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AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

The Distribution of Income and Wealth: Poverty and Inequality

AQA A-level Economics 7136 — Topic 4.1.7

18 questions · 169 marks · Mark schemes included

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HOW TO USE THIS BOOKLET

Questions are grouped by specification sub-topic and run from the lowest mark tariff to the highest within each one.

Click any row below to jump straight to that sub-topic or question.

On every question page, click ANSWER in the top-right corner to jump to its mark scheme.

Diagrams, graphs, tables and data are printed exactly as they appeared in the original papers.

QUESTION	SOURCE	MARKS	PAGE
4.1.7.1 THE DISTRIBUTION OF INCOME AND WEALTH		6 Qs · 58 marks	3
1. Q11	A-level Paper 3, Section A (MCQ) June 2017	1	4
2. Q16	A-level Paper 3, Section A (MCQ) June 2019	1	5
3. Q27	A-level Paper 3, Section A (MCQ) June 2023	1	6
4. Q11	A-level Paper 1, Essay 2 June 2018	15	7
5. Q13	A-level Paper 1, Essay 3 June 2022	15	10
6. Q12	A-level Paper 1, Essay 2 June 2018	25	13
4.1.7.2 THE PROBLEM OF POVERTY		5 Qs · 47 marks	18
7. Q16	A-level Paper 3, Section A (MCQ) June 2022	1	19
8. Q05	A-level Paper 1, Context 2 June 2023	2	20
9. Q06	A-level Paper 1, Context 2 June 2023	4	22
10. Q11	A-level Paper 1, Essay 2 June 2017	15	24
11. Q12	A-level Paper 1, Essay 2 June 2017	25	27
4.1.7.3 POLICIES TO ALLEVIATE POVERTY AND INFLUENCE DISTRIBUTION		7 Qs · 64 marks	32
12. Q17	A-level Paper 3, Section A (MCQ) June 2022	1	33
13. Q17	A-level Paper 3, Section A (MCQ) June 2024	1	34
14. Q27	A-level Paper 3, Section A (MCQ) November 2020	1	35
15. Q05	A-level Paper 1, Context 2 June 2019	2	36
16. Q07	A-level Paper 1, Context 2 June 2023	9	38
17. Q14	A-level Paper 1, Essay 3 June 2022	25	41
18. Q08	A-level Paper 1, Context 2 June 2023	25	47



QUESTIONS

18 questions · 169 marks · 3 sub-topics



SUB-TOPIC 4.1.7.1

THE DISTRIBUTION OF INCOME AND WEALTH

Sub-topic 4.1.7.1 · 6 questions · 58 marks · lowest tariff first

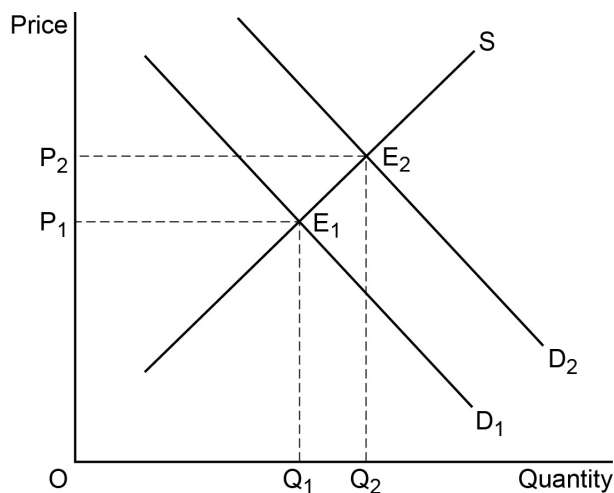


8

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The diagram below shows the demand curves (D_1 and D_2) and the supply curve (S) in the market for good X. The initial market equilibrium is at E_1 .



The increase in market demand from D_1 to D_2 results in a new market equilibrium at E_2 . The market mechanism that leads to the establishment of the new equilibrium is based on

- A** excess demand for good X at the initial price of P_1 .
B excess demand for good X at the new price P_2 .
C excess supply of good X at the initial price of P_1 .
D excess supply for good X at the new price P_2 .

☐☐☐☐

[1 mark]

1 1

Which one of the following values for the Gini coefficient shows the greatest inequality?

- A** -0.5
B 0
C 0.5
D 1

☐☐☐☐

[1 mark]



0 8

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10

1 | 5

The table below shows different combinations of changes in the rate of interest and the government's budget position. The economy has a negative output gap. All other things being equal, which one of the combinations of policies, **A**, **B**, **C** or **D**, is most likely to reduce the economy's negative output gap?

	Rate of interest	Government's budget position
A	Increase	Decrease in surplus
B	Decrease	Increase in surplus
C	Increase	Decrease in deficit
D	Decrease	Increase in deficit

☐☐☐☐**[1 mark]****1 | 6**

The table below shows the value of the Gini coefficient for a country between 2012 and 2016. Over the five year period, the government has used progressive taxation to change the distribution of income.

Year	Gini coefficient
2012	0.60
2013	0.55
2014	0.50
2015	0.45
2016	0.40

Based on the above data, which one of the following is a positive statement?

A A progressive tax system is the fairest way of correcting income inequality.

☐

B Between 2012 and 2016 the distribution of income in the country became more equal.

☐

C The Gini coefficient is the best way of measuring changes in the distribution of income.

☐

D The government should continue to tax the rich to improve the distribution of income.

☐**[1 mark]**

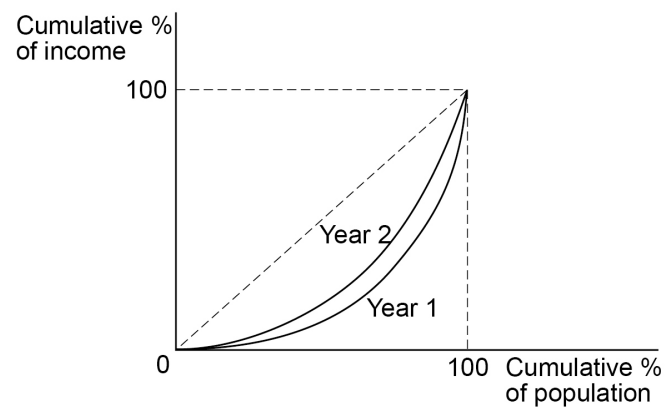
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16

2 7**Figure 7** shows the income distribution of a country in Year 1 and Year 2.Do not write
outside the
box**Figure 7**From **Figure 7**, it can be concluded that income distribution has become**[1 mark]**

- A** less equal and the Gini coefficient has decreased.
- B** less equal and the Gini coefficient has increased.
- C** more equal and the Gini coefficient has decreased.
- D** more equal and the Gini coefficient has increased.

