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AQA A-LEVEL ECONOMICS: QUESTIONS BY TOPIC

The Market Mechanism, Market Failure and Government Intervention in Markets

AQA A-level Economics 7136 — Topic 4.1.8

48 questions · 500 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
4.1.8.1 HOW MARKETS AND PRICES ALLOCATE RESOURCES		1 Qs · 1 marks	4
1. Q15	A-level Paper 3, Section A (MCQ) June 2025	1	5
4.1.8.2 THE MEANING OF MARKET FAILURE		13 Qs · 179 marks	6
2. Q05	A-level Paper 1, Context 2 June 2022	2	7
3. Q01	A-level Paper 1, Context 1 June 2024	2	9
4. Q02	A-level Paper 1, Context 1 June 2019	4	11
5. Q06	A-level Paper 1, Context 2 June 2022	4	13
6. Q03	A-level Paper 1, Context 1 June 2023	9	15
7. Q03	A-level Paper 1, Context 1 November 2020	9	17
8. Q07	A-level Paper 1, Context 2 November 2021	9	20
9. Q11	A-level Paper 1, Essay 2 June 2022	15	22
10. Q14	A-level Paper 1, Essay 3 June 2017	25	25
11. Q10	A-level Paper 1, Essay 1 June 2019	25	31
12. Q14	A-level Paper 1, Essay 3 June 2019	25	36
13. Q10	A-level Paper 1, Essay 1 June 2022	25	42
14. Q04	A-level Paper 1, Context 1 June 2024	25	47
4.1.8.3 PUBLIC GOODS, PRIVATE GOODS AND QUASI-PUBLIC GOODS		7 Qs · 45 marks	53
15. Q07	A-level Paper 3, Section A (MCQ) June 2022	1	54
16. Q02	A-level Paper 3, Section A (MCQ) June 2023	1	55
17. Q16	A-level Paper 3, Section A (MCQ) November 2020	1	56
18. Q08	A-level Paper 3, Section A (MCQ) November 2021	1	57
19. Q29	A-level Paper 3, Section A (MCQ) November 2021	1	58
20. Q09	A-level Paper 1, Essay 1 June 2025	15	59
21. Q10	A-level Paper 1, Essay 1 June 2025	25	62
4.1.8.4 POSITIVE AND NEGATIVE EXTERNALITIES		2 Qs · 16 marks	67
22. Q23	A-level Paper 3, Section A (MCQ) November 2020	1	68
23. Q09	A-level Paper 1, Essay 1 June 2018	15	69
4.1.8.5 MERIT AND DEMERIT GOODS		2 Qs · 16 marks	72
24. Q12	A-level Paper 3, Section A (MCQ) November 2020	1	73
25. Q13	A-level Paper 1, Essay 3 June 2017	15	74
4.1.8.6 MARKET IMPERFECTIONS		6 Qs · 58 marks	77
26. Q13	A-level Paper 3, Section A (MCQ) June 2017	1	78
27. Q24	A-level Paper 3, Section A (MCQ) November 2020	1	79



QUESTION	SOURCE	MARKS	PAGE
28. Q11	A-level Paper 3, Section A (MCQ) November 2021	1	80
29. Q09	A-level Paper 1, Essay 1 June 2024	15	81
30. Q13	A-level Paper 1, Essay 3 November 2020	15	84
31. Q10	A-level Paper 1, Essay 1 November 2020	25	87
4.1.8.8 PUBLIC OWNERSHIP, PRIVATISATION, REGULATION AND DEREGULATION	5 Qs · 101 marks		92
32. Q29	A-level Paper 3, Section A (MCQ) June 2023	1	93
33. Q10	A-level Paper 1, Essay 1 June 2017	25	94
34. Q10	A-level Paper 1, Essay 1 June 2018	25	99
35. Q14	A-level Paper 1, Essay 3 June 2024	25	104
36. Q08	A-level Paper 1, Context 2 June 2025	25	110
4.1.8.9 GOVERNMENT INTERVENTION IN MARKETS	11 Qs · 83 marks		115
37. Q06	A-level Paper 3, Section A (MCQ) June 2018	1	116
38. Q03	A-level Paper 3, Section A (MCQ) June 2019	1	117
39. Q06	A-level Paper 3, Section A (MCQ) June 2019	1	118
40. Q05	A-level Paper 3, Section A (MCQ) June 2024	1	119
41. Q04	A-level Paper 3, Section A (MCQ) June 2025	1	120
42. Q28	A-level Paper 3, Section A (MCQ) June 2025	1	121
43. Q18	A-level Paper 3, Section A (MCQ) November 2020	1	122
44. Q18	A-level Paper 3, Section A (MCQ) November 2021	1	123
45. Q12	A-level Paper 1, Essay 2 June 2022	25	124
46. Q04	A-level Paper 1, Context 1 June 2025	25	129
47. Q08	A-level Paper 1, Context 2 November 2020	25	134
4.1.8.10 GOVERNMENT FAILURE	1 Qs · 1 marks		139
48. Q14	A-level Paper 3, Section A (MCQ) June 2024	1	140



QUESTIONS

48 questions · 500 marks · 9 sub-topics



SUB-TOPIC 4.1.8.1

HOW MARKETS AND PRICES ALLOCATE RESOURCES

Sub-topic 4.1.8.1 · 1 question · 1 marks · lowest tariff first



14

1 5

A large company experiences a significant fall in its year-end profits. Reports suggest it is a consequence of the divorce of ownership from control within the company.

Which one of the following is most likely to explain why the divorce of ownership from control may have harmed the firm's performance?

[1 mark]

- A** As part of their earnings, managers receive profit-related pay and share options
- B** Due to the satisficing principle, managers act in the interests of shareholders
- C** Moral hazard means shareholders take more risks to achieve greater rewards
- D** Profit maximisation is not the most important objective for all managers

☐☐☐☐

Do not write
outside the
box



IB/M/Jun25/7136/3

SUB-TOPIC 4.1.8.2

THE MEANING OF MARKET FAILURE

Sub-topic 4.1.8.2 · 13 questions · 179 marks · lowest tariff first



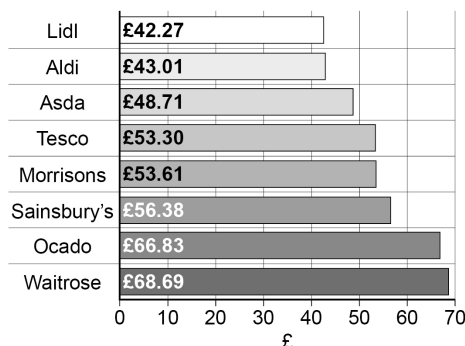
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Do **NOT** answer Context 2 if you have answered Context 1.

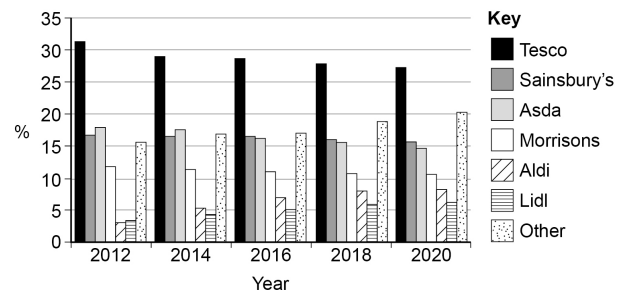
OR

Context 2

Total for this context: 40 marks

The UK supermarket sectorStudy **Extracts D, E and F** and then answer **all** parts of Context 2 which follow.**Extract D****Figure 3: Cost of a basket of 100 popular groceries, April 2020**

Source: Which?, 2020

Figure 4: Market shares in the UK supermarket sector, 2012–2020

Source: Statista, 2020

Extract E: Have Aldi and Lidl reached their peak?

Aldi and Lidl, the German discount grocers which primarily sell through physical stores, have missed out as more sales have moved online. They are now trying some small scale 'click and collect' and other online options, and are hoping to win back business as the economic downturn prompted shoppers to seek out lower prices. However, industry experts say their recent rapid growth and competition from traditional supermarkets would make it harder for the discounters to take more business from rivals. The 'big four' UK supermarkets – Tesco, Sainsbury's, Asda and Morrison's – have well-established home delivery infrastructure and were able to expand online delivery dramatically during the pandemic. This led to a doubling of the online share of the overall grocery market to 13% in just a few months.

Aldi and Lidl grew rapidly after 2008 as traditional supermarkets defended profit margins rather than sales. The discounters' combined market share in the UK grew from 4% to 14% in a decade. However, this time the traditional supermarkets are expected to put up a tougher fight. Andrew Porteous, analyst at HSBC, said the big four were "all very conscious of the mess they made of the last recession. They have done well through lockdown." "They will want to make sure they don't give people any reason to go back to split shops" he added, referring to the practice of shopping for basics at a discounter and topping up elsewhere. Supermarkets set prices interdependently, and price wars look very likely. Analysts estimate the price gap between discounters and conventional supermarkets is now about 10–12%, against more than 20% a few years ago. Tesco has pledged to match Aldi prices on key items, while Morrisons recently cut prices on 400 basics, and Asda has indicated it will not be holding back from price reductions. Competition and investment in more stores have reduced the discounters' profitability. Aldi's profit margin fell from above 5% in 2013 to just 1.75% in 2018.

Source: News reports, 2020

5

Extract F: Regulatory intervention in supermarkets

For decades now, economists have worried about a lack of competition between supermarkets. The sector has been dominated by a small number of large firms, led by Tesco. Sainsbury's and Asda, the second and third largest supermarket firms, attempted a merger in 2019, which would have led to a combined market share of 33%. They argued that the resulting cost savings of £1 billion per year would be passed on to consumers. However, the Competition and Markets Authority (CMA) was not persuaded, arguing that the promised price cuts would be hard to monitor, and that customers would have reduced choice for their shopping. Not only was the CMA concerned about market concentration at the national level, but also the establishment of local monopolies where some towns might have only one large supermarket to purchase groceries. They predicted lengthening queues and rising prices. In April 2019, they banned the merger.

In 2020, the CMA ruled that Tesco had been preventing landlords from letting property to other supermarkets. This is illegal as it may reduce competition, limit choice and make consumers worse off. Nigel Howorth, a lawyer, said: "Major supermarkets have for many years sought to maintain competitive advantage over rivals through the land planning system and restrictive property arrangements."

Source: News reports, 2020

0 5

Using the data in **Extract D (Figure 3)**, calculate, in percentage terms, how much more expensive a basket of groceries at Waitrose was than at Lidl in April 2020.

Give your answer as a percentage to two decimal places.

[2 marks]

0 6

Explain how the data in **Extract D (Figure 4)** show that the supermarket sector is competitive.

[4 marks]

0 7

Extract E (lines 16–17) states that, 'Supermarkets set prices interdependently, and price wars look very likely.'

With the help of a diagram, analyse the impact on grocery consumers of interdependence between supermarkets.

[9 marks]

0 8

Extract E (lines 17–19) states that, 'the price gap between discounters and conventional supermarkets is now about 10–12%, against more than 20% a few years ago.'

Evaluate the view that the supermarket sector is serving customers' interests well.

[25 marks]**Turn over ►**

Section A

Answer EITHER Context 1 OR Context 2.

EITHER

Context 1

Total for this context: 40 marks

The market for university accommodation

Study Extracts A, B and C and then answer all parts of Context 1 which follow.

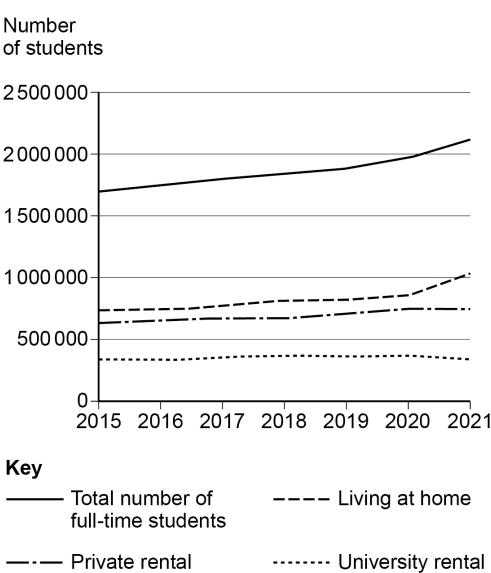
Extract A

Table 1: Average weekly university rent, selected UK cities, 2015 and 2021

Selected UK cities	Average weekly university rent, 2015	Average weekly university rent, 2021
Birmingham	£113.88	£157.94
Brighton	£143.00	£235.93
Bristol	£141.58	£184.38
Liverpool	£112.97	£136.61
Manchester	£120.87	£180.60
UK average	£121.16	£169.35

Source: Cushman Wakefield Student Accommodation Report, 2022

Figure 1: Number of full-time students at UK universities, and type of accommodation, 2015 to 2021



Extract B: A serious shortage of student accommodation

The number of 18-year-olds in the UK applying to university is rising. In addition, there was a record number of 277 000 foreign students in 2022.

