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EDEXCEL A ECONOMICS: QUESTIONS BY TOPIC

Nature of Economics (1.1)

A Level Economics Theme 1

77 questions · 251 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.

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1.1.2 POSITIVE AND NORMATIVE ECONOMIC STATEMENTS		14 Qs · 41 marks	4
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2. Q1(c)	AS Paper 1 June 2018	1	6
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6. Q1(b)	AS Paper 1 June 2018	2	10
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11. Q6(d)	AS Paper 1 June 2025	4	20
12. Q6(a)	A Level Paper 1 June 2019	5	21
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1.1.3 THE ECONOMIC PROBLEM		12 Qs · 36 marks	30
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QUESTIONS

77 questions · 251 marks · 5 sub-topics

SUB-TOPIC 1.1.2

POSITIVE AND NORMATIVE ECONOMIC STATEMENTS

Sub-topic 1.1.2 · 14 questions · 41 marks · lowest tariff first



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 Statement 1:** Cuba has a healthcare system with a patient to doctor ratio of 155:1.

Statement 2: Other countries ought to adopt a similar healthcare system to that which exists in Cuba.

- (a) Which **one** of the following best describes the two statements above?

(1)

	Statement 1	Statement 2
☐ A	Normative	Normative
☐ B	Normative	Positive
☐ C	Positive	Normative
☐ D	Positive	Positive

(Total for Question 1(a) = 1 mark)



SECTION A

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- 1 Statement 1:** Cuba has a healthcare system with a patient to doctor ratio of 155:1.

Statement 2: Other countries ought to adopt a similar healthcare system to that which exists in Cuba.

- (c) Define the term 'command economy'.

(1)

(Total for Question 1(c) = 1 mark)



- 3** Disruption in the supply chains of essential goods and shortages of key medical products during the global health crisis have highlighted the links between countries and renewed the debate on the advantages and disadvantages of specialisation.

(Source: adapted from <https://commonslibrary.parliament.uk/research-briefings/cbp-8978/>)

(b) Which **one** of the following is a positive economic statement?

(1)

- ☐ **A** Disruption to global supply chains will reduce the level of trade
- ☐ **B** Supply chain disruption is the most important issue facing governments
- ☐ **C** The free market leads to the best allocation of resources
- ☐ **D** The government ought to increase healthcare spending

(Total for Question 3(b) = 1 mark)



4 Statement 1

Finland has schools with an average class size of 19.6

Statement 2

Other countries ought to set school class sizes similar to Finland.

(Source adapted from: <https://www.oph.fi/en/news/2019>)

(a) Which **one** of the following best describes the two statements above?

(1)

	Statement 1	Statement 2
☐ A	Normative	Normative
☐ B	Normative	Positive
☐ C	Positive	Normative
☐ D	Positive	Positive

(Total for Question 4(a) = 1 mark)



SECTION A

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- 1 Statement 1: Since Poland joined the European Union (EU) in 2004, over one million of its workforce have migrated to other countries in the EU.

Statement 2: Many engineers have left Poland for higher paid jobs in other countries in the EU.

(Source: <https://www.forbes.com/sites/freylindsay/2019/08/09/polands-emigration-rate-is-falling-but-people-are-still-worried-about-the-brain-drain-bogeyman/#9550525792e6>)

- (a) Which **one** of the following best describes the two statements above?

(1)

	Statement 1	Statement 2
☐ A	Normative	Normative
☐ B	Normative	Positive
☐ C	Positive	Normative
☐ D	Positive	Positive

(Total for Question 1(a) = 1 mark)



SECTION A

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You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 Statement 1:** Cuba has a healthcare system with a patient to doctor ratio of 155:1.

Statement 2: Other countries ought to adopt a similar healthcare system to that which exists in Cuba.

- (b) Cuba's population is estimated to be 11 million. With reference to Statement 1 above, calculate the estimated number of doctors in Cuba. You are advised to show your working.

(2)

(Total for Question 1(b) = 2 marks)



- 4** A large number of people should be vaccinated against a new virus, so that even those who are not vaccinated will benefit.

(a) With reference to the statement above, explain the difference between positive and normative statements.

(3)

(Total for Question 4(a) = 3 marks)

(c) Define the term 'command economy'.

(1)

(Total for Question 1 = 4 marks)



4 A large number of people should be vaccinated against a new virus, so that even those who are not vaccinated will benefit.

