defence is a better example of a public good (1), reasons for differences (2), to 3 marks max.

(b) Not usually considered a public good (1), explanation of not being a public good (3), rather a private good or merit good (1), explanation of being a private or merit good (3), to a max of 6 marks. [6]

18. Negative externalities from production and consumption are harmful third party effects, which include pollution and environmental destruction. They make social cost > private cost. They result in the overproduction of goods which sell at a lower price than is optimal. A tax would internalise the externality, reduce output, allow the market to operate, act as an incentive to cut costs and also raise revenue for the government. However it might be difficult to measure the harm done, to set the correct rate which might need to be individual to each firm, would have administrative costs and would be inflationary and regressive.

For understanding of the effect of negative externalities up to 4 marks

For analysis of the operation of a tax up to 6 marks } to

For discussion of the impact of a tax up to 6 marks } 10 marks

19. AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- The meaning of improved provision of information
- How improved information would reduce the consumption of demerit goods; consumers are aware of the 'true' costs from consuming demerit goods and respond by reducing their demand – this may include a shift to the left of the demand curve, or a shift to left of the MPC curve
- An explanation of the limitations of improved information – habitual consumption, peer pressure, irrational behaviour
- An explanation of an alternative policy – taxation, minimum prices, regulation backed by fines.

AO3 Evaluation

- Consideration that fully assesses the relative effectiveness of the policies analysed in reducing the consumption of demerit goods and arrives at a reasoned conclusion concerning whether improved provision of information is the 'best' approach.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

20. AO1 Knowledge and Understanding (max 3 marks)

- For the use of accurate examples of BOTH merit goods and public goods (1).
- For clearly explaining the characteristics of public goods i.e., non-rivalry and non-excludable (1).
- For clearly explaining the characteristics of merit goods i.e., better than people realise and under consumed / underproduced due to information failure (1).

AO2 Analysis (max 3 marks)

- A market economy is less likely to produce enough of both goods due to the lack of a profit motive unless heavily subsidised.
- A mixed economy may produce enough due to government involvement and the welfare motive but may be constrained by limits on government spending.

Note: Analysis should consider at least 2 markets. If only 1 market is analysed, then **2 marks maximum** for analysis and 0 for evaluation.

AO3 Evaluation (max 2 marks)

Offers a valid evaluation of whether enough of both types of good can be produced in at least 2 markets (1) reaching a valid conclusion (1).

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

21. (a) up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks)

For a clear understanding of what the Gini coefficient is e.g., it is a numerical measure of the extent of income inequality in an economy (1) if there is no inequality the value will be zero and at the other extreme, if all income is earned by one person the value will be one (1) For an explanation that the nearer the value is to zero income is more equally distributed and/or the nearer the value is to one the more it is unequally distributed (1).

AO2 Analysis (max 3 marks)

Reasons may include:

- A lack of employment opportunities e.g., which will mean that income levels are low (1) which may be more of a problem in low-income countries because industry may be less well developed (1).

- Poor vocational training e.g., leading to fewer people being able to develop their skills and earn a higher income (1). This may be more of a problem in such countries because of the lack of finance to provide such training. (1)
- A lack of investment in education and health e.g., meaning that some people may not receive a better level of education or may suffer long term health issues which will lower their potential income levels. (1) This may be more common in such countries due to a lack of government budget (1)
- Other reasons include:
- Poor infrastructure
- Lack of access to loan finance

Analysis must focus on the strength of **two** of these reasons in a low-income country. **Maximum** of 2 marks if only one reason considered.

One mark per reason explained (+1) if clearly related to a low-income country.

Accept any valid reason provided it is explained in terms of economics.

Maximum of 2 marks if only one reason is considered.

AO3 Evaluation (max 2 marks)

Up to 2 marks for evaluating the relative strength of the two reasons with 1 mark reserved for a balanced judgement as to which may be the most likely reason **in a low-income economy**.

Please use a text box to show the mark split e.g., 2,2,1

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

Policies may include:

- Minimum wage rates
- Transfer payments
- Progressive income taxes
- State provision of essential goods and services
- Investment in infrastructure

Accept any valid policies but the analysis must focus on how they may be used to redistribute income and wealth and their advantages and disadvantages to be credited.

E.g., A minimum wage rate that is set above the equilibrium, should increase the income levels of those on the lowest levels and therefore possibly ensure that poverty is reduced. However, if everyone's income levels increased, this will not have a redistribution effect. It will not impact on the self-employed. It may lead to unemployment and more poverty leading to less redistribution if businesses cannot afford the higher rates.