Universities have expanded the number of places on offer to students, but the supply of student accommodation is highly inelastic. Providers of rental accommodation have been deterred by stricter rules on shared houses, higher taxes and greater rights for renters. Rising construction costs, interest rates and inflation have resulted in an insufficient number of new developments in many university cities. Supply shortages have been particularly acute in some cities, and certain universities have asked students to live at home. 5

Shortages of accommodation could mean that some students are discouraged from applying to university. The average private sector rent outside London consumes almost three-quarters of the maximum student loan, and most students are ineligible for this maximum. Some of the top universities may become out of reach to poorer students who do not live locally. 10

Source: News reports, 2023

Extract C: Policies to solve the shortage of student accommodation

The causes of the shortage of student accommodation are varied and some, but not all, result from market failure. Rising rents ought to incentivise more supply, but that has not worked recently. Planning restrictions have limited the number of new building projects. Relaxing such rules might help, but local residents complain that high numbers of students can alter the nature of their communities. Subsidies to the builders of student accommodation could increase supply, but with a likely delay of many years. 5

Some students have been offered financial incentives to defer their entry by a year or to live at home. To reduce further the demand for student accommodation, some people have urged the government to restrict foreign student numbers. However, the 22% of students who are foreign pay 44% of all tuition fees and so subsidise costs for UK students. 10

Policies to tackle high rents could include rent subsidies from the government or an increase in the grants and loans available to students. In Scotland, university students have benefited from controls which limit rent increases to a fixed percentage each year. The National Union of Students is calling for nationwide rent controls. A maximum rent can help keep the cost of student accommodation lower than it would otherwise be, but risks some landlords withdrawing from the market. Some argue that high-quality student accommodation is a merit good and ought to be provided by the government at a fair rent. 15

Source: News reports, 2023

0 1

Inflation resulted in a basket of goods and services that cost £100 in 2015 costing £112 in 2021. Using this information and the data in **Extract A (Table 1)**, calculate the percentage increase in average university rent, in real terms, between 2015 and 2021.

Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A (Figure 1 and Table 1)** show that the supply of university and private rental accommodation has failed to match the increase in student numbers between 2015 and 2021.

[4 marks]

0 3

Extract B (lines 3–4) states that ‘Universities have expanded the number of places on offer to students, but the supply of student accommodation is highly inelastic’.

With the help of a diagram, explain the impact of the increase in the number of students attending university on the market for student accommodation.

[9 marks]

0 4

Extract C (lines 14–16) states that ‘A maximum rent can help keep the cost of student accommodation lower than it would otherwise be, but risks some landlords withdrawing from the market’.

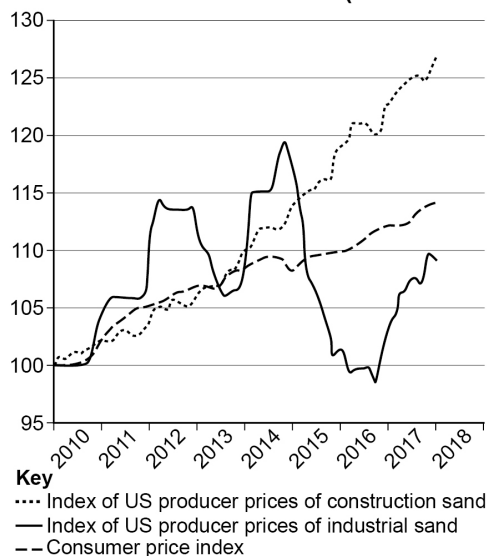
Using the data in the extracts and your knowledge of economics, discuss the advantages and disadvantages of policies the government might introduce to improve the market for student accommodation.

[25 marks]

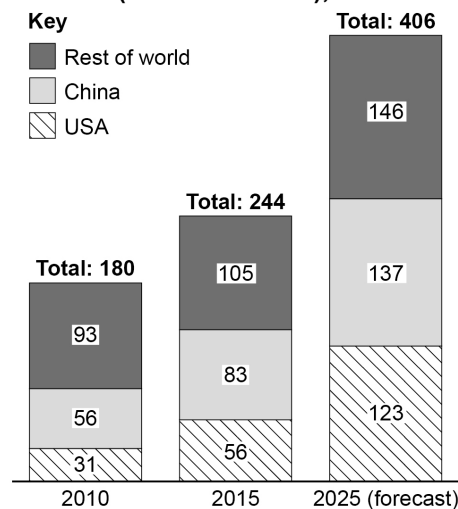
Turn over ►

2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****The market for sand**Study **Extracts A, B and C**, and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Indices of US producer prices for sand, Jan 2010–Jan 2018 (Jan 2010=100)**

Source: Federal Reserve Economic Data, 2018

Figure 2: Global demand for sand (millions of tons), 2010–2025

Source: The Freedonia Group/National Post, 2018

Extract B: Is the world running out of sand?

Sand is in high demand. Sand accounts for up to 85% of all mining and the global depletion of sand is rapidly exceeding its natural renewal rate. Sand is mostly used in the construction industry to make concrete and asphalt. Chinese demand has risen significantly, reflecting the country's rapid pace of construction: it built 32.3 million houses and 4.5 million kilometres of road between 2011 and 2014. Sand also has industrial uses: it is used to make glass, electronics, and to help extract oil in the fracking industry. While market demand for industrial sand has tracked overall economic growth in the USA, the demand for fracking sand has been as volatile as oil prices.

5

Vast quantities of sand are dumped into the sea to reclaim land: Singapore, for example, has expanded its land area by over 20% since the 1960s. Much of this sand originates from Indonesia, where sand miners have completely erased over 20 islands since 2005. The Maldives and Kiribati have used sand to shore up their islands against rising sea levels. The United Nations forecasts that, by 2030, there will be over 40 'megacities', home to more than

10

3

10 million inhabitants (up from 31 in 2016), which means more housing and infrastructure will need to be built. Also, sea levels will continue to rise and so sand will only become more sought after. But why is there a shortage when sand seems so abundant? Desert sand is too smooth, and so cannot be used for most commercial purposes. Australian sand was shipped to a faraway desert to build Dubai's Burj Khalifa tower, made possible by cheaper transportation. Most countries have rules in place about where, and how much, sand can be mined. However, surging demand has sparked a lucrative illegal trade in many rapidly developing countries which is damaging the environment, causing pollution and harming local biodiversity.

Source: News reports, February 2018

Extract C: The need for international action

There are currently no international conventions to regulate sand extraction, trade and use. Critics argue that the international community needs to treat sand like a resource on a par with clean air, biodiversity and other natural endowments that nations seek to manage for the future.

In the developed world, concerns have led to restrictions on where sand can be mined. In the USA, for example, mining it offshore or near large residential areas is restricted. Regulations are also in place in many developing countries. Indonesia, Malaysia and Cambodia have all placed restrictions on exports, although the rules are not always enforced. There is a particular problem of ineffective enforcement in India, with organised criminal networks ignoring rules and conducting unregulated sand mining.

Substitutes for sand do exist. Mud can be used for land reclamation, straw and wood for building houses, and crushed rock for making concrete. In some rich countries a shift towards these alternative production processes is already under way as sand prices rise. In the UK, sand demand is 25% less than in 2007, and 28% of building materials used in the UK in 2014 had been recycled. Rising prices will eventually also force builders in developing countries to explore alternatives to sand. But without better law enforcement, high sand prices also make illegal mining more profitable.

Source: News reports, February 2018

0 1

Using the data in **Extract A** (Figure 1), calculate the percentage change in the price of construction sand between January 2014 and January 2018. Give your answer correct to **one** decimal place.

[2 marks]**0 2**

Explain how the data in **Extract A** (Figures 1 and 2) show that expansion in the global sand market is leading to prices of construction sand rising in real terms.

[4 marks]**0 3**

Extract B (line 18) states that the global trade in sand has been 'made possible by cheaper transportation'.

With the help of a diagram, explain how cheaper transportation **and** a construction boom in East Asia have led to growth in the market for sand.

[9 marks]**0 4**

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

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

[25 marks]**Turn over ►**

4

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

OR

Context 2

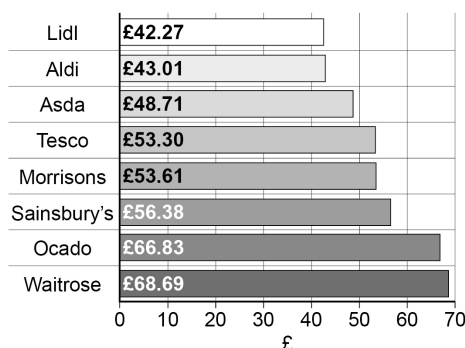
Total for this context: 40 marks

The UK supermarket sector

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

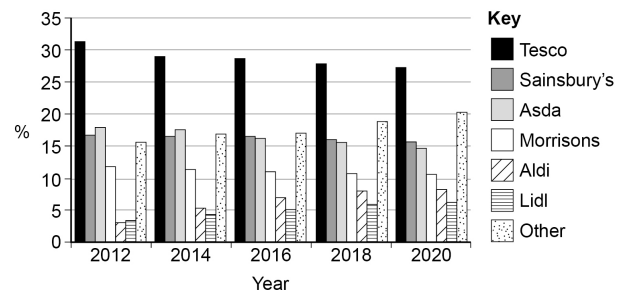
Extract D

Figure 3: Cost of a basket of 100 popular groceries, April 2020



Source: Which?, 2020

Figure 4: Market shares in the UK supermarket sector, 2012–2020



Source: Statista, 2020

Extract E: Have Aldi and Lidl reached their peak?

Aldi and Lidl, the German discount grocers which primarily sell through physical stores, have missed out as more sales have moved online. They are now trying some small scale 'click and collect' and other online options, and are hoping to win back business as the economic downturn prompted shoppers to seek out lower prices. However, industry experts say their recent rapid growth and competition from traditional supermarkets would make it harder for the discounters to take more business from rivals. The 'big four' UK supermarkets – Tesco, Sainsbury's, Asda and Morrison's – have well-established home delivery infrastructure and were able to expand online delivery dramatically during the pandemic. This led to a doubling of the online share of the overall grocery market to 13% in just a few months.

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Source: News reports, 2020

5

Extract F: Regulatory intervention in supermarkets

For decades now, economists have worried about a lack of competition between supermarkets. The sector has been dominated by a small number of large firms, led by Tesco. Sainsbury's and Asda, the second and third largest supermarket firms, attempted a merger in 2019, which would have led to a combined market share of 33%. They argued that the resulting cost savings of £1 billion per year would be passed on to consumers. However, the Competition and Markets Authority (CMA) was not persuaded, arguing that the promised price cuts would be hard to monitor, and that customers would have reduced choice for their shopping. Not only was the CMA concerned about market concentration at the national level, but also the establishment of local monopolies where some towns might have only one large supermarket to purchase groceries. They predicted lengthening queues and rising prices. In April 2019, they banned the merger.

In 2020, the CMA ruled that Tesco had been preventing landlords from letting property to other supermarkets. This is illegal as it may reduce competition, limit choice and make consumers worse off. Nigel Howorth, a lawyer, said: "Major supermarkets have for many years sought to maintain competitive advantage over rivals through the land planning system and restrictive property arrangements."

Source: News reports, 2020

- 0 5** Using the data in **Extract D (Figure 3)**, calculate, in percentage terms, how much more expensive a basket of groceries at Waitrose was than at Lidl in April 2020.
- Give your answer as a percentage to two decimal places.
- [2 marks]**
- 0 6** Explain how the data in **Extract D (Figure 4)** show that the supermarket sector is competitive.
- [4 marks]**
- 0 7** **Extract E** (lines 16–17) states that, 'Supermarkets set prices interdependently, and price wars look very likely.'
- With the help of a diagram, analyse the impact on grocery consumers of interdependence between supermarkets.
- [9 marks]**
- 0 8** **Extract E** (lines 17–19) states that, 'the price gap between discounters and conventional supermarkets is now about 10–12%, against more than 20% a few years ago.'
- Evaluate the view that the supermarket sector is serving customers' interests well.
- [25 marks]**

Turn over ►

Driving cars of all fuel types creates environmental problems, traffic congestion and road traffic accidents. Critics have suggested that, instead of governments offering subsidies and tax exemptions for electric vehicles, all vehicle owners should be forced to pay the full costs of their driving. This would incentivise people to consider using public transport, cycling or walking. 20

Source: News reports, 2021

Extract C: Are electric vehicles as green as claimed?

Redwood Materials, a US firm, recycles discarded batteries into a fresh supply of metals needed for new cars. Its goal is to solve the most glaring problem for electric vehicles. While they are 'zero emission' when being driven, the mining, manufacturing and disposal process for batteries could soon become an environmental disaster. Cobalt, one of the metals used in batteries, typically originates in the Democratic Republic of Congo, where it is extracted in large energy-intensive industrial mines and also dug by hand using basic tools. Then it might be shipped to Finland, home to Europe's largest cobalt refinery, before heading to China where the majority of the world's battery production occurs. From there it can be shipped to the US or Europe for packing, then shipped again to car factories. In all, the cobalt can travel more than 20 000 miles before becoming part of a 'zero emission' car. 5 10

Every day, about 60 tonnes of old smartphones, power tools and scooter batteries are delivered to Redwood's warehouse. The firm then separates out the nickel, cobalt and lithium, so that they can re-enter the supply chain as the building blocks for new lithium-ion batteries. Reclaiming these metals at scale is a massive task: roughly 10 000 smartphones need to be recycled to produce one EV battery. 15

Redwood hope to play a role in the emergence of 'the circular economy' – a grand hope born in the 1960s that society can re-engineer the way goods are designed, manufactured and recycled so as to avoid waste. It has been estimated that recycling batteries could account for 30% of the emissions cuts needed to meet the targets set in the Paris climate change agreement and 'create 10 million safe and sustainable jobs around the world' by 2030. 20

Source: News reports, 2021

0 1

Using the data in **Extract A (Table 1)**, calculate the index of total car sales in 2021 if, in the base year, total car sales were 1.25 million.

Give your answer to **two** decimal places.

[2 marks]

0 2

Explain how the data in **Extract A (Table 1 and Figure 1)** show that developments in the car market are the main reason for the changing demand for lithium-ion batteries in the UK.

[4 marks]

0 3

Extract C (lines 3–4) states that 'the mining, manufacturing and disposal process for batteries could soon become an environmental disaster.'

With the help of a diagram, explain why the production and sale of lithium-ion batteries might lead to market failure.

[9 marks]

0 4

Extract B (lines 20–21) states that 'all vehicle owners should be forced to pay the full costs of their driving. This would incentivise people to consider using public transport, cycling or walking.'