☐☐☐☐

1 6

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6

Section BAnswer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

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.

0 9

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

[15 marks]**1 0**

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]**OR****Essay 2**

The Resolution Foundation estimates that 1% of adults, about 488 000 people, own 14% of the UK's assets – worth about £11 trillion. At the other end of the scale, 15% of adults, about 7.3 million people, either own no assets at all, or are in debt. Meanwhile, income is also unequally distributed, but not to the same extent as wealth.

1 1

Explain how the Lorenz curve and Gini coefficient may be used to illustrate increasing income inequality in a country.

[15 marks]**1 2**

Assess the view that, in the UK, the consequences of wealth inequality are more damaging than the consequences of income inequality.

[25 marks]

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OR**Essay 3**

Data from the Organisation for Economic Co-operation and Development (OECD) suggest that countries with very different levels of pre-tax income inequality often have similar levels of post-tax income inequality.

1	3
---	---

 Explain the main causes of inequality in the distribution of pre-tax incomes. **[15 marks]**

1	4
---	---

 Evaluate whether the best way to reduce inequality in disposable income is to reduce differences in pre-tax incomes rather than through taxes and welfare benefits. **[25 marks]****END OF QUESTIONS**

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6

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EITHER**Essay 1**

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0	9
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1	1
---	---

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[15 marks]

1	2
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[25 marks]

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SUB-TOPIC 4.1.7.2

THE PROBLEM OF POVERTY

Sub-topic 4.1.7.2 · 5 questions · 47 marks · lowest tariff first



11

1 6

Which one of the following best explains the existence of relative poverty?

[1 mark]

A Some households have to pay more in income tax than other households.

☐

B The Gini coefficient in some countries is low.

☐

C The income of some households is significantly less than the median household income.

☐

D The prices of items that are essential for life differ between countries.

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1 7

Table 2 shows the amount paid in tax by individuals at different levels of income.

Table 2

Income (£)	Tax paid (£)
20 000	4 000
30 000	5 400
40 000	6 400
50 000	7 000

This tax is an example of a

[1 mark]

A lump sum tax.

☐

B progressive tax.

☐

C proportional tax.

☐

D regressive tax.

☐

Turn over ►



1 1

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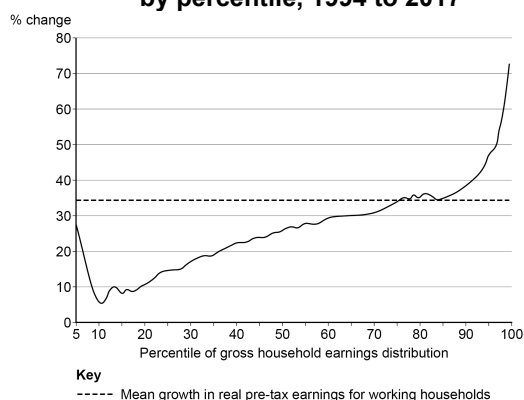
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Do **NOT** answer Context 2 if you have answered Context 1.

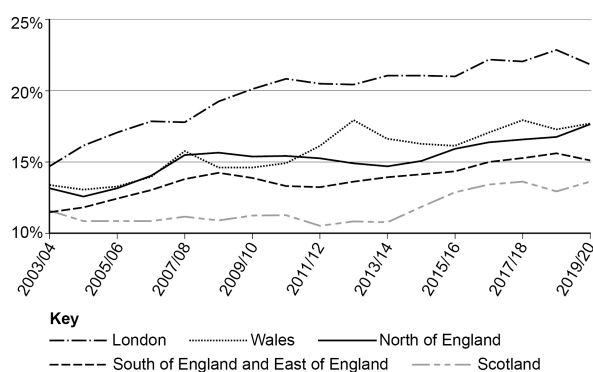
OR

Context 2

Total for this context: 40 marks

In-work poverty in the United KingdomStudy **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 2: Growth in real pre-tax earnings for working households, by percentile, 1994 to 2017**

Source: Institute for Fiscal Studies, 2020

Figure 3: In-work poverty rate, by selected UK region, 2003/04 to 2019/20

Source: Institute for Public Policy Research, 2021

Extract E: In-work poverty is on the rise in the UK

Approximately 14 million people are in poverty in the UK, more than one in five of the population, including 4 million children and 2 million pensioners, up by 400 000 and 300 000 respectively over the past five years. A family is classified as being in poverty if it has an income, after housing costs, of less than 60% of the median income for their family type. A family's income includes earnings from employment, self-employment and state benefits.

5

For generations, politicians in the UK have highlighted the important role of employment in tackling poverty. However, employment is no longer a strong defence against poverty. The Joseph Rowntree Foundation, an anti-poverty group, said that while paid employment does reduce the risk of poverty, about 56% of people living in poverty in 2018 were in working households, compared with 39% 20 years ago. Seven in 10 children in poverty are now in a working household, and such in-work poverty is particularly common amongst single-parent families. Working single parents accounted for three in 10 households in poverty in 2018, compared with two in 10 in 2011. Working poverty among single-earning couple households also rose dramatically, increasing from 19% in 2003–04 to 31% last year, meaning this group now experiences poverty rates almost as high as those households where no one works full time.

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Amid concerns that the poorest receive worse healthcare and have the most insecure jobs, the Government faces a huge task if it is to 'level up' incomes across the UK by narrowing the gap between the wealthiest and poorest regions. Some out-of-work benefits have not kept up with inflation, putting downward pressure on wages, contributing to the rise in in-work poverty. Other factors include rising prices of energy, essential groceries and rented properties.

20

Source: News reports, 2021

5

Extract F: Solutions to the problem of in-work poverty

Charities and think tanks have called for action to reduce job insecurity, lower housing costs and increase earnings for low-paid workers. Frances O'Grady, the former general secretary of the Trades Union Congress, said: "The government must crack down on business models based on poverty pay and insecure jobs. Zero-hour contracts should be banned and the minimum wage must go up to at least £10 per hour right away." The Chartered Institute for Personnel and Development called on companies to play their part in preventing working poverty by paying employees a living wage: 'Not only is there a strong moral case for paying staff a living wage, there is also a compelling business case, with research showing that money and debt problems may affect people's performance at work, which can hurt a company's profits.'