(a) With reference to the statement above, explain the difference between positive and normative statements.

(3)

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

(b) Which **one** of the following explains how market failure might occur in a free market economy?

(1)

- ☒ **A** A net welfare loss results from intervention by the government
- ☐ **B** Firms enter the market in response to higher prices
- ☐ **C** Goods with positive externalities are underprovided
- ☐ **D** Prices rise when there is excess demand

(Total for Question 4 = 4 marks)



4 Statement 1

Finland has schools with an average class size of 19.6

Statement 2

Other countries ought to set school class sizes similar to Finland.

(Source adapted from: <https://www.oph.fi/en/news/2019>)

(a) Which **one** of the following best describes the two statements above? (1)

	Statement 1	Statement 2
☐ A	Normative	Normative
☐ B	Normative	Positive
☐ C	Positive	Normative
☐ D	Positive	Positive

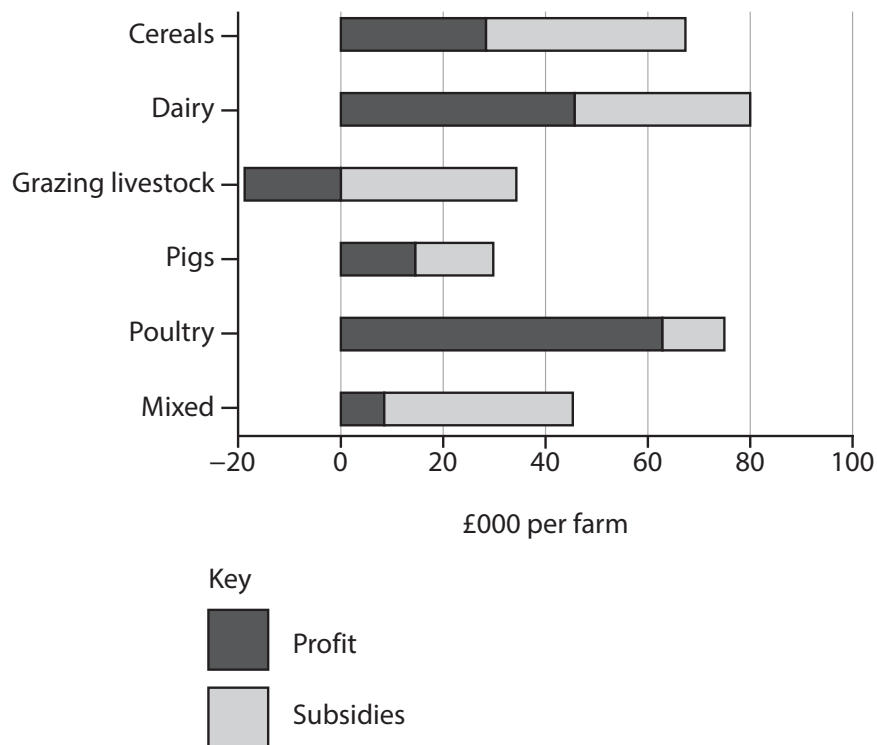


Sources for use with SECTION B

Read the following figures (1 and 2) and extracts (A and B) before answering Question 6.

The market for meat and the growth of vegetarianism**Figure 1**

The impact of subsidies on farmer income, in England, 2018–2019 (£000 per farm)



(Source: adapted from www.FT.com)

Figure 2**Potential impact of indirect tax rises on meat prices per kg, 2023–2030**

Type of Meat	Before indirect tax increases	After indirect tax increases
Beef/Veal	£24.24	£29.50
Chicken	£7.60	£8.63

(Source: adapted from Tax beef, pork and chicken to help climate and health, EU urged – CGTN)

Extract A**The case for cutting out meat**

Around a third of Britons are reducing the amount of meat they eat or are cutting it out altogether. Are these consumers right to be cutting out meat? For a start, there are the greenhouse gases released as a result of producing food. The evidence is clear that switching to a plant-based diet would lower emissions. A UK study found that eating a diet high in meat costs 7.2 kg carbon dioxide emissions per day, compared with 3.8 kg for vegetarians. It would also free up land for other uses. Nearly 80% of the world's farmland is dedicated to rearing animals; a plant-based diet would cut the use of land for agriculture by 76%. The land currently used by grazing livestock could be used for "rewilding", allowing the environment and animal species destroyed by meat farming to recover. 5 10

Our health and wealth would be better too. A study published in 2016 modelled what would happen to our health and the global economy if we all switched to vegetarian diets. The economic benefits of switching to plant-based diets could be as much as £700 billion to £1 trillion per year in terms of savings on healthcare costs and lost working days due to ill health. 15

Some economists recommend an increased indirect tax on animal products so that their prices reflect the cost of externalities.