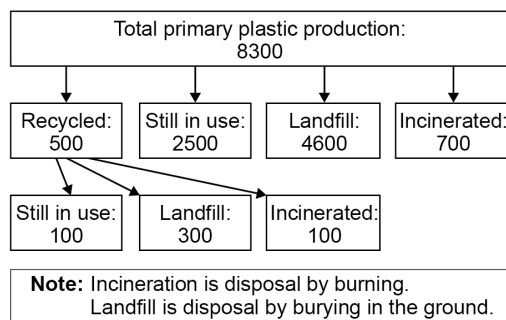
Evaluate policies that could be used to reduce the environmental impact of all types of car.

[25 marks]

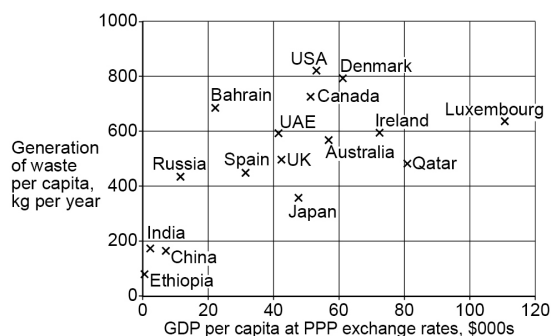
Turn over ►

2

Section A

Answer **EITHER** Context 1 **OR** Context 2.**EITHER****Context 1****Total for this context: 40 marks****The circular economy**Study **Extracts A, B and C**, and then answer **all** parts of Context 1 which follow.**Extract A****Figure 1: Global plastic production and disposal, 1950–2015, million tonnes**

Source: Data from ourworldindata.org, 2018

Figure 2: Generation of waste and GDP per capita, 2016, selected countries

Source: World Bank, 2018

Extract B: The global economy needs to become more circular

Of the 84 billion tonnes of materials produced each year by the global economy, barely 9% are reused. The United Nations (UN) suggests that better use of resources could add \$2 trillion to the global economy by 2050. 1

Environmental groups argue for a 'circular' economy, an economic system aimed at minimising waste, making the most of scarce resources and reusing precious raw materials. However, if products last longer, it may seriously damage demand in sectors such as fossil fuels, minerals and agriculture. Manufacturers' sales would fall, as would the need for shipping and other transport. Currently, many companies intentionally make it difficult to repair their products in order to increase sales. This is both economically inefficient and environmentally foolish; it imposes costs on the environment even though it may make sense for individual companies. 5 10

Would a circular economy result in workers losing their jobs? Manufacturing jobs are likely to come under pressure, but new jobs would be created. According to one study, waste disposal generates just 0.1 jobs per 1000 tonnes, compared with two jobs from recycling the same amount. The environment would benefit, with fewer mines, more trees and less need for landfill and incineration. Recycling aluminium saves 95% of energy compared with creating new metal. The comparable savings are 88% for plastic, 60% for steel and paper, and 38% for glass. 15

By 2035, all European Union (EU) states will be required by law to recycle 65% of their waste, compared to an average of 40% today. But populations grow. By 2050, the world will have 2 billion more consumers, increasing the pressure on the environment.

Source: News reports, 2018

Extract C: China bans imports of waste

While rich countries are cleaning up at home, they are exporting their 'disposable' lifestyle around the world, by sending their waste to developing countries. Many developing countries are now beginning to resist this. In 2018, a huge shock hit the global recycling industry. China, the world's biggest waste importer, stopped accepting recycled plastic and paper from abroad, and limited imports of cardboard. Previously, over 50% of such waste was transported to China each year. China plans to introduce bans on most other waste imports. 1 5

The Chinese ban removed the third part of the 'collect, sort, export' system on which developed economies rely. Alternatives are scarce. Incinerators and landfill will take some of the surplus waste, but the capacity of both is limited. Landfill is gradually being regulated out of existence in many places, including the EU. High labour costs make hiring enough human sorters to deal with waste volumes very expensive. 10

Automation could, in time, sort some of the surplus waste, but innovation has been slow. Although China has disrupted the whole global waste trade, many experts see some benefits in forcing rich countries to rethink. The ban has given a boost to some entrepreneurs. Online marketplaces for recycled plastics, metal and paper have grown rapidly. Recycled materials now flow to the highest bidder and hence to the highest-value use. However, such operations cannot compensate quickly for the Chinese ban. Many environmental economists suggest that making firms pay for the costs of landfill associated with their products, or taxing raw material inputs, will be necessary to ensure a sustainable future for all. 15

Source: The Economist, 2018

0 1 Using the data in **Extract A** (Figure 1) calculate the percentage of all plastics produced in the period 1950–2015 which have either been sent to landfill or incinerated. Give your answer to **one** decimal place.

[2 marks]

0 2 Explain how the data in **Extract A** (Figure 2) show that higher living standards lead to greater volumes of waste per capita being produced.

[4 marks]

0 3 **Extract B** (lines 8–10) states: 'many companies intentionally make it difficult to repair their products in order to increase sales. This is both economically inefficient and environmentally foolish; it imposes costs on the environment even though it may make sense for individual companies.'

With the help of a diagram, explain how the production of goods which are designed not to last long may result in market failure.

[9 marks]

0 4 **Extract C** (lines 17–19) states: 'Many environmental economists suggest that making firms pay for the costs of landfill associated with their products, or taxing raw material inputs, will be necessary to ensure a sustainable future for all.'

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

[25 marks]**Turn over ►**

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Extract F: Tackling the ethnic pay gap

It is illegal to pay someone less for doing the same job based on their ethnicity. Andy Haldane, the Bank of England's Chief Economist, said that "the ethnicity pay gap problem in the UK is every bit as acute as the gender pay gap problem". A report by the management consultants, McKinsey, found that businesses with employees from the most diverse backgrounds were 15% more profitable than those firms with the least diverse workforce. A government report in 2017 suggested equal participation and progression across ethnicities could boost the UK's economy by an additional £24bn a year. BAME (Black, Asian or Minority Ethnic) workers are more likely to be in low-paid sectors such as catering, hairdressing and retail. These occupations have limited opportunities for workers to progress to more responsible, higher-paid roles. This may represent a misallocation of workers across the economy.

Only a handful of firms currently publish ethnic pay data. One of these, ITN, found that its BAME workforce were paid 21% less than White workers. The Conservative Government has indicated that it may introduce compulsory reporting of the ethnic pay gap for large firms. The Runnymede Trust said: "as well as getting companies to publish the ethnicity pay gap, you have to legally ask them to publish plans as to how they are going to close that gap. Otherwise, to be honest, nothing is going to happen". The government can ensure that public services such as the police and NHS provide such plans, but it is not intending to require all firms to do so. It could also take steps to recognise foreign qualifications, thus removing obstacles for well-qualified foreign-born workers. Others think the government should go further and consider ethnicity quotas on the management boards of major companies. In the absence of other reliable solutions, quotas could provide an urgent intervention to address the fact that currently only 4 of the biggest 100 listed companies are led by BAME executives, despite BAME groups accounting for 14% of the population. However, such quotas are rejected by some as discriminatory, patronising and inefficient, leading to the risk of government failure.

Source: News reports, 2019

0 5

Using the data in **Extract D** (Figure 3), calculate how much a worker of Bangladeshi ethnicity earned on average in 2018, given that a White British worker earned £28 677. Give your answer **to the nearest pound**.

[2 marks]

0 6

Explain how the data in **Extract D** (Figure 4) show that the ethnic pay gap is more significant for older ethnic minority employees.

[4 marks]

0 7

Extract F (lines 18–19) states: the Government 'could also take steps to recognise foreign qualifications, thus removing obstacles for well-qualified foreign-born workers.'

With the help of a diagram, explain how UK firms not recognising foreign qualifications may lead to some ethnic groups receiving lower pay.

[9 marks]

0 8

Extract E (lines 3–4) states: 'significant pay gaps remain, even when education and occupation are taken into account, particularly for those born outside the UK.'

Using the extracts and your knowledge of economics, evaluate possible government policies to reduce the ethnic pay gap.

[25 marks]

Turn over ►

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Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

The government has promised that everyone will be able to access superfast broadband by 2025. As more people have switched to studying and working remotely, good Internet connections have become more important. Low-income households have difficult choices to make between high-speed Internet and essential items such as food, heating and clothing.

0	9
---	---

Explain how the price mechanism allocates resources in a market economy.

[15 marks]

1	0
---	---

Assess the view that high-speed Internet connection is a necessity for modern life and should be provided by the government, free of charge, to all households.

[25 marks]

OR**Essay 2**

Markets fail for a variety of reasons and governments can play an important role in reducing the inefficiencies associated with such failures. However, Milton Friedman once suggested that “When government, in pursuit of good intentions, tries to rearrange the economy...the costs come in inefficiency, lack of motivation, and loss of freedom. Government should be a referee, not an active player.”

1	1
---	---

Explain the difference between complete and partial market failure.

[15 marks]

1	2
---	---

Evaluate the view that government failure means that government intervention in markets will rarely lead to an improvement in economic welfare.

[25 marks]

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7

OR**Essay 3**

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

1	3
---	---

 Explain why, in a free market, sugary drinks may be overconsumed. **[15 marks]**

1	4
---	---

 Evaluate the view that imposing a tax is the most effective government policy for reducing the market failures arising from overconsumption of unhealthy food and drink. **[25 marks]**

END OF QUESTIONS

8

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Section B

Answer **one** essay from this section.

Each essay carries 40 marks.

EITHER**Essay 1**

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

0	9
---	---

Explain how rules of thumb and irrationality can affect consumers' demand for goods and services.

[15 marks]

1	0
---	---

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

[25 marks]

OR**Essay 2**

Several loss-making retailers including Homebase, House of Fraser and Poundworld have had to decide whether to shut down operations or carry on while making losses. In contrast, the music-streaming firm Spotify was valued at \$27 billion in 2018, despite never having made a profit in any year since it was founded. Spotify has been more focused on expanding market share.

1	1
---	---

Explain the factors a profit-maximising firm will take into account when deciding whether to shut down or to carry on operating, both in the short run and in the long run.

[15 marks]

1	2
---	---

Discuss the validity of the traditional economic assumption that the main objective of firms is to maximise profits.

[25 marks]

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7

OR**Essay 3**

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

1	3
---	---

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

[15 marks]

1	4
---	---

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

[25 marks]**END OF QUESTIONS**

There are no questions printed on this page

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6

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

EITHER**Essay 1**

The government has promised that everyone will be able to access superfast broadband by 2025. As more people have switched to studying and working remotely, good Internet connections have become more important. Low-income households have difficult choices to make between high-speed Internet and essential items such as food, heating and clothing.

0	9
---	---

Explain how the price mechanism allocates resources in a market economy.

[15 marks]

1	0
---	---

Assess the view that high-speed Internet connection is a necessity for modern life and should be provided by the government, free of charge, to all households.

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

Markets fail for a variety of reasons and governments can play an important role in reducing the inefficiencies associated with such failures. However, Milton Friedman once suggested that “When government, in pursuit of good intentions, tries to rearrange the economy...the costs come in inefficiency, lack of motivation, and loss of freedom. Government should be a referee, not an active player.”

1	1
---	---

Explain the difference between complete and partial market failure.

[15 marks]

1	2
---	---

Evaluate the view that government failure means that government intervention in markets will rarely lead to an improvement in economic welfare.

[25 marks]

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Extract C: Policies to solve the shortage of student accommodation

The causes of the shortage of student accommodation are varied and some, but not all, result from market failure. Rising rents ought to incentivise more supply, but that has not worked recently. Planning restrictions have limited the number of new building projects. Relaxing such rules might help, but local residents complain that high numbers of students can alter the nature of their communities. Subsidies to the builders of student accommodation could increase supply, but with a likely delay of many years. 5

Some students have been offered financial incentives to defer their entry by a year or to live at home. To reduce further the demand for student accommodation, some people have urged the government to restrict foreign student numbers. However, the 22% of students who are foreign pay 44% of all tuition fees and so subsidise costs for UK students. 10

Policies to tackle high rents could include rent subsidies from the government or an increase in the grants and loans available to students. In Scotland, university students have benefited from controls which limit rent increases to a fixed percentage each year. The National Union of Students is calling for nationwide rent controls. A maximum rent can help keep the cost of student accommodation lower than it would otherwise be, but risks some landlords withdrawing from the market. Some argue that high-quality student accommodation is a merit good and ought to be provided by the government at a fair rent. 15

Source: News reports, 2023

0 1

Inflation resulted in a basket of goods and services that cost £100 in 2015 costing £112 in 2021. Using this information and the data in **Extract A (Table 1)**, calculate the percentage increase in average university rent, in real terms, between 2015 and 2021.

Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A (Figure 1 and Table 1)** show that the supply of university and private rental accommodation has failed to match the increase in student numbers between 2015 and 2021.

[4 marks]

0 3

Extract B (lines 3–4) states that ‘Universities have expanded the number of places on offer to students, but the supply of student accommodation is highly inelastic’.

With the help of a diagram, explain the impact of the increase in the number of students attending university on the market for student accommodation.

[9 marks]

0 4

Extract C (lines 14–16) states that ‘A maximum rent can help keep the cost of student accommodation lower than it would otherwise be, but risks some landlords withdrawing from the market’.

Using the data in the extracts and your knowledge of economics, discuss the advantages and disadvantages of policies the government might introduce to improve the market for student accommodation.