If the labour market cannot pay sufficiently high wages to prevent poverty, a possible policy is to use means-tested benefits to make up shortfalls in household incomes. However, the introduction of Universal Credit, which rolls six benefits into one, did not help some low-income families because of complexities involved in claiming it, and the time lag before claimants could receive their first payment.

Increasingly, households in poverty have been looking beyond both employers and the government for support. Charities and food banks have never been busier. The Trussell Trust reported that in 2020–21, 2.5 million emergency food parcels were delivered, an increase of 128% on 2015–16. Even professional workers are sometimes using food banks, alongside other sources of support. The Royal College of Nursing reported that, during the previous 12 months, more than half of their members had relied on food banks, credit or borrowing from friends and family to pay essential living costs.

Source: News reports, 2021

0 | 5

Use the data in **Extract D (Figure 2)** to calculate the difference between the mean and median rate of growth of working households' real pre-tax earnings, over the period 1994–2017.

[2 marks]**0 | 6**

Explain how the data in **Extract D (Figure 3)** show that employment is an increasingly ineffective protection against poverty.

[4 marks]**0 | 7**

Extract E (lines 19–20) states that 'Some out-of-work benefits have not kept up with inflation, putting downward pressure on wages, contributing to the rise in in-work poverty.'

With the help of a diagram, explain how a reduction in out-of-work benefits may lead to lower wages in some labour markets.

[9 marks]**0 | 8**

Extract F (lines 1–2) states that 'Charities and think tanks have called for action to reduce job insecurity, lower housing costs and increase earnings for low-paid workers.'

Using the extracts and your knowledge of economics, evaluate policies that could be used to reduce in-work poverty in the UK.

[25 marks]**Turn over ►**

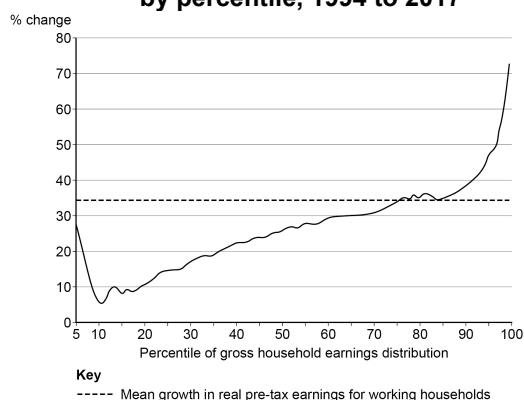
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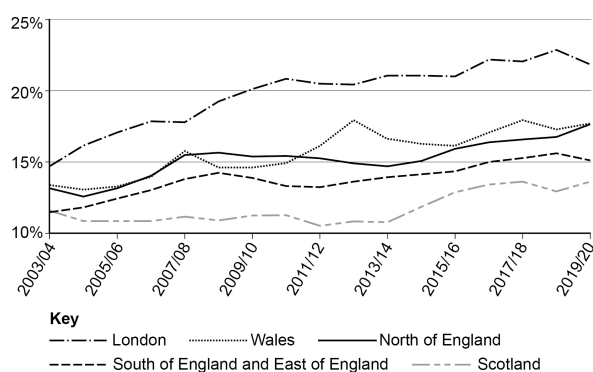
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20

Source: News reports, 2021

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0 | 5

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0 | 7

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[25 marks]

Turn over ►

6

Section BAnswer **ONE** essay from this section.Each essay carries 40 marks.

EITHER**Essay 1**

Roughly £18bn is forecast to be spent in the UK on advertising in 2017. Much of this will be spent by monopolistically competitive firms or oligopolies seeking to differentiate the products they sell to consumers.

0	9
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Explain how price and output are determined for a firm in a monopolistically competitive market, in both the short run and the long run.

[15 marks]

1	0
---	---

Evaluate the view that government regulation of monopolistically competitive markets is unnecessary, and that policies to encourage competition and prevent the abuse of monopoly power should focus entirely on oligopolies and monopolies.

[25 marks]**OR****Essay 2**

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

1	1
---	---

Explain the main causes of poverty in the UK.

[15 marks]

1	2
---	---

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

[25 marks]

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6

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[25 marks]

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SUB-TOPIC 4.1.7.3

POLICIES TO ALLEVIATE POVERTY AND INFLUENCE DISTRIBUTION

Sub-topic 4.1.7.3 · 7 questions · 64 marks · lowest tariff first



11

1 6

Which one of the following best explains the existence of relative poverty?

[1 mark]

A Some households have to pay more in income tax than other households.

☐

B The Gini coefficient in some countries is low.

☐

C The income of some households is significantly less than the median household income.

☐

D The prices of items that are essential for life differ between countries.

☐

1 7

Table 2 shows the amount paid in tax by individuals at different levels of income.

Table 2

Income (£)	Tax paid (£)
20 000	4 000
30 000	5 400
40 000	6 400
50 000	7 000

This tax is an example of a

[1 mark]

A lump sum tax.

☐

B progressive tax.

☐

C proportional tax.

☐

D regressive tax.

☐

Turn over ►



1 1

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17

Table 5 shows a household's income and the amount the household has to pay in tax for three taxes.

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Table 5

Income (£)	Tax F (£)	Tax G (£)	Tax H (£)
10 000	1 000	500	500
30 000	2 500	1 500	1 800
60 000	4 000	3 000	4 000

Which one of the following statements is correct?

[1 mark]

- A** Tax F is a progressive tax and Tax H is a progressive tax
- B** Tax F is a regressive tax and Tax G is a progressive tax
- C** Tax F is a regressive tax and Tax G is a proportional tax
- D** Tax F is a regressive tax and Tax H is a regressive tax

☐

☐

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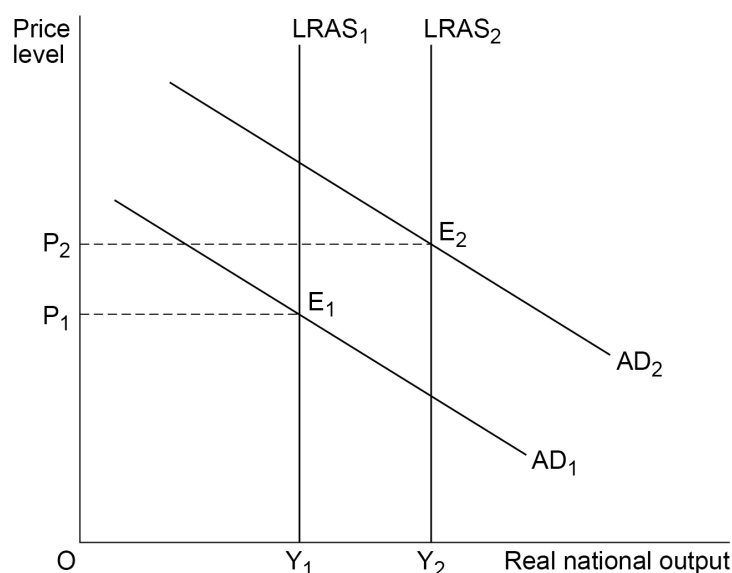


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2 | 6

Figure 7 shows two aggregate demand (AD_1 and AD_2) curves and two long-run aggregate supply ($LRAS_1$ and $LRAS_2$) curves for an economy.