E.g., Progressive income taxes should ensure that those on lower incomes pay less tax as a percentage of income than those on higher incomes. This should have a redistributive effect. However, those on higher incomes may have the ability to reduce their tax burden or may simply leave the country. It may also reduce incentives to earn more.

Note: if only **one** policy is considered, the **maximum level** will be **Level 2**.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

- Requires an assessment of the likely success of more than one government policy leading to
- A justified conclusion as to whether such policies are ever likely to be successful.

A one-sided response cannot gain any marks for evaluation.

Please use a text box to show the mark split e.g., L2 5 L1 2

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

22. (a) up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis
up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks)

A merit good is thought to be desirable but is underprovided / underconsumed due to information failure/a lack of awareness/better than is realised (1) whereas a

demerit good is thought to be undesirable but is overprovided /overconsumed due to information failure/a lack of awareness/worse than is realised (1) Third mark to be awarded for valid examples of **both** a merit and a demerit good. (1)

AO2 Analysis (max 3 marks)

•Points to consider:

- A subsidy may encourage poorer households to consume more merit goods as the reason for underconsumption may be unaffordability as it reduces the price of merit goods. (1)
- However, quantity demanded may be price inelastic meaning it is less responsive to price changes so quantity demanded will be less responsive to the change in price/the rise in quantity demanded would be less than the decrease in price. (1)
- The problem of information failure persists meaning that consumers remain unaware of the benefits and therefore do not increase consumption, regardless of the fall in price. (1)

AO3 Evaluation (max 2 marks)

- For a balanced evaluation of whether a subsidy will always be effective with 1 mark reserved for a justified conclusion.

Please use a text box to show the mark split e.g., 2,2,1

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Use of minimum pricing to increase the price of the demerit good and reduce consumption.
- Problems of using minimum pricing may include discussions around inelastic PED, problem of information failure persists, informal markets may appear etc.
- Alternative policies that may be considered include increasing indirect taxes, education, provision of information and analysis should focus on the advantages and disadvantages of such policies in reducing the consumption of demerit goods.
- Points to consider will include ease of introducing the policy, time and cost, reception by consumers etc.
- Accept any valid policies but the analysis must focus on how they may reduce the consumption of demerit goods and discuss their advantages and disadvantages.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and will be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

- Requires an assessment of at least one other policy to be compared against minimum pricing policy which leads to
- A justified conclusion as to whether a minimum pricing is the best policy to reduce the consumption of demerit goods.

A one-sided response cannot gain any marks for evaluation.

Please use a text box to show the mark split e.g., L2 5 L1 2

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

23. (a) 1 mark for an accurate definition only e.g., the Gini coefficient measures income inequality.

2 marks for an explanation that the fall (from 52.1 to 44.1) means that income is more equally distributed.

A maximum of 2 marks overall.

(b) Up to 4 marks for the explanation / analysis:

For an explanation of the reasons / benefits of the government increasing education spending to improve the incomes of poorer households **(Up to 3 marks)**.

These may include:

- As the data makes clear, education is considered a merit good that is considered to be beneficial for the individual and society in e.g., raising income levels due to a better educated and skilled workforce.
- Additional spending may increase the availability of education provision and free college tuition fees may make it more affordable to poorer households.
- Increased provision may also reduce other costs of education, again making it more affordable and accessible.
- It may raise awareness of the benefits of education for poorer households.

For an explanation of why increased government spending on education may not have the desired effects **(Up to 3 marks)**. These **may** include:

- There may still be a lack of awareness of the benefits of education due to information failure.
- Poorer households may have higher opportunity costs due to the need to start earning an income at an earlier age.
- Government spending may be unsustainable leading to reductions in future spending.

Max: 4 marks

Note: maximum of 3 marks if only one side is considered.

Up to 2 marks for evaluation (no marks if only one side is considered):

- That assesses the advantages and disadvantages of just increasing government expenditure on education to improve living standards of poorer households, this may include an assessment of the time for the policy to have the desired effect i.e., the extent (1), leading to

- A valid conclusion (1).

24. (a) up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, and up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks)

- Free goods are not scarce and have zero opportunity cost / no prices as no factors of production are required to produce them (1).
- Public goods have two main characteristics of non-excludability and nonrivalry with a brief explanation of both terms (1).
- Provide accurate examples of both e.g., fresh air and street lighting respectively (1).

AO2 Analysis (max 3 marks)

- For example, the vaccine is free at the point of use to the consumer (1). However, there is a cost to the taxpayer (1). This means that there is an opportunity cost to the government as providing the vaccine involves the use of scarce resources (1).