[25 marks]

Turn over ►

4

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

OR

Context 2

Total for this context: 40 marks

Trade union membership and industrial disputes

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

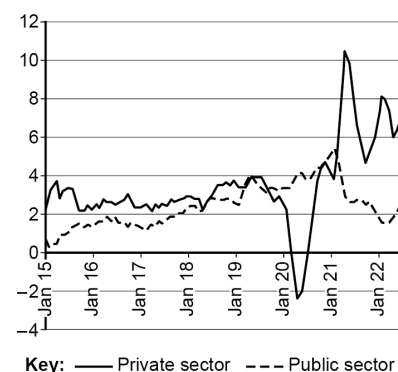
Extract D

Table 2: Trade union membership, % of workforce, 2001 to 2021

Year	All employees	Private sector	Public sector
2001	29.3	18.4	59.7
2006	28.3	16.6	58.7
2011	26.0	14.2	56.6
2016	23.5	13.4	52.8
2021	23.1	12.8	50.1

Source: Department for Business, Energy and Industrial Strategy, 2022

Figure 2: Growth in average annual nominal earnings, %, January 2015 to September 2022



Source: Office for National Statistics, 2023

Extract E: UK public sector workers hit hardest by cost of living crisis

In November 2022, members of nursing trade unions voted to strike. Many more public sector unions have joined the nurses on strike, in attempts to gain pay rises that keep up with inflation. It is notable that many of the employers facing strike action, such as the NHS, are monopsonistic employers, who have considerable labour market power.

UK public sector workers have been particularly hard hit by the cost of living crisis, according to official figures that show the gap between public and private sector pay growth is at its widest on record. Annual growth in pay was 6.6% in the private sector in September 2022, compared with just 2.2% for the public sector. Overall, pay growth accelerated to 5.7% as employers struggled to hire workers due to low unemployment. In November 2022, 13.3% of businesses reported experiencing a shortage of workers leading to upward pressure on wages. The construction and hospitality sectors were worst affected.

However, wage growth has not kept pace with inflation, which reached 10.1% in September 2022, leading to growing industrial unrest. Until recently, strikes largely affected local authorities, transport services and some private sector employers. But the latest figures show the pay squeeze has been far worse for teachers, NHS staff and other public sector workers who have started to take industrial action, including strikes. Louise Murphy, economist at the Resolution Foundation, said there was now a “huge wedge” between private and public sector pay, creating severe difficulties for public sector recruitment and retention. Staff shortages in the public sector are likely to worsen unless public sector pay and working conditions improve.

Source: News reports, 2023

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SUB-TOPIC 4.1.8.3

PUBLIC GOODS, PRIVATE GOODS AND QUASI-PUBLIC GOODS

Sub-topic 4.1.8.3 · 7 questions · 45 marks · lowest tariff first



6

07

Which one of the following is a reason why the extension of property rights is likely to reduce market failure?

[1 mark]

A Merit goods will no longer be underconsumed in a free market.

☐

B Producers will be more likely to have to pay compensation for pollution.

☐

C Public goods will no longer be subject to the free-rider problem.

☐

D The inequality in the distribution of income and wealth will be reduced.

☐

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08

Figure 3 shows the demand curve for a firm's scarves.

Figure 3



Which one of the following statements is true when the price of scarves is reduced from £30 to £25?

[1 mark]

A Demand for scarves is price elastic.

☐

B Price elasticity of demand is -0.5 .

☐

C The firm's total revenue falls.

☐

D The firm's total revenue increases.

☐

IB/M/Jun22/7136/3

3

0 2

The environment is a scarce resource. A consequence of this is that

[1 mark]

A all natural resources have a market price.

☐

B all natural resources will eventually be used up.

☐

C the environment has an opportunity cost.

☐

D the environment is a pure public good.

☐

0 3

Table 1 shows the price of a packet of peanuts and the number of packets of cashew nuts sold in a shop in one month. The price of a packet of cashew nuts is unchanged.

Table 1

Price of a packet of peanuts	Number of packets of cashew nuts purchased per month
£0.80	20 000
£0.84	32 500

When the price of a packet of peanuts rises from £0.80 to £0.84, the cross elasticity of demand for cashew nuts with respect to the price of peanuts is

[1 mark]

A -12.5

☐

B -0.08

☐

C +0.08

☐

D +12.5

☐

0 4

The change in nominal national income per head is an unsatisfactory indicator of the change in the living standards of a country's citizens over a period of time.

The main reason is that nominal national income per head does not take into account

[1 mark]

A consumer expenditure at market prices.

☐

B the output produced by different sectors of the economy.

☐

C the rate of inflation.

☐

D the size of the population.

☐

Turn over ►



0 3

IB/G/Jun23/7136/3

9

1 6 Which one of the following distinguishes a private good from a pure public good?

- A** A private good can only be provided by private firms and not the government
- B** Consumption of a private good creates negative externalities for other consumers
- C** Consumers of a private good have full knowledge of any externalities in its production
- D** One person's consumption of a private good reduces the amount available for other consumers

☐☐☐☐

[1 mark]

1 7 **Table 3** shows the demand for and supply of oranges at a range of prices between 10 pence and 30 pence.

Table 3

Price (pence)	Quantity supplied (000s)	Quantity demanded (000s)
10	100	125
15	120	120
20	122	108
25	125	100
30	128	88

As a result of an increase in consumers' incomes, the demand for oranges increases by 25% at each of the prices shown in **Table 3**.

After the rise in incomes:

- A** at a price of 10 pence, excess demand increases by 50%.
- B** at a price of 30 pence, excess supply falls by 75%.
- C** the equilibrium market price increases by two-thirds.
- D** the price elasticity of demand increases by 25% at each price.

☐☐☐☐

[1 mark]

Turn over ►



IB/M/Jun20/7136/3

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6

0 7 Table 2 contains a simple balance sheet for a bank.

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outside the
box

Table 2

Assets (£ billion)		Liabilities (£ billion)	
Cash	20	Customer Deposits	700
Cash held at Central Bank	70	Money owed to Central Bank	30
Securities held	130	Money owed to other banks	170
Loans	730	Shareholders Equity	100
Other assets	50		
Total assets 1000		Total liabilities 1000	

From the balance sheet it can be concluded that this bank is

- A** a threat to financial stability because it holds no capital. ☐
- B** an investment bank because it holds non-interest bearing cash. ☐
- C** earning large profits because most of its assets are loans. ☐
- D** most likely to be a commercial bank because its main liabilities are customer deposits. ☐

[1 mark]

0 8 The free-rider problem in economics means that government intervention is necessary to prevent market failure in the supply of

- A** inferior goods. ☐
- B** merit goods. ☐
- C** private goods. ☐
- D** public goods. ☐

[1 mark]



0 6

IB/M/Jun21/7136/3

19

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outside the
box**2 | 8**

The index of real GDP for an economy was 100 in 2017, its base year, and 105 in 2020. In 2017, real GDP was £500 billion. The monetary value of real GDP for this economy in 2020 must therefore have been

A £395 billion.

☐

B £475 billion.

☐

C £525 billion.

☐

D £605 billion.

☐**[1 mark]****2 | 9**

Which one of the following is an expenditure switching policy that would help to reduce a deficit on the balance of payments on current account?

An increase in

A government expenditure on public goods.

☐

B income tax to reduce consumer expenditure.

☐

C quotas on exports of demerit goods.

☐

D tariffs to raise the price of imports.

☐**[1 mark]****Turn over for the next question****Turn over ►**

IB/M/Jun21/7136/3

6

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

EITHER**Essay 1**

Broadcasting used to be considered a public good, but the growth of on-demand television streaming services suggests that this is no longer the case. In 2023, 68% of UK consumers were subscribing to one or more oligopolistic providers of on-demand television streaming services.

0 9

Explain, with examples, the differences between a private good, a public good and a quasi-public good.

[15 marks]**1 0**

Evaluate the view that oligopolies serve society well.

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

In 2023, the UK government pledged to invest £960 million in green technologies, such as renewable energy schemes. The aim is to help reduce the cost of green technologies for businesses and to encourage their adoption by firms. Environmental groups suggest that currently only a small proportion of UK firms take environmental objectives seriously, preferring instead to focus on profit.

1 1

Explain how technological progress can affect productivity, efficiency and firms' costs of production.

[15 marks]**1 2**

Assess the view that the main objective of firms is to maximise profits.

[25 marks]

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6

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

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[15 marks]**1 0**

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[25 marks]

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SUB-TOPIC 4.1.8.4

POSITIVE AND NEGATIVE EXTERNALITIES

Sub-topic 4.1.8.4 · 2 questions · 16 marks · lowest tariff first

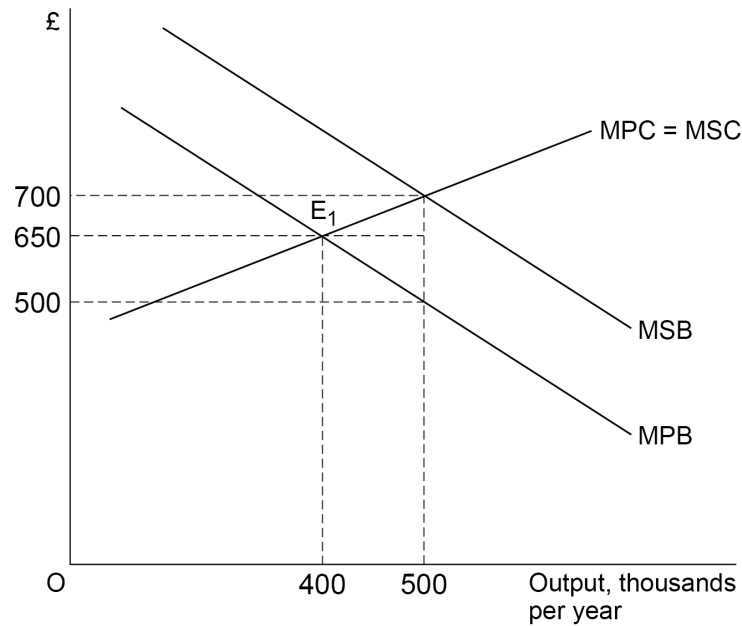


13

2 3

Figure 6 shows the marginal private and social benefit (MPB and MSB) curves and the marginal private and social cost (MPC and MSC) curves in the market for domestically produced solar panels. The initial market equilibrium is at E_1 .

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Figure 6

To correct the market failure, the government introduces a subsidy to domestic manufacturers of solar panels of £200 per unit produced. Which one of the following represents the total amount of subsidy payments made by the government in the first year of the scheme?

A £20 million.

☐

B £25 million.

☐

C £75 million.

☐

D £100 million.

☐

[1 mark]

Turn over ►



1 3

IB/M/Jun20/7136/3

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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SUB-TOPIC 4.1.8.5

MERIT AND DEMERIT GOODS

Sub-topic 4.1.8.5 · 2 questions · 16 marks · lowest tariff first



7

1 2 According to the hypothesis of diminishing marginal utility, when marginal utility is zero

- A** average utility is negative.
- B** the good is a demerit good.
- C** total utility from consuming the good is maximised.
- D** total utility will increase by consuming more of the good.

☐☐☐☐

[1 mark]

1 3 **Table 2** shows the inflation rate and the rate of growth of the money supply for an economy between 2016 and 2019.

Table 2

Year	Inflation	Rate of growth of money supply
2016	3.1%	3.5%
2017	3.5%	3.3%
2018	2.9%	3.2%
2019	2.5%	2.0%

From the data in **Table 2** it may be concluded that, all other things being equal, there was

- A** a fall in the value of money throughout the entire period.
- B** a policy of quantitative easing in operation throughout the entire period.
- C** an inverse relationship between inflation and the rate of growth of the money supply.
- D** continuous disinflation throughout the entire period.

☐☐☐☐

[1 mark]

Turn over ►



IB/M/Jun20/7136/3

7

OR**Essay 3**

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

1	3
---	---

 Explain why, in a free market, sugary drinks may be overconsumed. **[15 marks]**

1	4
---	---

 Evaluate the view that imposing a tax is the most effective government policy for reducing the market failures arising from overconsumption of unhealthy food and drink. **[25 marks]****END OF QUESTIONS**

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SUB-TOPIC 4.1.8.6

MARKET IMPERFECTIONS

Sub-topic 4.1.8.6 · 6 questions · 58 marks · lowest tariff first



9

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1 2

The tragedy of the commons can be applied to the fishing industry. What is the nature of this market failure?

- A** Over-fishing resulting in declining fish populations ☐
- B** The imposition of fishing quotas by the European Union ☐
- C** The positive externalities associated with fish consumption ☐
- D** The third-party effects on dolphins as a result of tuna fishing ☐

[1 mark]

1 3

Immobility of labour may lead to a misallocation of resources and market failure because

- A** a change in the pattern of demand results in structural unemployment. ☐
- B** the education and training needed to reduce labour immobility is a public good. ☐
- C** the government's target for the rate of inflation is too high. ☐
- D** the immobility of factors of production is a negative externality in production. ☐

[1 mark]

1 4

The following table shows the real GDP of an economy from 2012 to 2016.

Year	2012	2013	2014	2015	2016
Real GDP (£bn)	213	215	245	256	271

If the figures were converted to index form with 2013 as the base year, what would be the value of the index (to the nearest whole number) in 2016?

- A** 124 ☐
- B** 125 ☐
- C** 126 ☐
- D** 127 ☐

[1 mark]



Turn over ►

IB/G/Jun17/7136/3

14

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box***2 4**

Moral hazard results when individuals and organisations make investment decisions

A based on asymmetric information.☐**B** because they expect to make a large profit.☐**C** based on the returns made on previous investments.☐**D** knowing that others will bear the loss if things go wrong.☐**[1 mark]****2 5**

An economy is estimated to be experiencing a 2% rate of frictional unemployment plus a 3% rate of structural and real wage unemployment. If it is also experiencing cyclical unemployment of 4%, its natural rate of unemployment is most likely to be

A 3%☐**B** 5%☐**C** 6%☐**D** 9%☐**[1 mark]**

IB/M/Jun20/7136/3

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At the end of the previous financial year, a country had a national debt of £20 000 billion. The government's planned expenditure for the current year exceeds its projected income by £100 billion.

All other things being equal, which one of the following is most likely to enable the government to complete its planned expenditure and reduce the national debt?

Increasing its

A planned borrowing by more than £100 billion.

☐

B projected income and borrowing by £100 billion.

☐

C projected income by £100 billion and reducing new borrowing by £100 billion.

☐

D projected tax revenue by more than £100 billion.