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Figure 7

All other things being equal, which one of the following combinations, **A**, **B**, **C** or **D**, is most likely to explain the movement of the economy from E_1 to E_2 ?

An increase in the

A budget surplus and size of the multiplier.

☐

B exchange rate and supply of money.

☐

C rate of inflation and positive output gap.

☐

D volume of exports and potential output.

☐

[1 mark]

2 | 7

Which one of the following is correct for a proportional tax on income?

A The amount of tax paid increases as income increases

☐

B The marginal rate of tax is lower than the average rate

☐

C The average rate of tax falls as income increases

☐

D The average rate of tax is lower than the marginal rate

☐

[1 mark]

Turn over ►



1 5

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4

Do **NOT** answer Context 2 if you have answered Context 1.

OR

Context 2

Total for this context: 40 marks

The British railway system

Study **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.

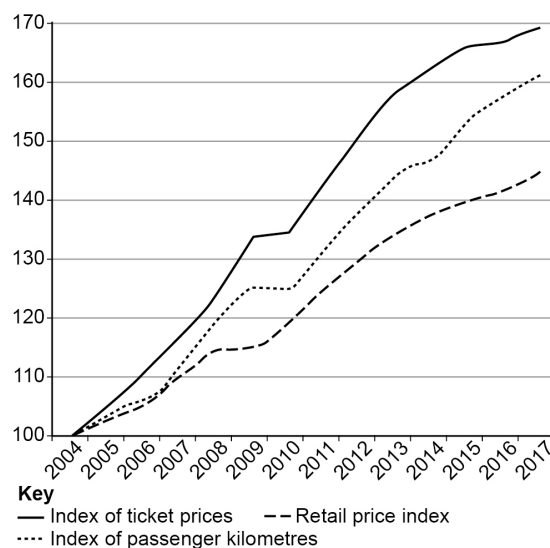
Extract D

Figure 3: UK (excluding Northern Ireland) rail industry income, 2010–2016

£ millions	2010–11	2015–16
Passenger income	7 588	9 160
Government funding	6 182	6 697
Network Rail income	2 565	2 300
Other income	793	833
Total	17 128	18 990

Passenger income as % of total	44%	48%
--------------------------------	-----	-----

Figure 4: Indices of UK rail ticket prices and passenger kilometres, 2004–2017 (2004=100)



Source: Office of Rail and Road, Feb 2017

Extract E: Privatisation of British Rail

'More competition, greater efficiency and a wider choice of services', proclaimed the 1992 Government white paper that advocated the privatisation of British Rail. Two decades on, passenger journeys have more than doubled from 735 million in 1994–5, to 1.7bn in 2016–17. But how much of this is due to the benefits of privatisation, rather than factors such as increasing urban congestion and a rising population? The UK's trains and tracks are more intensively used than in any other European market except the Netherlands. Investment is up, at around four times (in real terms) the £1.6bn a year it averaged in the late 1980s. The data on service quality are mixed. The UK performs well in terms of punctuality and reliability, but many journeys are uncomfortable. At peak hours 23% of London commuters have to stand.

5

Instead of pushing British Rail into the private sector as a natural monopoly, the Government split it up and sold it in no less than 100 pieces between 1995 and 1997. Privatisation was supposed to unleash efficiencies that would justify the returns private operators demand for their services. However, a recent study shows that the cost of running the UK's railways is 40% higher than in the rest of Europe. "The train you catch is owned by a bank, leased to a private company, which has a franchise from the Department for Transport to run it on track owned by

10

15

5

Network Rail, all regulated by another office, and paid for by taxpayers or passengers,” says Prof John Stittle.

Since 1996, government subsidies have almost doubled in real terms. Ticket prices are now 25% higher in real terms than in 1995 and 30% higher than in France, Sweden and Switzerland.

Source: News reports, February 2018

Extract F: A return to Government ownership?

In May 2018, the Government allowed Virgin and Stagecoach to end their East Coast mainline franchise three years early, after claims they had lost more than £100 million. This has led to accusations that private companies can just walk away whenever profits dry up. When their predecessor, National Express, gave up the East Coast line franchise in 2009, it was renationalised. During the following five years under state control, it increased ticket sales, returned about £1bn to the taxpayer and improved customer satisfaction. Encouraged by this success, the Labour Party has proposed rail renationalisation of the entire UK network. Recent polls suggest almost 75% of the UK population agree, although opponents contend that most of the British public really don't care about who runs the trains; what they care about is reliability, comfort and price. 5 10

Part of the appeal of rail renationalisation comes from the low up-front costs: by taking over operations as franchises expire, the Government would avoid having to spend billions in buying out private companies. The Labour Party's plan involves reversing the splitting up of the service so that customers receive a simplified ticketing system with improved efficiency, although this may impact on dynamic efficiency and innovation. 15

Opponents of nationalisation argue that the train operating companies are efficient and not making excessive profits. “Profits are about 3.4% across the industry”, says Mark Smith, a former government regulator. “So if you eliminated all profits overnight you would get a one-off 3.4% cut in fares, which isn't going to set the world on fire.”