Alternative approach:

- If governments provide free-of-charge vaccinations, then there is no price charged to the consumer (1). This means consumers do not need to use their own scarce resources to be vaccinated (1) which means there is no opportunity cost to them because they do not need to make a choice between 'consuming' the vaccine and reducing their consumption of other goods and services (1).

AO3 Evaluation (max 2 marks)

- Up to 2 marks for evaluating whether or not free-to-charge vaccinations offered by a government can be considered a free good. For example, there is an opportunity cost to the government as the money spent on buying the vaccine might have been used for spending on another priority e.g. education.

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

Potential benefits of providing healthcare services free-of-charge at the point of use include:

- It addresses concerns on affordability/inequality to access health care, insurance and information gaps e.g. preventative earlier treatments for elderly and children.
- It may also avoid a potential loss of output resulting from worker absenteeism. It increases the likelihood of resources being prioritised to patient need as opposed to profit.

Potential disadvantages from providing healthcare services free-of-charge at the point of use include:

- Demand may exceed supply which may result in increased costs to governments.

- Charging consumers will reduce on wastage in terms of 'missed' medical appointments; potential for health inequality resulting in income inequality.
- Private firms may be more efficient in providing the healthcare services required in the quantities and regions required. The opportunity cost to the government in terms of reduced spending on roads etc.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

- Requires an assessment of whether or not the expected benefits of providing healthcare free of charge at the point of use exceed the likely costs which leads to
- A justified conclusion which may include alternative approaches including a mixture of free and chargeable healthcare.

Note: A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

25. (a) up to 3 marks for AO1 Knowledge and understanding, up to 3 marks for AO2 Analysis, AND up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

- An explanation of how inequality of income and wealth means an uneven distribution of income and wealth among a population (1).
- An explanation of two reasons for income and wealth inequality.
 - For example: Poor education and training results in the individual gaining fewer/less marketable skills that prevents them from applying for jobs with higher salaries (1).
 - Low rates of saving which makes it increasingly difficult to buy property. Wealth inequality widens as rising property prices not only make it more difficult to purchase a property, but benefits those who are already property owners (1).

AO2 Analysis (max 3 marks)

Points to consider may include (other difficulties may be considered):

- Wealth is comprised from many sources housing assets, savings, financial instruments, pensions, and different countries have different ways of measuring it (1).
- Some wealth may not be included in any calculation should wealthy individuals legally use tax havens to reduce the value of their wealth (1).
- Ownership of wealth may be transferred to family members to reduce the value of personal wealth value (1).

AO3 Evaluation (max 2 marks)

- For a balanced evaluation of whether wealth inequality cannot always easily be measured (1), leading to a justified conclusion (1).

AO1 Knowledge and understanding 3

AO2 Analysis 3

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

Policies may include:

- Use of policies to redistribute income. For example, the introduction of a minimum wage (or increase an existing minimum wage) will increase the wage of the lowest earners and reduce the difference between the highest and lowest earners.
- Problems of minimum wages include the possibility of increasing cost-push inflation, higher rates of unemployment and that in some countries only a small proportion of the population are in receipt of the minimum wage.
- Alternative policies that may be considered include progressive tax systems – by increasing the number of tax brackets or increasing the higher tax rates will reduce the post-tax income of higher earners and reduce the difference between the highest and lowest earners.
- Problems of the alternative policy – for example, increased incentives for individuals to seek ways to legally avoid the higher tax rates. Increased administrative costs associated with implementing new systems for income assessment and tax collection.

Level 1 responses will be assertive and lacking in explanations / mainly descriptive and/or or mainly lacking in relevance to the question.

Level 2 responses may contain some inaccuracies and may be one sided. Analysis will be explained at least in part and will be largely relevant to the question.

Level 3 responses will consider alternative policies / concepts etc. and will be balanced. Explanations of points raised will be offered and will be accurate and relevant to the question.

AO3 Evaluation

- Requires an assessment of at least two policies to be compared against each other which leads to
- A justified conclusion as to which policy (or combination) is most likely to be most effective in redistributing income.

Accept all valid responses.

Note: A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

26. up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis
up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

A clear knowledge and understanding of at least two possible economic reasons for inequality of income, such as whether a person is in employment or unemployed (1), the skills, qualifications and experience of different workers in various occupations and economic sectors (1), whether workers are employed in the public sector or the private sector (1), whether they are employed full-time or part-time (1), the provision of transfer payments (1) and the level and type of taxation. (1)
N.B. the question does not stipulate how many reasons should be referred to so two reasons well explained can gain up to 3 marks. 1 reason explained can achieve a maximum of 1 mark.