☐

[1 mark]

1 1

A person is considering buying a used motorbike from a dealer on the internet. The motorbike is described as being in perfect condition and is being offered at a correspondingly high price.

In this situation, asymmetric information is most likely to lead the person to

A buy the motorbike because they believe the price is justified by its condition.

☐

B know more about the motorbike's market value than the dealer.

☐

C maximise their utility by buying a cheaper used motorbike from a different dealer.

☐

D not buy the motorbike because they do not know as much about the motorbike as the dealer.

☐

[1 mark]



0 8

IB/M/Jun21/7136/3

6

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

EITHER**Essay 1**

In the UK, 64% of the population are considered to be overweight. Many policies have focused on promoting active lifestyles, whilst taxes have been introduced on sugary drinks and alcohol. There has also been regulation of advertising aimed at young children. Attention has recently turned to the use of behavioural economics techniques to change diets.

0	9
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Explain why imperfect and asymmetric information may lead to market failure in the market for food.

[15 marks]

1	0
---	---

Evaluate the view that the consumption of unhealthy foods can best be reduced through the use of nudges and other techniques from behavioural economics.

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

In 2018, the Competition and Markets Authority issued a report which criticised a 'situation where businesses charge higher prices to existing customers who stay with them, than they do to new customers'. However, according to Citizens Advice, some broadband and mobile phone companies continue to charge existing customers more than they charge new customers.

1	1
---	---

Explain the likely impact on consumer surplus and producer surplus as an industry moves away from a competitive market structure to one that is dominated by a few large firms.

[15 marks]

1	2
---	---

Evaluate the view that price discrimination is damaging for consumers.

[25 marks]

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OR**Essay 3**

In December 2018, the Competition and Markets Authority (CMA) announced a range of policies to prevent firms charging existing customers more than new customers. Firms supplying financial services, mobile phones and broadband are no longer allowed to discriminate against loyal customers renewing their contracts.

1	3
---	---

Explain why imperfect information can lead to market failure.

[15 marks]

1	4
---	---

Assess the view that price discrimination is always damaging.

[25 marks]**END OF QUESTIONS**

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6

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

EITHER**Essay 1**

Critics of the world's five most valuable multinational technology firms (Google, Amazon, Apple, Facebook and Microsoft) argue that there ought to be greater government intervention to protect consumers' interests. Several European governments are considering imposing new taxes on the revenues of such firms, rather than their profits.

0	9
---	---

Explain how the imposition of a tax on a good or service affects both consumer surplus **and** producer surplus.

[15 marks]

1	0
---	---

Discuss whether governments should consider increasing the regulation and taxation of technology firms which have acquired significant global monopoly power.

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

The economist Greg Mankiw has written that 'society faces a trade-off between efficiency and equity. Efficiency means that society is getting the maximum benefits from its scarce resources. Equity means that those benefits are distributed fairly among society's members. Often, when government policies are designed, these two goals conflict.'

1	1
---	---

Explain how a production possibility diagram can be used to illustrate some features of the fundamental economic problem.

[15 marks]

1	2
---	---

Evaluate the view that government intervention to reduce inequality will lead to an improvement in economic welfare.

[25 marks]

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SUB-TOPIC 4.1.8.8

PUBLIC OWNERSHIP, PRIVATISATION, REGULATION AND DEREGULATION

Sub-topic 4.1.8.8 · 5 questions · 101 marks · lowest tariff first



18

2 9

Which one of the following is an example of moral hazard resulting from the regulation of a financial system?

[1 mark]

- A** Asymmetric information may lead bank customers to take out loans they cannot repay
- B** Banks may engage in more risky lending if they believe the central bank will support them in a crisis
- C** Banks may experience lower profits if the central bank imposes high capital requirements
- D** Regulations imposed by the central bank may make it harder for low-income groups to get loans

☐☐☐☐

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IB/G/Jun23/7136/3

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
---	---

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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Section B

Answer **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**

Britain's energy market was plunged into chaos in 2021 as surges in wholesale electricity and gas prices exposed the weaknesses of many companies. Since deregulation in 2016, 49 energy supply companies have collapsed, with customers taken on by larger firms. This market chaos has led to renewed calls for the government to nationalise the energy industry.

- | | |
|---|---|
| 1 | 3 |
|---|---|
- Explain, using examples, how the existence of economies and diseconomies of scale affect firms' average costs of production.
- [15 marks]**
- | | |
|---|---|
| 1 | 4 |
|---|---|
- Assess the view that privatised industries, such as electricity and gas, should be taken back into public ownership.
- [25 marks]**

END OF QUESTIONS

There are no questions printed on this page

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IB/G/Jun24/7136/1



2 4 6 A 7 1 3 6 / 1

5

infrastructure over the 5-year period. However, Ofwat said that 12 of the 17 companies had missed their investment targets. Water companies cited high inflation and labour shortages as obstacles to investment, but critics argue that shareholders' dividends are too high, totalling £72bn since privatisation. 15

Source: News reports, 2023

Extract F: What next for the water industry?

Water companies are regulated by Ofwat and the Environment Agency (responsible for regulating their environmental impact). Critics suggest that the water companies have too close a relationship with regulators, resulting in weak regulation. Nevertheless, regulators have issued fines: in 2021, Southern Water was given a £90m fine for dumping billions of litres of raw sewage into rivers and the sea. However, if regulators impose fines, these costs may be passed on to consumers or reduce investment. Some argue that the investment needed to improve the sewage infrastructure is too expensive for the water companies to make alone. A government report estimated the cost of eliminating storm overflows at between £350bn and £600bn, adding almost £1 000 to customers' annual bills. 5

Ofwat has warned about the financial health of four water companies in England. Ofwat's concerns arise despite industry investment of £4.6bn since 2020. This ability to attract private sector investment, along with improved efficiency and technological innovation, has been a positive aspect of water privatisation. For example, 60% of homes now have a water meter installed, reducing water consumption. Nevertheless, some are calling for the industry to be renationalised. However, nationalisation would be expensive as shareholders would need to be compensated. The estimated cost is £14.7bn, rising to over £90bn if the industry's debts are included. 15

Source: News reports, 2023

0 5

Using the data in **Extract D (Figure 3)**, calculate the median number of storm overflow hours by water company in 2022.

[2 marks]**0 6**

Explain how the data in **Extract D (Figure 4)** show that household water bills have increased in real terms since privatisation in 1989.

[4 marks]**0 7**

Extract E (line 10) states: 'The minimum efficient scale in the water industry is large'.

With the help of a diagram, explain why the large minimum efficient scale in the water industry is likely to lead to the market being supplied by a few large firms with monopoly power.

[9 marks]**0 8**

Extract F (lines 5–6) states: 'if regulators impose fines, these costs may be passed on to consumers or reduce investment'.

Using the data in the extracts and your knowledge of economics, assess the view that stronger regulation would be a better policy than bringing the water industry back into public ownership.

[25 marks]

SUB-TOPIC 4.1.8.9

GOVERNMENT INTERVENTION IN MARKETS

Sub-topic 4.1.8.9 · 11 questions · 83 marks · lowest tariff first

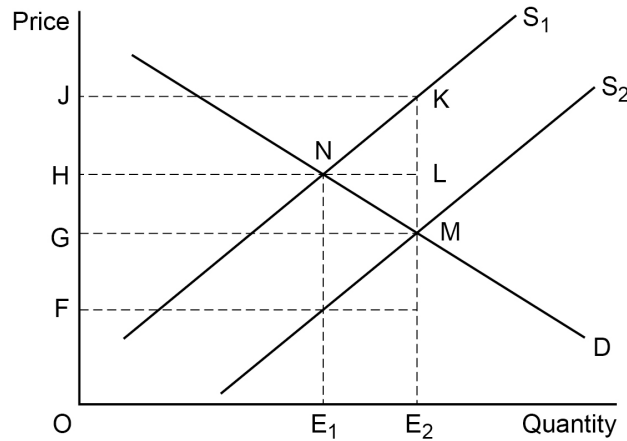


4

0 5

The diagram below shows the demand curve (D) and two supply curves (S_1 and S_2) in the market for renewable energy.

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The renewable energy market is initially in equilibrium at a price of OH. The government then introduces a subsidy for renewable energy.

After the introduction of the subsidy, the total amount of money received by the producers from both consumers and the government is

A OGME₂

☐

B OHLE₂

☐

C OHNME₂

☐

D OJKE₂

☐

[1 mark]

0 6

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

A Firms in an oligopolistic market may limit price competition.

☐

B Market failures can only be corrected by using regulations.

☐

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

☐

D Public goods are excludable and rival.

☐

[1 mark]



0 4

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3

0 2

The table below contains selected data on a country's macroeconomic performance over a 20 year period.

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Year	Unemployment (%)	Rate of inflation (%)	Balance of trade on current account (\$ bn)
1998	6.0	3.5	-20
2003	5.8	3.0	-19
2008	5.5	2.5	-12
2013	5.2	2.0	-2
2018	5.0	1.5	+3

All other things being equal, which one of the following, **A**, **B**, **C** or **D**, can be inferred from the above data?

- A** The natural rate of unemployment is falling ☐
- B** The price level is increasing more slowly ☐
- C** The volume of exports is increasing ☐
- D** There is an inverse relationship between unemployment and inflation ☐

[1 mark]**0 3**

Which one of the following is most likely to result in complete market failure?

- A** Negative externalities in production and consumption ☐
- B** Non-excludability and no enforceable property rights ☐
- C** The existence of demerit goods in some markets ☐
- D** The government setting maximum prices for excludable and rival goods ☐

[1 mark]

Turn over for the next question

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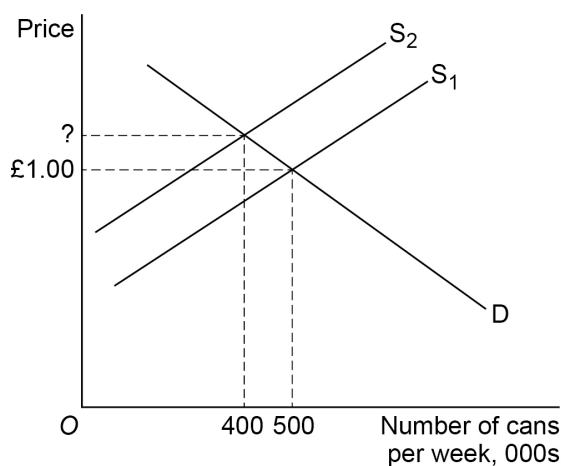
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5

0 6

The diagram below shows the market demand (D) curve and two supply (S_1 and S_2) curves for a brand of soft drink. The drink is a demerit good because of its high sugar content. The government imposes an indirect tax on each can sold that cuts consumption by 100 000 cans per week.



If the price elasticity of demand for the drink is -2.0 , the price must have increased by

- A 5p
- B 10p
- C 15p
- D 20p

☐☐☐☐

[1 mark]

0 7

The hypothesis of diminishing marginal utility

- A assumes that at least one factor of production is fixed in the short run.
- B can be used to help explain why a demand curve is downward sloping.
- C explains why firms try to maximise profit.
- D states that total utility must fall as consumption increases.

☐☐☐☐

[1 mark]

Turn over for the next question

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0 5

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4

0 5

Table 1 shows the effect of cash benefits and taxes on household incomes in the UK in 2020–21.

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Table 1

		Income of top quintile (£s)	Income of bottom quintile (£s)	Ratio of top to bottom quintile
Original income		107 551	8 196	13.1
	plus cash benefits	2 581	7 267	0.4
Gross income		110 132	15 463	7.1
	less direct taxes	32 000	2 267	14.1
Disposable income		78 131	13 196	5.9
	less indirect taxes	7 133	3 024	2.4
Post-tax income		70 998	10 172	7.0

Source: Office for National Statistics

Which one of the following can be concluded from the data in **Table 1** regarding the distribution of income between the top and bottom quintile of households?

[1 mark]

- A** Cash benefits were less effective than direct taxes in redistributing income from the bottom quintile of households to the top quintile
- B** Direct taxes made the distribution of income more unequal
- C** Indirect taxes made the distribution of income more unequal
- D** Indirect taxes were more effective than cash benefits in redistributing income from the top quintile of households to the bottom quintile

☐
☐
☐
☐


0 4

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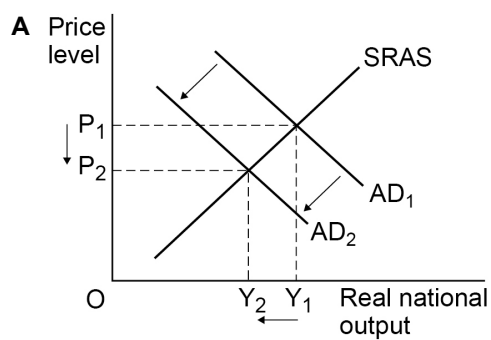
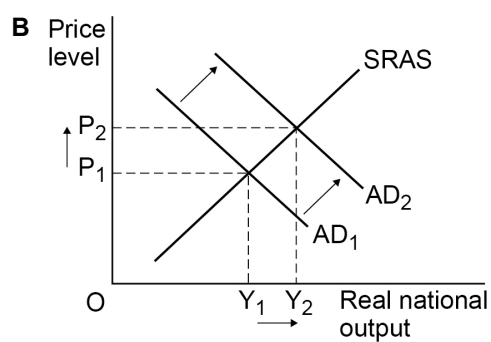
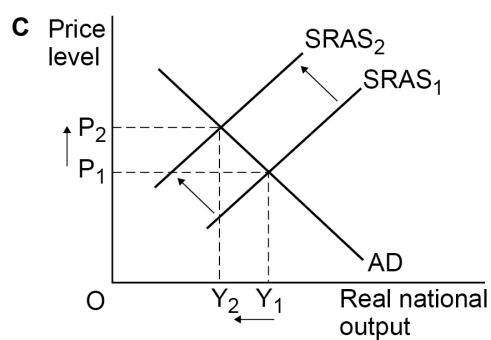
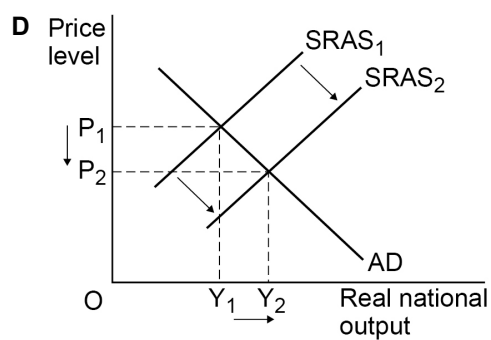
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0 4

Which one of the following diagrams, **A**, **B**, **C** or **D**, shows the impact on an economy of a permanent reduction in an indirect tax?