Source: News reports, May 2018

0 5 Using the data in **Extract D** (Figure 3), 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]

0 6 Explain how the data in **Extract D** (Figure 4) show that in the UK, between 2004 and 2017, changes in the demand for rail travel contributed to changes in the price of rail travel. [4 marks]

0 7 **Extract E** (lines 10–11) describes the British railway sector as a ‘natural monopoly’, which was split up into ‘no less than 100 pieces’ when it was privatised. With the help of a diagram, explain why breaking up a natural monopoly in rail may affect long-run average costs. [9 marks]

0 8 **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]

Turn over ►

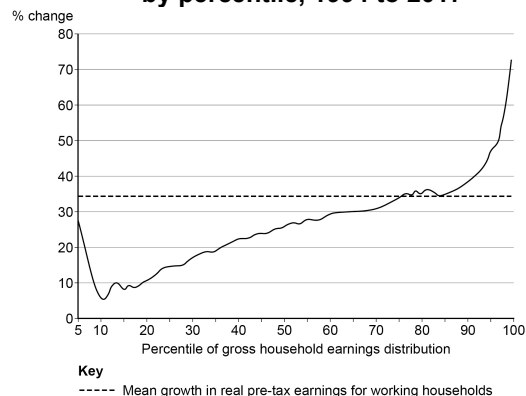
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Do **NOT** answer Context 2 if you have answered Context 1.

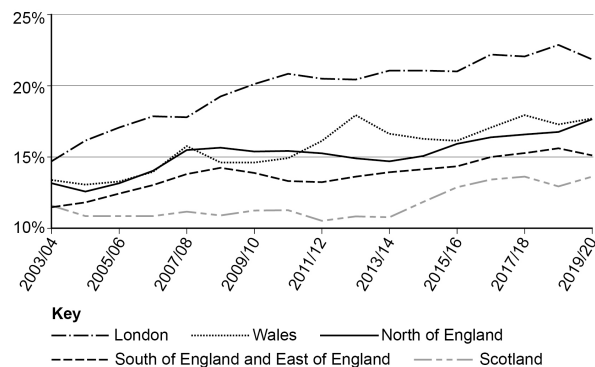
OR

Context 2

Total for this context: 40 marks

In-work poverty in the United KingdomStudy **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 2: Growth in real pre-tax earnings for working households, by percentile, 1994 to 2017**

Source: Institute for Fiscal Studies, 2020

Figure 3: In-work poverty rate, by selected UK region, 2003/04 to 2019/20

Source: Institute for Public Policy Research, 2021

Extract E: In-work poverty is on the rise in the UK

Approximately 14 million people are in poverty in the UK, more than one in five of the population, including 4 million children and 2 million pensioners, up by 400 000 and 300 000 respectively over the past five years. A family is classified as being in poverty if it has an income, after housing costs, of less than 60% of the median income for their family type. A family's income includes earnings from employment, self-employment and state benefits.

5

For generations, politicians in the UK have highlighted the important role of employment in tackling poverty. However, employment is no longer a strong defence against poverty. The Joseph Rowntree Foundation, an anti-poverty group, said that while paid employment does reduce the risk of poverty, about 56% of people living in poverty in 2018 were in working households, compared with 39% 20 years ago. Seven in 10 children in poverty are now in a working household, and such in-work poverty is particularly common amongst single-parent families. Working single parents accounted for three in 10 households in poverty in 2018, compared with two in 10 in 2011. Working poverty among single-earning couple households also rose dramatically, increasing from 19% in 2003–04 to 31% last year, meaning this group now experiences poverty rates almost as high as those households where no one works full time.

10

15

Amid concerns that the poorest receive worse healthcare and have the most insecure jobs, the Government faces a huge task if it is to 'level up' incomes across the UK by narrowing the gap between the wealthiest and poorest regions. Some out-of-work benefits have not kept up with inflation, putting downward pressure on wages, contributing to the rise in in-work poverty. Other factors include rising prices of energy, essential groceries and rented properties.

20

Source: News reports, 2021

Extract F: Solutions to the problem of in-work poverty

Charities and think tanks have called for action to reduce job insecurity, lower housing costs and increase earnings for low-paid workers. Frances O'Grady, the former general secretary of the Trades Union Congress, said: "The government must crack down on business models based on poverty pay and insecure jobs. Zero-hour contracts should be banned and the minimum wage must go up to at least £10 per hour right away." The Chartered Institute for Personnel and Development called on companies to play their part in preventing working poverty by paying employees a living wage: 'Not only is there a strong moral case for paying staff a living wage, there is also a compelling business case, with research showing that money and debt problems may affect people's performance at work, which can hurt a company's profits.'

If the labour market cannot pay sufficiently high wages to prevent poverty, a possible policy is to use means-tested benefits to make up shortfalls in household incomes. However, the introduction of Universal Credit, which rolls six benefits into one, did not help some low-income families because of complexities involved in claiming it, and the time lag before claimants could receive their first payment.

Increasingly, households in poverty have been looking beyond both employers and the government for support. Charities and food banks have never been busier. The Trussell Trust reported that in 2020–21, 2.5 million emergency food parcels were delivered, an increase of 128% on 2015–16. Even professional workers are sometimes using food banks, alongside other sources of support. The Royal College of Nursing reported that, during the previous 12 months, more than half of their members had relied on food banks, credit or borrowing from friends and family to pay essential living costs.

Source: News reports, 2021

0 5

Use the data in **Extract D (Figure 2)** to calculate the difference between the mean and median rate of growth of working households' real pre-tax earnings, over the period 1994–2017.

[2 marks]

0 6

Explain how the data in **Extract D (Figure 3)** show that employment is an increasingly ineffective protection against poverty.

[4 marks]

0 7

Extract E (lines 19–20) states that 'Some out-of-work benefits have not kept up with inflation, putting downward pressure on wages, contributing to the rise in in-work poverty.'

With the help of a diagram, explain how a reduction in out-of-work benefits may lead to lower wages in some labour markets.

[9 marks]

0 8

Extract F (lines 1–2) states that 'Charities and think tanks have called for action to reduce job insecurity, lower housing costs and increase earnings for low-paid workers.'

Using the extracts and your knowledge of economics, evaluate policies that could be used to reduce in-work poverty in the UK.

[25 marks]

Turn over ►

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7

OR**Essay 3**

Data from the Organisation for Economic Co-operation and Development (OECD) suggest that countries with very different levels of pre-tax income inequality often have similar levels of post-tax income inequality.