Max 3 marks

AO2 Analysis (max 3 marks)

The focus of this analysis must be on whether income inequality generates benefits to an economy or not.

Points may include:

- Incentivising workers leading to higher levels of productivity
- Encourages enterprise
- Encourages workers to retrain/reskill
- Demotivates those on the lowest incomes and an increase in crime
- Increased government spending on transfer payments leading to an opportunity cost

Max 3 marks

AO3 Evaluation (max 2 marks)

Offers a valid judgement on the extent to which inequality of income can benefit an economy (1) to reach a conclusion. (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

27. AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- Education is classified as a merit good because it is a private good with the characteristics of being both rival and excludable; it can therefore be provided through a market because it is possible to charge a price for it, although it can also be provided by the state.
- A public good is distinct from a private good because it has the characteristics of being both non-rival and non-excludable; it is therefore difficult, if not impossible, to charge a price for it due to the existence of the free rider problem; it therefore has to be provided by the state.

AO3 Evaluation

- Public goods can only be provided by the state.
- Merit goods will be underprovided in the free market and governments should intervene to increase provision.
- However, if the demand for education is extremely low in a country, when provided through a market, a government could decide to provide it entirely through the state.
- In conclusion, education should be classified as a merit good rather than as a public good.

Accept all valid responses.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

28. (a)

- Doughnuts are undesirable and over-provided by the market (1)
- This is because of information failure and means that consumers are unlikely to be fully aware of the health dangers of eating an excessive amount of doughnuts(1)

(b)

- **Up to 4 marks for explanation/analysis:** Accurately labelled diagram showing a shift to the left in the market demand curve for sugary foods
- Explanation why a ban on online advertising is likely to lead to a fall in demand for sugary foods
- Analysis of the effects of the shift in terms of the change in price and level of demand
- Some consumers may not be put off by the information provided in advertising
- Sugary foods are cheap and take up only a small proportion of the income of an adult
- Demand for sugary foods is likely to be price inelastic
- Informal market could develop amongst younger adults/children

For an analysis that explains the advantages/strengths of an online advertising ban (Up to 2 marks)

For an analysis that explains the disadvantages/weaknesses of an online advertising ban (Up to 2 marks)

Up to 2 marks for evaluation:

For a brief comment such as

- The change in demand will depend on the PED for sugary foods
- Sugary foods is a diverse term-some types of product will be more affected than others
- Few palatable substitutes are available
- Manufacturers are likely to use other than online advertising to promote their products
- **Reserve 1 mark for a justified conclusion**

(c)

Up to 4 marks for explanation/analysis of any valid effects such as

- Consumers, especially children, may be healthier/less obese
- A wider range of alternative healthier snacks could become available
- Reduced pressure on the NHS as less obese people
- Educational standards and workplace productivity could improve
- Could result in less tax revenue for government due to lower sales of sugary foods and reduced advertising from manufactures of sugary foods

For an explanation of the benefits and costs of the likely effects on UK consumers and the government but with no explicit reference to the context of sugary foods (1 mark max)

For an analysis that explains the benefits to UK consumers and the government of a ban on online adverts of sugary foods **(Up to 2 marks)**

For an analysis that explains the costs to UK consumers and the government of a ban on online adverts of sugary foods **(Up to 2 marks)**

Up to 2 marks for evaluation:

- Uncertain impact of advertising ban
- Not easy to measure impact on consumer demand or government revenue
- Other forms of advertising will continue
- **Reserve 1 mark for a justified conclusion**

29. up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis

up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

Government intervention takes place when markets fail (1); nature of information failure (1) examples of merit goods (1)

AO2 Analysis (max 3 marks)

Application of reasons for government provision of merit goods to include essential nature of merit goods (1); private sector not willing to fully provide (1); problem of payment for merit goods (1) benefits in terms of society and the economy (1)

Guidance; Award 1 mark for each example that is explained

AO3 Evaluation (max 2 marks)

- Governments may lack the resources to provide sufficient merit goods
- Governments may not have enough information on which merit goods should be provided
- **Reserve 1 mark for a justified conclusion**

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

30. up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis

up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

An understanding of the role of the state in providing essential goods and services, such as merit goods (1); these could include education and health care (1) and they could be financed out of money received from taxation. (1)

Guidance: Allow expenditure by a government on items such as food and shelter.

AO2 Analysis (max 3 marks)

Up to 2 marks for explaining each essential good or service that a government might decide to increase the direct provision of.