[1 mark]

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☐

☐

☐

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24

2 8

A government announces that, over a 10 year period, it plans to reduce the number of tradable pollution permits it issues each year.

Which one of the following is the most likely response from firms in industries affected by the announcement?

[1 mark]

- A** Firms are likely to delay investment into more environmentally friendly production methods
- B** Only the firms that generate the most pollution are likely to react at all
- C** Over time, more firms will have an incentive to reduce their pollution
- D** The firms with the lowest costs of reducing pollution will buy the most permits

☐☐☐☐**2 9**

All other things being equal, which one of the following is most likely to be a consequence of inflation in the UK?

[1 mark]

- A** The amounts outstanding on households' existing mortgages will fall in real terms
- B** The nominal value of people's incomes before tax will fall
- C** The price of all goods and services sold in the UK will increase
- D** The real value of the money deposited in commercial banks will increase

☐☐☐☐

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IB/M/Jun25/7136/3

10

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box***1 | 8**

Which one of the following government policies is most likely to reduce market failure and to improve the allocation of resources?

- A** A higher rate of tax on all firms earning profit
- B** A minimum price for demerit goods above their free market price
- C** Free market pricing for the provision of public goods
- D** Subsidies paid to all loss-making firms to maintain full employment

☐☐☐☐**[1 mark]****1 | 9**

The long-run Phillips curve shows that

- A** the expected rate of inflation is zero.
- B** there is an inverse relationship between unemployment and inflation in the long run.
- C** there is no trade-off between reducing inflation and lower unemployment in the long run.
- D** unemployment can only be reduced in the long run by an increase in aggregate demand.

☐☐☐☐**[1 mark]**

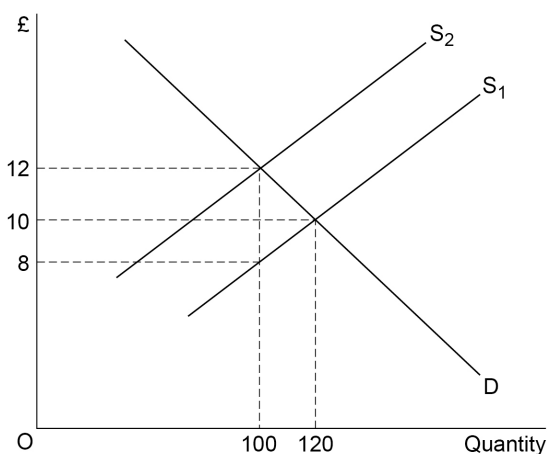
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13

1 | 8

Figure 6 represents the market for sugar in a country. It shows the demand (D) curve and two supply (S_1 and S_2) curves in the market for sugar before and after the imposition of an indirect tax on sugar.

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Figure 6

According to **Figure 6**, which one of the following combinations: A, B, C, or D, is correct?

	Change in price %	Government tax revenue generated (£)	
A	20	200	☐
B	20	400	☐
C	50	200	☐
D	50	400	☐

[1 mark]

Turn over for the next question

Turn over ►



1 3

IB/M/Jun21/7136/3

6

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

EITHER**Essay 1**

The government has promised that everyone will be able to access superfast broadband by 2025. As more people have switched to studying and working remotely, good Internet connections have become more important. Low-income households have difficult choices to make between high-speed Internet and essential items such as food, heating and clothing.

0	9
---	---

Explain how the price mechanism allocates resources in a market economy.

[15 marks]

1	0
---	---

Assess the view that high-speed Internet connection is a necessity for modern life and should be provided by the government, free of charge, to all households.

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

Markets fail for a variety of reasons and governments can play an important role in reducing the inefficiencies associated with such failures. However, Milton Friedman once suggested that “When government, in pursuit of good intentions, tries to rearrange the economy...the costs come in inefficiency, lack of motivation, and loss of freedom. Government should be a referee, not an active player.”

1	1
---	---

Explain the difference between complete and partial market failure.

[15 marks]

1	2
---	---

Evaluate the view that government failure means that government intervention in markets will rarely lead to an improvement in economic welfare.

[25 marks]

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3

Not only has India's share of global rice exports grown, but the amount of rice traded around the world has doubled from 5% of global production in 1999 to over 10% today, making importing countries, such as Nigeria, more vulnerable to export bans. 15

Consumers in Nigeria spend a large share of their incomes on food. Thus, rising prices could force them to reduce the amount of food they eat, or they may have to cut consumption of other necessities like energy and healthcare. In Nigeria, the demand for rice is very price inelastic.

Source: News reports, 2023

Extract C: What options do rice-importing nations have?

The rise in the price of rice is not likely to have much impact on household food budgets in more economically developed countries (MEDCs), but the impact in less economically developed countries (LEDCs) will be more significant.

Governments of LEDCs may try to support people on low incomes with direct cash transfers or subsidise rice prices. However, these are costly options for governments with low tax revenues, already struggling to maintain public services. An alternative would be to impose a maximum price for consumers, as both Sri Lanka and the Philippines have done, but this creates problems for food suppliers facing high import prices. 5

Many countries are trying to increase farm productivity to be less exposed to global supply shocks such as the Indian rice export ban. Investment in irrigation, mechanisation and crop science can make a difference but typically suffers from long time lags. If countries can switch from producing other cereals to the production of rice, this may also help. 10

Source: News reports, 2023

0 1

Using the data in **Extract A (Figure 1)**, calculate the difference between India's share of world exports of rice in 2010 and 2022.

Give your answer to **one** decimal place.

[2 marks]

0 2

Explain how the data in **Extract A (Figure 1 and Figure 2)** show that the rice export ban by India in 2022 is likely to have had a significant impact on the world price of rice.

[4 marks]

0 3

Extract B (line 19) states: 'In Nigeria, the demand for rice is very price inelastic'.

With the help of a diagram, explain how the Indian export ban is likely to have affected the market for rice in Nigeria.

[9 marks]

0 4

Extract C (lines 6–7) states: 'An alternative would be to impose a maximum price for consumers, as both Sri Lanka and the Philippines have done'.

Using the data and your knowledge of economics, evaluate the view that imposing a maximum price for rice is the best way for a rice-importing nation, such as Nigeria, to ensure the affordability of a basic food for its citizens.

[25 marks]

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Extract F: Social care work is undervalued

There are aspects of market failure in the social care sector, though some argue that inappropriate government intervention and a lack of funding are the main reasons why the system is failing to deliver high quality care. This is a vitally important sector, yet care jobs have some of the economy's worst salaries and around a quarter of these workers are employed on zero-hour contracts. Consequently, the sector has high levels of staff turnover (28% per year) and vacancies (6.6% of all roles). At present, many care workers are recruited from overseas and so government immigration policy affects the sector. Some suggest that the skill level of care workers is relatively low and does not justify a higher wage while others have argued for high quality training programmes. Less than half of care workers hold a relevant qualification, and some parts of the workforce feel undervalued, are demotivated and have few opportunities for promotion.

Research from the Royal College of Nurses found that 38% of care homes were understaffed. Private social care companies have argued that the introduction of the National Living Wage, while raising average pay, has left them at risk of bankruptcy because of higher wage bills. More than 100 care firms went bust in 2018, worsening the under-provision of care. One day, the government will have to accept the need for more generous funding. However, public finances remain under pressure. Measures such as subsidies to private providers are likely to worsen the government's budget deficit but public support for an increase in taxation to fund social care is high.

Source: News reports, 2018

0 5 Using the data in **Extract D** (Figure 3), calculate how much the median care worker earns for every pound earned by the median worker in the whole economy. Give your answer to the nearest penny.

[2 marks]

0 6 Explain how the data in **Extract D** (Figure 4) show that there is likely to be substantial upward pressure on the wages of care workers by 2041.

[4 marks]

0 7 **Extract E** (lines 5–7) states: 'Until the 1990s, almost all workers in the care sector were employed by the government, which acted as a monopsonist by keeping wages low.'

With the help of a diagram, explain how a monopsonistic public sector can lead to low pay for social care work.

[9 marks]

0 8 **Extract F** (lines 1–3) states: 'There are aspects of market failure in the social care sector, though some argue that inappropriate government intervention and a lack of funding are the main reasons why the system is failing to deliver high quality care.'

Using the extracts and your knowledge of economics, assess policies that might be used to improve the provision of social care in the UK.

[25 marks]

Turn over ►

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SUB-TOPIC 4.1.8.10

GOVERNMENT FAILURE

Sub-topic 4.1.8.10 · 1 question · 1 marks · lowest tariff first



10

1 4

In 2015, the UK government introduced a tax on firms using landfill sites to dispose of waste. After the tax was introduced, there was a significant rise in illegal dumping of waste. This is most likely to be an example of

[1 mark]

- A** a negative externality in consumption.
- B** government failure due to unintended consequences.
- C** market failure resulting from imperfect information.
- D** the tragedy of the commons.

☐☐☐☐**1 5**

Which one of the following functions of money is likely to be most effective during a period of deflation?

[1 mark]

- A** Measure of value
- B** Standard of deferred payment
- C** Store of value
- D** Unit of account

☐☐☐☐

*Do not write
outside the
box*



IB/G/Jun24/7136/3

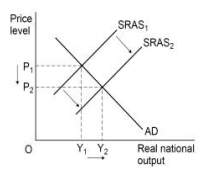
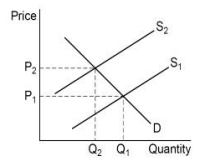
MARK SCHEMES

official mark schemes



MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R_1 cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
7	D (Increasing returns to scale)	17	C (Savings deposited with commercial banks that have more than a year to maturity)	27	D (High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority.)
8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

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

Context 2

Total for this context: 40 marks

0 5 Using the data in **Extract D (Figure 3)**, calculate, in percentage terms, how much more expensive a basket of groceries at Waitrose was than at Lidl in April 2020.

Give your answer as a percentage to two decimal places.

[2 marks]

Calculation: $(£68.69 - £42.27) / £42.27 \times 100 = 62.5029\%$

Correct answer 62.50%

Response	Max 2 marks
For the correct answer, to two decimal places, with % sign	2 marks
For the correct answer but not rounded to two decimal places, and/or without % sign eg: 62.5% OR For the correct method but the wrong answer, to two decimal places, with % sign	1 mark

MAXIMUM FOR QUESTION 05: 2 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2024

Section A

Context 1

Total for this context: 40 marks

0 1 Inflation resulted in a basket of goods and services that cost £100 in 2015 costing £112 in 2021. Using this information and the data in **Extract A (Table 1)**, calculate the percentage increase in average university rent, in real terms, between 2015 and 2021.

Give your answer to **one** decimal place.

[2 marks]

Calculation:

Cost of average rent in 2015 at 2021 prices: $121.16 \times 1.12 = 135.6992$

Increase in real average rent: $169.35 - 135.6992 = 33.6508$

% increase in real average rent: $33.6508/135.6992 \times 100 = 24.798$

Correct answer: 24.8%

or

Cost of average rent in 2021 at 2015 prices: $169.35/1.12 = 151.205$

Increase in real average rent: $151.205 - 121.16 = 30.045$

% increase in real average rent: $30.045/121.16 \times 100 = 24.798$

Correct answer: 24.8%

or

$169.35/121.16 \times 100/112 = 1.24798$ then subtract 1 and multiply by 100

Response	Max 2 marks
For the correct answer, to one decimal place, with % sign: 24.8%	2 marks
For the correct answer but without the % sign and/or not to one decimal place: eg 24.8 or 24.798% OR For the correct method, but the wrong answer, to one decimal place, with the % sign OR For subtracting 12 from 39.8 to get 27.8%	1 mark

MAXIMUM FOR QUESTION 01: 2 MARKS

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

- 0 2** Explain how the data in **Extract A** (Figures 1 and 2) show that expansion in the global sand market is leading to prices of construction sand rising in real terms.

[4 marks]

Response:	Marks
- includes evidence that shows how the expansion in the global sand market is leading to prices rising in real terms - clearly explains how this data is evidence that the expansion in the global sand market is leading to prices rising in real terms.	4 marks
- includes evidence that shows how the expansion in the global sand market is leading to prices rising / in real terms - unclear explanation of how this data is evidence that the expansion in the global sand market is leading to prices rising / in real terms.	3 marks
- includes some limited evidence that shows how the expansion in the global sand market is leading to prices rising / in real terms - limited explanation of how this data is evidence that the expansion in the global sand market is leading to prices rising / in real terms.	2 marks
- includes evidence that does not clearly show how the expansion in the global sand market is leading to prices rising / in real terms - no explanation of how this data is evidence that the expansion in the global sand market is leading to prices rising / in real terms.	1 mark

Relevant issues include:

- explanation of the concept of real terms
- explanation of what is meant by 'expansion' in the global sand market
- explanation of the link between global demand for sand and rising prices
- between 2010 and 2015, global demand for sand rose from 180 million tons to 244 million tons (an increase of 36% in 5 years), and is forecast to rise to 406 million tons by 2025
- construction sand prices have risen from an index of 100 in 2010 to an index of 127 in 2018, by around 13% in real terms (27% in nominal terms) over the period
- CPI has increased from an index of 100 in 2010 to an index of 114 in 2018 (14%)
- since 2015 construction sand prices have continued to rise in line with forecasts of Figure 2

MAXIMUM FOR QUESTION 02: 4 MARKS

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

0 6 Explain how the data in **Extract D (Figure 4)** show that the supermarket sector is competitive.