1	3
---	---

 Explain the main causes of inequality in the distribution of pre-tax incomes. **[15 marks]**

1	4
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 Evaluate whether the best way to reduce inequality in disposable income is to reduce differences in pre-tax incomes rather than through taxes and welfare benefits. **[25 marks]****END OF QUESTIONS**

There are no questions printed on this page

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IB/M/Jun22/7136/1



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Extract F: Solutions to the problem of in-work poverty

Charities and think tanks have called for action to reduce job insecurity, lower housing costs and increase earnings for low-paid workers. Frances O'Grady, the former general secretary of the Trades Union Congress, said: "The government must crack down on business models based on poverty pay and insecure jobs. Zero-hour contracts should be banned and the minimum wage must go up to at least £10 per hour right away." The Chartered Institute for Personnel and Development called on companies to play their part in preventing working poverty by paying employees a living wage: 'Not only is there a strong moral case for paying staff a living wage, there is also a compelling business case, with research showing that money and debt problems may affect people's performance at work, which can hurt a company's profits.'

If the labour market cannot pay sufficiently high wages to prevent poverty, a possible policy is to use means-tested benefits to make up shortfalls in household incomes. However, the introduction of Universal Credit, which rolls six benefits into one, did not help some low-income families because of complexities involved in claiming it, and the time lag before claimants could receive their first payment.

Increasingly, households in poverty have been looking beyond both employers and the government for support. Charities and food banks have never been busier. The Trussell Trust reported that in 2020–21, 2.5 million emergency food parcels were delivered, an increase of 128% on 2015–16. Even professional workers are sometimes using food banks, alongside other sources of support. The Royal College of Nursing reported that, during the previous 12 months, more than half of their members had relied on food banks, credit or borrowing from friends and family to pay essential living costs.

Source: News reports, 2021

0 5

Use the data in **Extract D (Figure 2)** to calculate the difference between the mean and median rate of growth of working households' real pre-tax earnings, over the period 1994–2017.

[2 marks]

0 6

Explain how the data in **Extract D (Figure 3)** show that employment is an increasingly ineffective protection against poverty.

[4 marks]

0 7

Extract E (lines 19–20) states that 'Some out-of-work benefits have not kept up with inflation, putting downward pressure on wages, contributing to the rise in in-work poverty.'

With the help of a diagram, explain how a reduction in out-of-work benefits may lead to lower wages in some labour markets.

[9 marks]

0 8

Extract F (lines 1–2) states that 'Charities and think tanks have called for action to reduce job insecurity, lower housing costs and increase earnings for low-paid workers.'

Using the extracts and your knowledge of economics, evaluate policies that could be used to reduce in-work poverty in the UK.

[25 marks]

Turn over ►

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MARK SCHEMES

official mark schemes



MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2017

SECTION A

The following list indicates the correct answers used in marking the candidates' responses.

KEY LIST

1	D	16	B
2	B	17	C
3	A	18	B
4	A	19	C
5	C	20	A
6	C	21	D
7	C	22	B
8	C	23	A
9	D	24	D
10	A	25	B
11	D	26	D
12	A	27	A
13	A	28	D
14	C	29	C
15	D	30	D

	<u>Total</u>
A	8
B	5
C	8
D	9
	<u>30</u>

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2019

SECTION A

KEY LIST

1	C	11	A	21	C
2	B	12	C	22	A
3	B	13	C	23	B
4	A	14	D	24	B
5	B	15	D	25	B
6	B	16	B	26	C
7	B	17	C	27	B
8	D	18	C	28	A
9	B	19	C	29	C
10	C	20	C	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2023

SECTION A

KEY LIST

1	D (favourable weather leading to a record harvest.)	11	A (A)	21	B (Emergency aid provided to another country following a natural disaster)
2	C (the environment has an opportunity cost.)	12	D (V and Q)	22	B (Country X has a comparative advantage in the production of coffee and an absolute advantage in the production of tea)
3	D (+12.5)	13	B (5th worker is employed.)	23	A (strengthened against the pound sterling and strengthened against the euro.)
4	C (the rate of inflation.)	14	D (zero)	24	D (industry regulators grow too close to the firms they are regulating.)
5	A (A)	15	C (The adoption of satisficing behaviour)	25	C (An increase in the minimum qualifications required for workers in the industry and a fall in the price of a complement for the output produced)
6	B (Bringing down the rate of inflation)	16	B (Economic agents have higher inflation expectations due to the intervention)	26	A (The proportion of employers' total costs which are made up by wages)
7	B (Availability bias and social norms)	17	C (Evaluating the government's performance against its own fiscal targets)	27	C (more equal and the Gini coefficient has decreased.)
8	B (Some firms will leave the market and the price will rise)	18	A (Increase its purchases of government securities)	28	B (An improvement in the balance of payments on current account)
9	B (Creative destruction)	19	D (The supply curve for potatoes shifts due to the incentive function of prices)	29	B (Banks may engage in more risky lending if they believe the central bank will support them in a crisis)
10	B (0.6)	20	C (4 units)	30	A (£50bn)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2018

Essay 2**Total for this essay 40 marks**

- 1 1** Explain how the Lorenz curve and Gini coefficient may be used to illustrate increasing income inequality in a country.

[15 marks]**Areas for discussion include:**

- a clear diagram of the Lorenz curve correctly labelled
- explanation of how perfect equality and perfect inequality are represented
- explanation of how the shape of the curve relates to the cumulative proportions of income and population
- the connection between the Lorenz curve and the Gini coefficient
- how the Lorenz curve and Gini coefficient could be used to show increasing inequality. This is most likely to be done by using the diagram to show 2 Lorenz curves on the same axes.

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.

Use the levels mark scheme on page 16 to award candidates marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2022

Essay 3**Total for this essay: 40 marks**

1	3
---	---

*Explain the main causes of inequality in the distribution of pre-tax incomes.***[15 marks]****Areas for discussion include:**

- explanation of inequality and how it can relate both to pre-tax and post-tax incomes
- how market incomes include wages, rent, interest and profit dividends
- how labour markets can lead to a wide range of wages as a result of differences in labour demand, marginal revenue product (MRP), labour supply
- how discrimination affects wages and inequality
- how wealth inequality can lead to income inequality as rent, interest and profits tend to accrue to those who are wealthy
- how inequality in income can be the result of inequalities in opportunities from an early stage, including education, health, nutrition and regional disparities
- how other labour market imperfections might lead to rising inequality
 - monopoly and monopsony power
 - information asymmetry
 - externalities
 - immobile factors of production
- use of examples.

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.

Use the level mark scheme on page 15 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2018

- 1 2** Assess the view that, in the UK, the consequences of wealth inequality are more damaging than the consequences of income inequality.