Max: 3 marks

Guidance:

2 marks for each well-explained essential good or service provided by the state and 1 mark for each essential good or service provided by the state with limited explanation.

AO3 Evaluation (max 2 marks)

Offers a valid judgement on whether an increase in a government's direct provision of essential goods and services will always be likely to be successful in achieving its objectives in an economy (1) to reach a conclusion. (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

31. (a)

- up to 3 marks for AO1 Knowledge and understanding.
- up to 3 marks for AO2 Analysis
- up to 2 marks for AO3 Evaluation.

AO1 Knowledge and Understanding (max 3 marks)

Free goods are not scarce and have zero opportunity cost/no prices as no factors of production are required to produce them (1)

Public goods have two main characteristics of non-excludability and nonrivalry with a brief explanation of both terms (1)

Provide accurate examples of both e.g., fresh air and street lighting respectively (1)

AO2 Analysis (max 3 marks)

Explanation of why each of the two characteristics of public goods lead to the free rider problem (1 + 1) and why this makes it impossible/unrealistic to charge a price for them so the market economy would not supply them and therefore they must be provided by the government (1)

AO3 Evaluation (max 2 marks)

- Consideration of the view that pure public goods can never be provided in a market economy unless they are directly funded by the government (1)
- Or could be considered to be quasi or semi-public goods in which case a price could be charged, and they could be provided by a market economy (1)
- Reserve one mark for a justified conclusion (1)

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b)

AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content: responses may include:

AO1 Knowledge and understanding and AO2 Analysis

- An analysis of how private goods (which include merit and demerit goods) are allocated within an economy through the demand and supply mechanism.
- An explanation of the existence of imperfect information with respect to merit and demerit goods and the associated problems of under or overconsumption.
- An explanation of how this is likely to lead different methods of allocation for both merit and demerit goods than for other private goods, (how other private goods are allocated and how this differs from the provision of merit and demerit goods and any other problems that may be associated with their allocation.)
- Analysis should consider the consequences of imperfect information in both a market and a mixed economy for the provision of merit and demerit goods compared to other private goods.
- Answers which do not compare the provision of merit/demerit goods in both a market economy and a mixed economy cannot gain more than L2.

AO3 Evaluation

Points to consider include.

- Merit goods and demerit goods need government intervention because of the issues of under and over consumption due to imperfect information, so the market economy fails to operate efficiently.

- Other types of private good can be efficiently provided by the market economy without government intervention but the process of allocation may mean e.g., low-income groups do not have the same access to certain goods.
- **Leading to** a justified conclusion answering the question of whether the consequences of imperfect information are more serious in a market economy than in a mixed economy.

Accept all valid responses.

A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4

32. (a) up to 3 marks for AO1 Knowledge and understanding up to 3 marks for AO2 Analysis

- up to 2 marks for AO3 Evaluation.

AO1 Knowledge and understanding (max 3 marks)

- Explanation of what is meant by excludability/non excludability (1)
- Explanation of what is meant by rivalry/non rivalry (1)
- Correct application to private and public goods (1)

AO2 Analysis (max 3 marks)

- Why is a mass transit service a private good with reference to both characteristics and therefore only provided by the private sector? (up to 2 marks)
- Why is a mass transit service not a public good with reference to both characteristics and therefore not provided by the public sector? (up to 2 marks)

AO3 Evaluation (max 2 marks)

- Assessment of whether a mass transit service might only be provided by the private sector with 1 mark reserved for a justified conclusion.

AO1 Knowledge and understanding 3

AO2 Analysis 3

AO3 Evaluation 2

(b) AO1 and AO2 out of 8 marks. AO3 out of 4 marks.

Indicative content

Responses may include:

AO1 Knowledge and understanding and AO2 Analysis:

- Explanation of what is meant by a subsidy (reward accurate diagrams if provided but these are not necessary) with reference to the impact on price and quantity.
- Likely advantages of a subsidy for mass transit systems e.g., it can be considered a merit good that helps lower income families, improves labour mobility, reduces road congestion, and improves air quality/reduces the use of private cars which may be considered to be a demerit good.
- Likely disadvantages of subsidies e.g., opportunity cost, poor decisions as a result of information failure, government inability to provide funding etc.
- If only 1 sided answer i.e., only advantages or disadvantages are discussed, then L2 maximum.

AO3 Evaluation

- For an evaluation of the relative importance of the advantages and disadvantages of subsidies that leads to a justified conclusion

Accept all valid responses.

A one-sided response cannot gain any marks for evaluation.

AO1 Knowledge and understanding and AO2 Analysis 8

AO3 Evaluation 4