[4 marks]

Response:	Max 4 marks
- includes evidence that the supermarkets sector is competitive - clearly explains how this data is evidence that the supermarkets sector is competitive.	4 marks
- includes evidence that the supermarkets sector is competitive - explanation of how this data is evidence that the supermarkets sector is competitive.	3 marks
- includes some evidence that the supermarkets sector is competitive - limited explanation of how this data is evidence that the supermarkets sector is competitive.	2 marks
- includes evidence that does not clearly show that the supermarkets sector is competitive - no explanation of how this data is evidence that the supermarkets sector is competitive.	1 mark

Relevant issues include:

- explanation of why smaller firms taking market share from larger incumbents indicates competitiveness
- since 2012, the market shares of the largest four firms have each declined. For example, Tesco's has fallen from 31% to 27% (this is the largest decline)
- since 2012, the market shares of the smallest two firms have both risen. For example, Aldi's has risen from 3% to 8% (more than doubling in size)
- since 2012, the market share of other supermarkets has risen significantly from 16% to 20%
- CR4 has fallen from 0.78 to 0.68
- in each year shown in Figure 4, there are 6 major supermarkets competing for customers and 'others', who account for a significant share of the market, for example, around 20% in 2020.

Note: please allow a margin of +/- 2% points

MAXIMUM FOR QUESTION 06: 4 MARKS

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

0 3 *Extract C (lines 3–4) states that ‘the mining, manufacturing and disposal process for batteries could soon become an environmental disaster.’*

With the help of a diagram, explain why the production and sale of lithium-ion batteries might lead to market failure.

[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 2020

0 3 **Extract B** (lines 8–10) states: ‘many companies intentionally make it difficult to repair their products in order to increase sales. This is both economically inefficient and environmentally foolish; it imposes costs on the environment even though it may make sense for individual companies.’

With the help of a diagram, explain how the production of goods which are designed not to last long may result in market failure.

[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 2021

0 7 **Extract F** (lines 18–19) states: *the Government ‘could also take steps to recognise foreign qualifications, thus removing obstacles for well-qualified foreign-born workers.’*

With the help of a diagram, explain how UK firms not recognising foreign qualifications may lead to some ethnic groups receiving lower pay.

[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

Essay 2**Total for this essay: 40 marks****1 1***Explain the difference between complete and partial market failure.***[15 marks]****Areas for discussion include:**

- definition of complete and partial market failure
- how complete market failure (or a missing market) may exist when the willingness of firms to supply a good or service is non-existent, despite society having a demand for it
- why complete market failure may happen if goods are non-excludable, creating the problem of free-riders and the inability to charge individuals for their consumption
- public goods, that are non-excludable and non-rival, as an example of complete market failure
- in the event of complete market failure, the government will probably have to step in with public good provision, if the good or service is to be provided
- how partial market failure may be caused by suppliers not providing as much as society would wish for, perhaps because of positive externalities or because the good is a merit good
- how partial market failure may be caused by suppliers providing too much of a good or service, perhaps because of negative externalities or because the good is a demerit good
- other types of partial market failure that exist such as: information asymmetry, monopoly power, immobilities and inequality
- 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 11: 15 MARKS

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

1 4 Evaluate the view that imposing a tax is the most effective government policy for reducing the market failures arising from overconsumption of unhealthy food and drink.

[25 marks]

Areas for discussion include:

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

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

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

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

- 1 0** *Using examples to illustrate your answer, assess the usefulness of behavioural economic theory compared to traditional economic policies in helping governments to correct market failures*

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

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

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

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

MAXIMUM FOR QUESTION 10: 25 MARKS

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

1 4 Discuss the view that a national minimum wage is beneficial for an economy.

[25 marks]

Areas for discussion include:

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

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

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 2022

1 0

Assess the view that high-speed Internet connection is a necessity for modern life and should be provided by the government, free of charge, to all households.

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

- the importance of high-speed Internet connection for households (and firms) in the modern economy
- the uses of high-speed Internet (including homeworking, remote school working, gaming, streaming, online retail, smart home applications)
- how Internet is currently provided via private sector communications firms
- whether there is evidence of market failure and the nature of this market failure
- arguments for free provision by the government of high-speed Internet connection
 - it can be considered a merit good
 - the positive externalities from high-speed Internet connection
 - inadequate access creates inequalities in education, employability, access to services
 - public provision may be possible at lower cost than private provision due to economies of scale
 - the benefits of a natural monopoly
- arguments against free provision
 - negative externalities from Internet use (some aspects of Internet use are actually harmful or productivity-reducing)
 - already the majority of households are accessing the market without too many problems, and free Internet would be a blunt policy tool if it was not means-tested
 - burden on the taxpayer
 - alternative policies might be more efficient
 - the absence of a market price means that opportunity cost of providing the service is not fully considered
 - private sector efficiencies driven by the profit motive
- discussion of alternative policies
 - subsidies
 - price caps
 - free wifi in public places such as libraries and schools
 - means-tested free Internet for low-income households
- market failure arguments
- government failure arguments.

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

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

MAXIMUM FOR QUESTION 10: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2024

0 4

Extract C (lines 14–16) states that ‘A maximum rent can help keep the cost of student accommodation lower than it would otherwise be, but risks some landlords withdrawing from the market’.

Using the data in the extracts and your knowledge of economics, discuss the advantages and disadvantages of policies the government might introduce to improve the market for student accommodation.

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

- explanation of the market for student accommodation
- how a well-functioning market would resolve the shortage of accommodation via incentives, rationing and signalling
- the nature of the market failure(s) including
 - excess demand for university accommodation, high rents affecting social mobility and inequality by pricing some students out of university accommodation
 - leading to fewer students choosing to go to university, university education as a merit good
 - high-quality student accommodation as a merit good
 - poor quality student accommodation as a demerit good
 - immobility of factors of production (in this case land) can lead to market failure
- other problems which are not the result of market failure including
 - planning restrictions
 - objections to new accommodation by neighbours
- analysis and evaluation of policies to reduce the market failure here including
 - rent subsidies
 - rent controls
 - subsidising builders of student accommodation
 - state provision of accommodation
 - reducing planning restrictions
 - reducing demand for accommodation, eg limits on foreign students
 - grants and loans to support students with high costs
- use of the data in the extracts, particularly **Extract C**, to support analysis and evaluation of the policies discussed
- whether or not the problem of excess demand is likely to persist
- the objectives of government policy in this area
- market failure arguments
- government failure arguments
- an overall assessment of the advantages and disadvantages of policies the government might introduce to improve the market for student accommodation.

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.

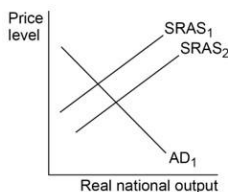
Use the level mark scheme on page 4 to award students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

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 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 – 7136/3 – 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 – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2025

Section B

Essay 1

Total for this essay: 40 marks

- 0 9** Explain, with examples, the differences between a private good, a public good and a quasi-public good.

[15 marks]

Relevant issues include:

- definition of a private good, such as food, a car
- explanation of the terms rival (diminishable) and excludable
- definition of a public good, such as streetlighting
- explanation of the terms non-rival (non-diminishable) and non-excludable
- explanation of the differences between a public good and a private good
- state that pure public goods are non-rival and non-excludable and an explanation of the significance of these characteristics
- the free-rider problem
- explanation of circumstances when a public good may take on some of the characteristics of a private good and become a quasi-public good
- explanation that a quasi-public good exhibits some, but not all, of the characteristics of a pure public good, for example a road that is non-excludable but becomes rivalrous during congested periods, or a road that is non-rival becomes excludable if it is a toll road
- the significance of technological change, eg television broadcasting is now excludable
- the link between public goods and missing markets
- 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 09: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2025

1	0
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 Evaluate the view that oligopolies serve society well.**[25 marks]****Areas for discussion include:**

- definition of oligopoly
- explanation of what is meant by oligopolies 'serving society well'
- the main characteristics of oligopolistic markets
- oligopolistic markets can be very different in relation to, for example, the number of firms, the degree of product differentiation and ease of entry
- oligopoly can be defined in terms of market structure or in terms of market conduct (behaviour)
- the difference between collusive and non-collusive oligopoly
- the difference between cooperation and collusion
- analysis of the kinked demand curve model and an evaluation of the effects on society
- analysis of the competitive market process in oligopolistic markets and an evaluation of the effects on society
- analysis of the process of creative destruction in oligopolistic markets and an evaluation of the effects on society
- analysis and evaluation of the effects of features of oligopolistic markets such as: non-price competition, the operation of cartels, market power, price leadership, price agreements, price wars and barriers to entry
- analysis of factors which influence prices, output, investment, expenditure on research and advertising in oligopolistic industries and an evaluation of whether or not they are likely to serve society well
- the significance of interdependence and uncertainty in oligopoly
- evaluation of the advantages and disadvantages of oligopoly
- the use of examples
- overall assessment of view that oligopolies serve society well.

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 students marks for this question.

MAXIMUM FOR QUESTION 10: 25 MARKS

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 2018

Section B

Essay 1

Total for this essay: 40 marks

0	9
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 Explain why the use of petrol and diesel cars may be a source of market failure.
[15 marks]

Areas for discussion include:

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

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

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

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 2017

Essay 3**Total for this Essay: 40 marks****1 3** Explain why, in a free market, sugary drinks may be overconsumed.**[15 marks]****Areas for discussion include:**

- explanation of market failure
- sugary drinks as demerit goods leading to over-consumption
- asymmetric/imperfect information problems as consumers may fail to recognise the true costs and benefits of what they consume
- negative externalities in consumption
- examples of negative externalities in consumption arising from sugary drinks
- explanation of the specific health concerns and their burden on the NHS
- concerns about dental hygiene amongst children
- addictive properties of sugary drinks leading to inelastic demand
- reference to 'behavioural' reasons why sugary drinks might be over-consumed, eg bounded rationality, bounded self-control, social norms and other cognitive biases
- the tendency to undervalue the long-run consequences of consuming sugary drinks (the over-optimism bias).

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 – 7136/3 – 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 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 – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2024

Section B

Essay 1

Total for this context: 40 marks

09

Explain why imperfect and asymmetric information may lead to market failure in the market for food.

[15 marks]

Areas for discussion include:

- explanation of imperfect information, asymmetric information and market failure
- explanation of different types of market failure likely to exist in market for food, for example, positive and negative externalities in consumption, food as a merit good, food as a demerit good
- explanation of the importance of information for decision making
- explanation of why imperfect information makes it difficult for economic agents to make rational decisions and is a potential source of market failure
- application and analysis of demand and supply diagrams (or MSB/MSC diagrams) to help explain why asymmetric and imperfect information is likely to lead to a misallocation of resources in the market for food
- explanation of why food manufacturers and retailers are likely to have more information about their products than consumers
- explanation of how customers often have a poor understanding of nutrition in general, so even if well-informed about food products would still not be able to make good decisions
- particular concerns around children consuming food, as this is one of the few areas of spending that children regularly participate in, and they may be less informed than others
- explanation of how regulations around food labelling can help inform customers but may not form an important part of the buying decision.

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 16 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2020

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

1	3
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*Explain why imperfect information can lead to market failure.***[15 marks]****Areas for discussion include:**

- definition of imperfect information and market failure
- why imperfect information may be considered a source of market failure
- explanation of asymmetric information and how it can lead to some markets working inefficiently (or even collapsing altogether) when sellers know more about the true value of the good or service they are selling than the buyers (ie the 'Market for Lemons')
- explanation of moral hazard, where agents (knowing more about their risk profile than the insurer does) take excessive risk because they are protected from the negative consequences of their actions by insurance, thus leading to market failure
- how imperfect information can lead to the under-provision of merit goods and over-provision of demerit goods
- how imperfect information does not merely mean the absence of information. Information can also be imperfect if it is presented unhelpfully or incompletely such that making good decisions becomes very difficult
- agents may suffer from bounded rationality and cognitive biases
- agents may value short-term benefits too much due to a lack of information which could lead to poverty, eg lack of saving for pensions
- examples of markets in which imperfect information causes problems, eg the labour market, the cigarette market, the market for insurance.

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 2020

1 0

Discuss whether governments should consider increasing the regulation and taxation of technology firms which have acquired significant global monopoly power.

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

- definition of monopoly power
- explanation of how new monopolies have achieved market dominance
- explanation of how firms with monopoly power can exploit their power to restrict output and raise prices
- discussion of how the nature of monopoly is changing, as the rich world's demands shift away from heavy industry and towards information economies
- how monopoly regulation has largely been designed for a different context from the modern internet firms, and is (to some extent) trying to catch up with the pace of change
- how breaking up firms may lead to more competition and better customer outcomes, but could jeopardise the economies of scale enjoyed by large dominant firms and their customers
- how a tax would be likely to work: an indirect tax; 'super tax' on abnormal profits
- recognition that many services offered by these firms are free to users, paid for by third-party advertising, hence price-based interventions are unlikely to be effective
- one proposed policy in this area is to require tech firms to pay users for permission to collect and use personal data
- discussion of the international context. Many of the technology firms have significant operations in multiple countries, so any policy may need to be agreed/coordinated by a number of countries. Firms might be considered to be 'footloose' in terms of tax avoidance
- examples of regulation of such firms by eg EU Competition Commissioner's fine for Google
- recognition of how many concerns about the large Internet firms are about data protection and privacy rather than economic concerns
- overall assessment about whether there ought to be more intervention in this market, and whether it should be by breaking up the firms
- explanation of how the recent history has featured the natural demise of seemingly dominant firms in the information market (eg myspace, askjeeves, IBM) without any government intervention
- discussion of productive, allocative and dynamic efficiency
- market failure arguments
- government failure arguments.