[25 marks]

Areas for discussion include:

- explanation of the distinction between wealth and income
- the sources of wealth (inheritance, gifts, accumulated earned income, etc.)
- the sources of income (wages, rent, interest, dividends, etc.)
- the trends in wealth and income inequality in the UK
- how useful it is to consider inequality as a snapshot in time rather than looking at inequality across entire lifetimes (eg students are very likely to have low income, but likely to have high social mobility)
- the consequences of wealth inequality
 - unequal distribution of property, causing some to live in low-quality homes, or having to frequently move house
 - asset bubbles and property speculation
 - the hindrance of social mobility via the wealthy affording better education, health, cultural goods
 - impact on poverty, including child poverty and pensioner poverty
 - impact on income inequality, as wealth creates income via interest, rent and dividends
 - the argument that only the wealthy can afford to take big risks as entrepreneurs, so have access to high risk/ high reward opportunities
 - envy and jealousy leading to social problems
 - intergenerational problems arising from (mainly) property inequality, the changing nature of university funding
- the consequences of income inequality
 - a sense of unfairness, especially if associated with discrimination or gender/race-based pay gaps
 - impact on aggregate demand
 - impact on economic growth and performance
 - impact on social indicators, such as crime, education, physical health, mental health
 - several of the factors listed above under wealth inequality
- analysis of policies currently used by the UK government (eg inheritance tax, income tax, capital gains tax, national insurance) and whether these are progressive, proportional or regressive
- analysis of other possible policies such as restrictions on second homes, 'mansion tax', forcing independent schools to charge VAT
- analysis of policies to prevent inequality between the top 1%/0.1% and the rest of the population
- the tendency of markets to increase rather than decrease inequality
- the argument that wealth and income inequality are not serious issues because of the trickle-down effect
- the argument that some degree of income and wealth inequality is inevitable in a market economy and perhaps desirable, to provide incentives and allocate resources effectively
- the argument that neither is worse than the other, that they are equally damaging.

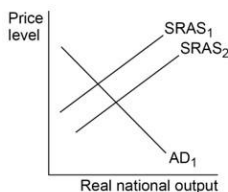
The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 5 to award candidates marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2023

Context 2

Total for this context: 40 marks

0 5

Use the data in **Extract D (Figure 2)** to calculate the difference between the mean and median rate of growth of working households' real pre-tax earnings, over the period 1994–2017.

[2 marks]

Mean: 34% (read off the chart)

Median: 26% (read off the chart)

Calculation: $34 - 26 = 8$ percentage points

Correct answer: 8 percentage points (+/- 2 percentage points)

Response	Max 2 marks
For the correct answer with the units, percentage points or %	2 marks
For the correct answer but without the units, percentage points or % OR For the correct method but the wrong answer, with the units, percentage points or % (must be evidence that the median household has been identified as the 50th percentile)	1 mark

Allow '%' instead of 'percentage points'.

MAXIMUM FOR QUESTION 05: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2023

0 6 Explain how the data in **Extract D (Figure 3)** show that employment is an increasingly ineffective protection against poverty.

[4 marks]

Response	Max 4 marks
- Includes evidence that shows that employment is an increasingly ineffective protection against poverty. - Clearly explains how this data is evidence that employment is an increasingly ineffective protection against poverty.	4 marks
- Includes evidence that shows that employment is an increasingly ineffective protection against poverty. - Explanation of how this data is evidence that employment is an increasingly ineffective protection against poverty.	3 marks
- Includes some evidence that shows that employment is an increasingly ineffective protection against poverty. - Limited explanation of how this data is evidence that employment is an increasingly ineffective protection against poverty.	2 marks
- Includes evidence that does not show that employment is an increasingly ineffective protection against poverty. - No explanation of how this data is evidence that employment is an increasingly ineffective protection against poverty.	1 mark

Relevant issues include:

- explanation of what is meant by poverty and/or in-work poverty
- explanation of what the poverty lines show
- explanation that for employment to be an increasingly ineffective protection against poverty one would expect to see an increasing in-work poverty rate in most, if not all, regions
- evidence that a particular region has an increase in the in-work poverty rate, for example, London had an in-work poverty rate of 15% in 2003–2004 which had risen to 22% in 2019–2020
- all regions shown have higher in-work poverty rates at the end of the period than at the start. For example, Wales had an in-work poverty rate of 13% in 2003–2004 which had risen to 17.5% in 2019–2020
- all regions shown had the highest in-work poverty rate, towards the end of the period, in either 2017–2018 or 2018–2019. For example, London's was 23% in 2018–2019
- explanation of why the data show that employment is an increasingly ineffective protection against poverty is that all regions show an increase in the in-work-poverty rate in 2019/20 compared to 2003/04

Other figures for ease of reference:

- North of England had an in-work poverty rate of 13% in 2003–2004 which had risen to 17.5% in 2019–2020
- South of England and East of England had an in-work poverty rate of 12% in 2003–2004 which had risen to 15% in 2019–2020
- Scotland had an in-work poverty rate of 12% in 2003–2004 which had risen to 14% in 2019–2020

Note: allow a margin of +/- 1% point

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2017

Essay 2**Total for this Essay 40 marks**

1	1
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 Explain the main causes of poverty in the UK.**[15 marks]****Areas for discussion include:**

- distinction between absolute and relative poverty
- measures of absolute and relative poverty in the UK
- drawing a distinction between wealth and income poverty
- drawing a distinction between poverty before/and after housing costs
- increasing tendency for those in poverty to be in work as a result of
 - low productivity and thus wages
 - low skills
 - flexible labour markets and lower trade union power
 - issues with the tax and benefit system – the poverty trap
- reasons why out-of-work people may be in relative poverty – the unemployment trap
- connections between the economic cycle and relative poverty
- child 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.

Use the levels mark scheme on page 15 to award candidates marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2017

1 2 To what extent can the problem of poverty in the UK be solved through the operation of market forces? Justify your answer.

[25 marks]

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, eg 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.

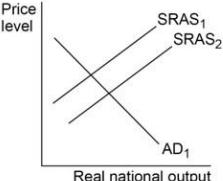
The use of relevant diagrams to support the analysis should be taken into account when assessing the quality of the candidate's response to the question.

Use the levels mark scheme on page 4 to award candidates marks for this question.