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

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

MAXIMUM FOR QUESTION 10: 25 MARKS

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 2017

- 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]

Areas for discussion include:

- features of monopolistically competitive industries and examples
- features of oligopolistic industries and examples
- features of monopoly industries and examples
- the objectives of government regulators – efficiency/fairness/safety/transparency/political objectives
- the view that regulators should focus on making markets (in whatever form) contestable, and not worry about the number of firms in the market
- reference to the fact that monopolistically competitive sectors have very low barriers to entry so are likely to be highly contestable
- monopolistic competition: picking up on the question's reference to excessive advertising spending (much of which is of little social benefit), excessive product differentiation and choice for consumers (too much choice?)
- examples of successful/unsuccessful regulatory interventions
- the ability of markets to reduce information asymmetries via, eg review websites, product testing websites
- the need for oligopoly regulation - anti-cartel investigation and enforcement, increasing competition via breaking up incumbents or encouraging start-ups or international competitors
- reference to The Competition and Markets Authority and sectoral regulators such as Ofgem and Ofwat
- different approaches to the regulation of monopolies
- allocative/productive/dynamic efficiency/X-inefficiency
- issues related to consumer/producer surplus
- issues related to economies of scale or natural monopolies
- the different types of government regulation – economic/health & safety/consumer rights, etc
- market failure arguments
- government failure arguments.

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

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

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

- 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]

Areas for discussion include:

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

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

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

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2024

- 1 4** Assess the view that privatised industries, such as electricity and gas, should be taken back into public ownership.

[25 marks]

Areas for discussion include:

- explanation of privatised industry and public ownership
- analysis and evaluation of the arguments for the privatisation of state-owned enterprises
 - efficiency gains resulting from private sector profit motives
 - greater competition and choice for consumers
 - revenue raised for the government
 - reduces the need for the taxpayer to cover losses/subsidies
 - increased share ownership among the public
 - removal or reduction of political interference
- analysis and evaluation of the arguments for the public ownership of firms and industries
 - natural monopoly arguments
 - some industries may not be suitable to the pursuit of profit (eg healthcare, defence)
 - fragmentation of industries and lack of coordination
 - the need for, and cost of, regulation
 - government loses potential revenue/dividends
 - more likely to consider external costs, e.g. the effect on the environment of their decisions/actions
 - some industries are too strategically important to be left in private ownership (eg energy supply)
 - possible longer-term planning horizons than in the private sector
- analysis and evaluation of whether public ownership is feasible given the likely high costs of takeover, or whether, as in the case of rail franchises coming to an end, this is not an issue
- assessment of how privatised firms/industries have affected outcomes for
 - consumer prices
 - consumer information, stability and other non-price benefits
 - investment in infrastructure
 - safety
 - government finances
 - shareholder dividends
- use of examples
- market failure arguments
- government failure arguments
- discussion of whether public ownership is likely to be more beneficial/appropriate in some industries than others
- overall assessment of whether privatised industries should be taken back into public ownership.

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 2025

0 8**Extract F** (lines 5–6) states: ‘if regulators impose fines, these costs may be passed on to consumers or reduce investment’.

Using the data in the extracts and your knowledge of economics, assess the view that stronger regulation would be a better policy than bringing the water industry back into public ownership.
[25 marks]

Areas for discussion include:

- explanation of the existing market structure in the water industry, namely 17 local monopolies run by private companies combined with regulation
- explanation of the causes of market failure in the water industry
- evaluation of the performance of water companies in terms of
 - consumer pricing
 - non-price considerations such as customer service
 - environmental externalities such as sewage discharges into rivers and the sea
 - safe and reliable supply of clean water
 - expansion of capacity to deal with rising population
 - investment in infrastructure such as pipes
 - technological advances such as the installation of water meters in homes
- why water companies pay dividends to shareholders and an evaluation of its significance
- evaluation of the significance of water companies missing regulatory targets and the response of the regulators
- the role and performance of Ofwat and the Environment Agency in regulating the water industry
- analysis and evaluation of how stronger regulation and public ownership would compare in relation to issues such as:
 - efficiency
 - initial and ongoing costs to the taxpayer
 - likely impact on externalities
 - likely impact on prices
 - likely impact on investment
 - customer service
- evaluation of what stronger regulation would actually involve, for example larger fines for missing targets
- analysis and evaluation of the problem of regulatory capture in the water industry
- government failure arguments
- overall assessment of the view that stronger regulation would be a better policy than bringing the water industry back into public ownership.

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 students marks for this question.

MAXIMUM FOR QUESTION 08: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2018

SECTION A

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

KEY LIST

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

Total: 30

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 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 2024

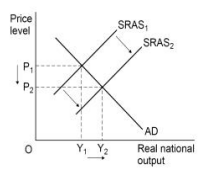
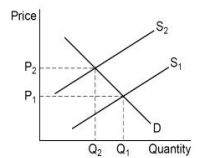
SECTION A

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)

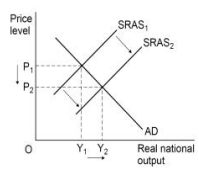
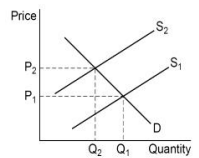
MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R_1 cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
7	D (Increasing returns to scale)	17	C (Savings deposited with commercial banks that have more than a year to maturity)	27	D (High concentration ratios and consumer complaints are examples of indicators which may suggest anti-competitive behaviour and prompt further investigation by the Competition and Markets Authority.)
8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

MARK SCHEME – A-LEVEL ECONOMICS – 7136/3 – JUNE 2025

SECTION A KEY LIST

1	B (Individuals are required by law to choose an option)	11	D (Point D)	21	B (5.3%)
2	C (ST)	12	C (Ireland's gross national income per capita was higher than Finland's.)	22	A (Situation A)
3	B (Create a hypothesis and test whether it can predict the behaviour of economic agents)	13	B (is more price inelastic when price increases from £8 to £10 than when it increases from £10 to £15.)	23	D (The rate of increase in the price of necessities, such as energy, is higher than for all goods and services)
4	D 	14	D (Some potential tenants who would like to rent a house at R_1 cannot find a house to rent)	24	A (Country X has both an absolute advantage and a comparative advantage in producing canoes)
5	A (A fall in the number of Jobcentres provided by the government)	15	D (Profit maximisation is not the most important objective for all managers)	25	D (US\$5200 million)
6	B (A reduction in the tax on a good with positive consumption externalities)	16	B (the quarterly inflation rate fluctuated whilst the unemployment rate increased throughout the year.)	26	D (Tax breaks for manufacturing firms that invest in upgrading their machinery and other capital goods)
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8	C (£75 000)	18	D (Bank Y is more profitable than Bank Z but is less secure.)	28	C (Over time, more firms will have an incentive to reduce their pollution)
9	D 	19	B (B)	29	A (The amounts outstanding on households' existing mortgages will fall in real terms)
10	D (The level of investment depends on the rate of change in national income)	20	C (Falls for peak-time passengers and rises for off-peak passengers)	30	C (£26 500)

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 – 7136/3 – JUNE 2021

SECTION A

KEY LIST

1	B (the higher marginal revenue productivity of graduates.)	11	D (not buy the motorbike because they do not know as much about the motorbike as the dealer.)	21	C (firm is maximising its abnormal profit and has no incentive to expand its production.)
2	A (can have microeconomic as well as macroeconomic effects on the economy.)	12	A (A decline in the capital stock resulting from a significant decline in bank funding for business investment)	22	D (the marginal propensity to consume combined with a fall in the exchange rate.)
3	B (negative externalities in production and positive externalities in consumption.)	13	A (accepting the default choice.)	23	B (A reduction in firms' unit costs of production.)
4	D (The government's budget deficit increases as the rate of unemployment is reduced)	14	C (Savings will increase as interest rates rise in real terms)	24	D (The removal of a subsidy to tea producers and a fall in the price of coffee)
5	D (Country 4 has the highest life expectancy and literacy rates)	15	B (inelastic.)	25	B (a negative output gap equal to £6 billion.)
6	D ($H_1 - H_2$)	16	B (increase its average revenue by 20%.)	26	D (short-term finance is provided for companies and governments.)
7	D (most likely to be a commercial bank because its main liabilities are customer deposits.)	17	C (3.8%)	27	A (job security for qualified workers in the industry.)
8	D (public goods.)	18	B (20/400)	28	C (£525 billion)
9	C (OPHJ)	19	A (level of investment.)	29	D (tariffs to raise the price of imports.)
10	D (projected tax revenue by more than £100 billion)	20	A (A decrease in the cost of producing the good) OR C An increase in the price of the good	30	B (A fall in the prices of raw materials and an increase in investment.)

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

- 1 2** *Evaluate the view that government failure means that government intervention in markets will rarely lead to an improvement in economic welfare.*

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

- definition of government failure
- explanation of the term 'economic welfare' and how that might be improved
- objectives of government intervention
- types of government intervention, how they relate to specific types of market failure and why they may improve economic welfare
- causes of government failure, which include
 - information failures leading to poorly designed policies
 - regulatory capture by industry interests
 - unintended consequences
 - short timeframes for policy
 - conflicting policy objectives
 - red tape and bureaucracy
 - governments may pursue their own self-interest rather than take decisions that improve general economic well-being
- impacts of government failure can include inefficiency, ineffectiveness, projects being completed over budget and after deadlines, unintended consequences
- how market failures can sometimes be resolved without government intervention, for example via improvements in technology
- how some problems which appear to be market failure can actually stem from previous government interventions
- evaluation of the strengths and weaknesses of the market economy and the role of the government
- recognising that government intervention may lead to an improvement in economic welfare, despite the flaws of such intervention caused by, for example, imperfect information
- 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 4 to award students marks for this question.

MAXIMUM FOR QUESTION 12: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2025

0 4

Extract C (lines 6–7) states: ‘An alternative would be to impose a maximum price for consumers, as both Sri Lanka and the Philippines have done’.

Using the data and your knowledge of economics, evaluate the view that imposing a maximum price for rice is the best way for a rice-importing nation, such as Nigeria, to ensure the affordability of a basic food for its citizens.

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

- explanation of the problem faced by rice-importing countries
 - rapidly rising food price inflation
 - supply shortages, hunger and possibly starvation
 - reduced quality
 - market volatility
 - secondary impacts in connected markets, such as reduced expenditure on energy or healthcare
- discussion of the importance of ensuring affordable food supplies for consumers
- explanation of what a maximum price policy is and analysis of how it works
- analysis and evaluation of the possible benefits of a maximum price policy
 - how a maximum price may ensure affordability of rice for consumers
 - how exploitation of consumers by profit-maximising firms may be prevented
 - consumers can plan their food budgets more accurately if the maximum price helps to prevent prices rising too high
- analysis and evaluation of the possible costs of a maximum price policy
 - suppliers/importers may decide to switch supply to countries without a maximum price as they can make more profit by doing so
 - disincentive effects for investment in supply capacity
 - some consumers may be unable to acquire rice
 - the possibility of an illegal/shadow market in rice developing
- analysis and evaluation of other possible policy responses, such as
 - switching to alternative rice suppliers (such as Thailand and Vietnam)
 - import substitution by switching production away from other foods or products
 - reducing dependence on rice by promoting other cereals and foods
 - subsidising rice
 - rationing rice
 - government investment in irrigation, fertilisers, mechanisation and crop science to support rice production
 - income support for citizens whilst rice prices remain high
- analysis and evaluation of leaving the issue to market forces
- evaluation of how what is the best policy may be affected by whether problems in the world rice market are likely to persist
- the objectives of government policy in this area
- market failure arguments
- government failure arguments
- an overall assessment of whether imposing a maximum price for rice is the best way for a rice-importing nation, such as Nigeria, to ensure the affordability of a basic food for its citizens.

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 students marks for this question.

MAXIMUM FOR QUESTION 04: 25 MARKS

MARK SCHEME – A-LEVEL ECONOMICS – 7136/1 – JUNE 2020

0 8

Extract F (lines 1–3) states: ‘There are aspects of market failure in the social care sector, though some argue that inappropriate government intervention and a lack of funding are the main reasons why the system is failing to deliver high quality care.’

Using the extracts and your knowledge of economics, assess policies that might be used to improve the provision of social care in the UK.

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

- trends in social care since privatisation in the 1990s and how privatisation may have led to lower pay, certainly compared to remaining state care providers
- rising pressures on the sector as a result of an ageing population with increasing care demands
- social care as a merit good and market failure arising from the external benefits of social care
- lack of funding from central government, restricting local government ability to pay for care
- low pay in the care sector, job insecurity and the fact that many are leaving the care sector for jobs in retail and supermarkets for better pay and conditions
- the lack of labour supply is threatening the sector, with high levels of job vacancies (38% of care homes understaffed, 6.6% of roles vacant)
- reports of inadequate care in some care homes and the link between low pay, low motivation and inadequate care
- bankruptcy of care home providers
- ineffective regulation by the Care Quality Commission/risk of regulatory capture
- market failure arising from the low incomes of many of those requiring care
- discussion of the lack of integration between the care sector and the NHS
- discussion of a range of policies to include
 - more generous government funding for local authorities
 - subsidies for private providers
 - nationalisation
 - hypothecated tax for care funding/additional taxation
 - a more generous National Living Wage to encourage labour supply
 - a less generous National Living Wage to ease the pressure on care home companies
 - more investment in training, career development, status, etc
 - promoting union membership
 - professionalisation of workforce to raise standards
 - relaxing immigration policy for care workers to ease recruitment problems
 - providing people in need of care with increased cash welfare benefits to help them purchase their own care
 - introduce a compulsory insurance system providing people with the ability to purchase their own care
- discussion of how the market is likely to develop in the absence of government intervention and whether the low pay of care workers is likely to be rectified by the market itself
- discussion of how care might improve if the private sector were to be given a greater role in the care market
- 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

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)