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2022

SECTION A

KEY LIST

1	D (may be true or false)	11	B (Most banks carry out both commercial and investment banking activities.)	21	D (Total utility is maximised.)
2	C (Moving products with a high sugar content away from supermarket checkouts)	12	C (A natural disaster, damaging productive capacity)	22	C (Increasing, Increasing, Increasing)
3	A (greater at X than Y)	13	A (Helping countries settle disputes over tariffs and quotas)	23	C (£264 billion)
4	C (3.3%)	14	D (There is considerable spare capacity in the car industry.)	24	A (make supernormal profits)
5	C (price levels)	15	B 	25	B $\left(\frac{1}{40}\right)$
6	C (Rates of income tax)	16	C (The income of some households is significantly less than the median household income.)	26	B (£100 bn)
7	B (Producers will be more likely to have to pay compensation for pollution.)	17	D (regressive tax)	27	B (The cost of living for people who live in UK seaside towns will fall.)
8	C (The firm's total revenue falls.)	18	A (Government retraining schemes for structurally unemployed workers)	28	A (The total amount paid in wages will fall from $(W_2 \times Q_2)$ to $(W_3 \times Q_1)$.)
9	C (price discrimination)	19	C (5 + 6)	29	C (Increasing life expectancy at birth)
10	A (5%)	20	A (Average revenue and marginal revenue will both fall.)	30	C (geographical immobility of labour)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2024

SECTION A

KEY LIST

1	B (Employment of factors of production has an opportunity cost)	11	A (shift left and become flatter.)	21	C (4)
2	D (The firm is unlikely to know everything about job applicants' skills, abilities and motivation)	12	A (A firm's revenue would fall with any change in price)	22	D (An increase in the price of the industry's product caused by changing tastes)
3	C (Productive efficiency in the car industry is unchanged)	13	B (£0)	23	B (A reduction in the geographical mobility of labour)
4	C (Spending on Good X will fall by 2% and spending on Good Y will increase by 4%)	14	B (government failure due to unintended consequences.)	24	D (Liquidity worsens and profitability improves)
5	C (Indirect taxes made the distribution of income more unequal)	15	C (Store of value)	25	D (Imports from other member countries will increase)
6	C (–£8.5bn)	16	C (2022)	26	C (A surplus will lead to excess demand for the country's currency and an appreciating exchange rate)
7	C (Investment)	17	C (Tax F is a regressive tax and Tax G is a proportional tax)	27	D (The rate of growth in the country's exports of copper was higher in 2021 than in 2022)
8	D (Marginal utility from consuming the 3rd banana is less than the 2nd)	18	B (Increasing marginal returns to labour)	28	C (2022)
9	A (An increase in real national income and a reduction in the balance of payments deficit)	19	D (Sustained rises in nominal national income in future years)	29	C (Privatising key industries)
10	D (joint supply)	20	C (marginal cost equals average total cost.)	30	C (8 000)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2020

SECTION A

KEY LIST

1	C	11	B	21	D
2	C	12	C	22	C
3	D	13	A	23	D
4	A	14	B	24	D
5	A	15	C	25	B
6	A	16	D	26	D
7	B	17	C	27	A
8	B	18	B	28	C
9	A	19	C	29	A
10	A	20	D	30	C

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2019

Context 2

Total for this context: 40 marks

0 5 Using the data in **Extract D** (Figure 3), 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]

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

MAXIMUM FOR QUESTION 05: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2023

0 7 **Extract E** (lines 19–20) states that ‘Some out-of-work benefits have not kept up with inflation, putting downward pressure on wages, contributing to the rise in in-work poverty.’

With the help of a diagram, explain how a reduction in out-of-work benefits may lead to lower wages in some labour markets.

[9 marks]

Level of response	Response	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

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2022

1 4*Evaluate whether the best way to reduce inequality in disposable income is to reduce differences in pre-tax incomes rather than through taxes and welfare benefits.***[25 marks]****Areas for discussion include:**

- definition of disposable income, pre-tax income
- explanation of why incomes differ in a market economy, for example through differences in supply and demand for labour in different labour markets
- understanding that incomes can include not solely wages, but also other sources of income such as rent, interest and dividends
- advantages and disadvantages of policies that can be used to reduce inequality in pre-tax incomes
 - improving social mobility
 - ensuring equal opportunities in terms of education, health, labour market access and other determinants of incomes
 - minimum wages and maximum wages
 - tackling labour market monopsony power to prevent exploitation of workers
 - tackling product market monopoly power to prevent excessive dividends from large firms
- advantages and disadvantages of policies that can be used to redistribute income after incomes have been received such as income tax, national insurance and the provision of welfare benefits
- evaluation of policy impacts on government finances, social mobility, incentives to work and take risks, social capital
- discussion of how inequalities in the distribution of wealth can lead to inequalities in the distribution of income, and therefore policies to reduce wealth inequality may help reduce inequalities in income
- considering the extent to which inequality is undesirable and whether the government should intervene
- an assessment of the relative merits of policies to reduce inequality in pre-tax incomes compared to using the tax-benefit system to reduce inequality in disposable income.

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.

Use the level mark scheme on page 4 to award student marks for this question.

MAXIMUM FOR QUESTION 14: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2023

0 8**Extract F** (lines 1–2) states that ‘Charities and think tanks have called for action to reduce job insecurity, lower housing costs and increase earnings for low-paid workers.’*Using the extracts and your knowledge of economics, evaluate policies that could be used to reduce in-work poverty in the UK.***[25 marks]****Areas for discussion include:**

- the growing problem of poverty in the UK
- the distinction between in-work and out-of-work poverty and how the former has become a greater issue in recent times
- why in-work poverty has been rising, including rising costs (rents, grocery bills, energy bills), the impact of flexible labour markets, the operation of the gig economy, lower rates of unionisation
- the consequences of poverty
- discussion of the government’s ‘levelling-up’ agenda
- discussion of policies, including
 - means-tested benefits such as Universal Credit
 - universal benefits such as the NHS or state education
 - steps to increase wages (such as higher minimum wages)
 - changes to the system of income taxation and National Insurance
 - policies to make housing, fuel and food more affordable
 - policies to make work more secure, and incomes more stable (such as banning zero hours contracts)
- arguments for and against leaving the problem of in-work poverty to market forces, including the argument that firms have an interest in paying staff higher wages and that the opportunity to earn higher wages, and move out of poverty, motivates people to work hard
- non-governmental responses to poverty such as informal lending from family and friends, food banks and charities
- market failure arguments
- government failure arguments.

Use the level mark scheme on page 4 to award students marks for this question.**MAXIMUM FOR QUESTION 08: 25 MARKS**