This could impact on European farmers, if adopted by the European Union. The tax could bring £35 billion to the EU, with around £15 billion of that going directly to farmers. The rest would be used to bring down VAT on fruit and vegetables, and fund other policies to encourage healthy-eating diets both in and outside the EU. 20

(Source: adapted from <https://moneyweek.com/499842/the-economic-consequences-of-veganism> December-28-2018)



Extract B**Businesses benefitting from meat-substitute products**

There is one group for whom the trend towards meat-substitute products is definitely a good thing: processed food manufacturers and retailers.

Finest British beef burgers are priced at £6.61 per kg. The 'fake burger' (which is made mostly of pea protein) is priced at £21.81 per kg even though the ingredients used to make them, such as mushrooms, peas and palm oil, are cheaper ingredients than meat. Despite high prices, demand continues to rise for these products. This might benefit shareholders, but is it doing any real good for the rest of us? 5

A large food producer bought meat-substitute product maker Vegetarian Butcher in December 2018 and is moving towards a range with more meat-substitute products. In 2017, Nestlé bought Sweet Earth, a California-based maker of vegetarian foods, and it is launching its own meat-substitute 'Incredible Burger'. It expects its meat-substitute revenues to reach \$1 billion by 2029. 10

As subsidies are being cut in every area of farming, consumers ought to be willing to pay higher prices for all food products. If farmers are to stay in business, they need to find additional sources of revenue such as oyster mushrooms, goji berries and basil. 15

(Source: adapted from <http://www.financialtimes.com/the-veganism-boom-does-more-for-food-company-profits-than-the-planet> February-22-2019)



(d) Using examples from **either** Extract A or Extract B, explain what is meant by positive and normative economic statements.

(4)



SECTION B

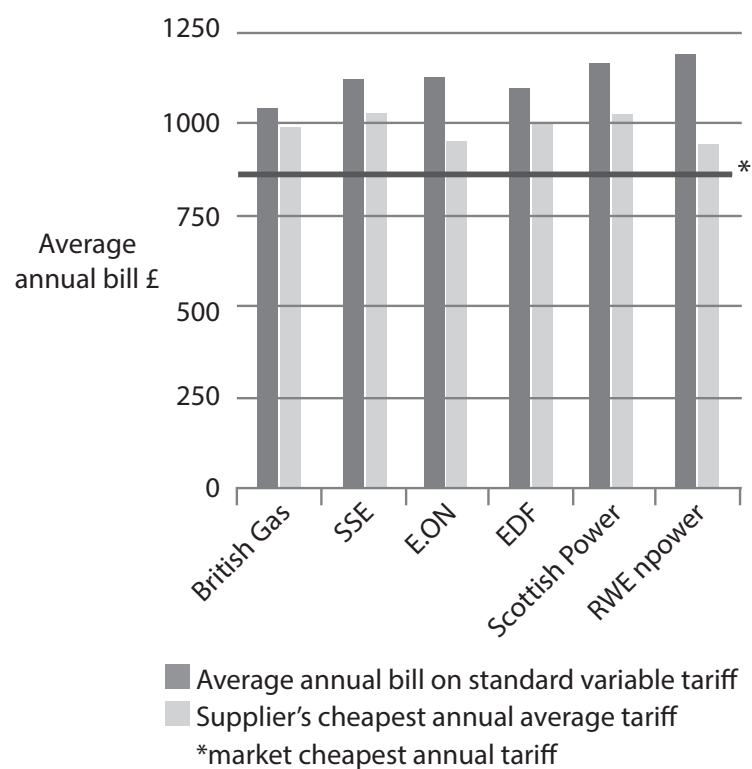
Read Figures 1 and 2 and extracts (A to C) before answering Question 6.

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 6**Energy and telecommunication markets in the UK**

Figure 1: Average annual household bill from the Big Six UK energy suppliers, 2017



(Source: <https://www.lovemoney.com/news/67298/standard-variable-tariff-compared-cheapest-deal-provider-savings>)



Extract A**Energy price cap to fix 'broken' market in UK**

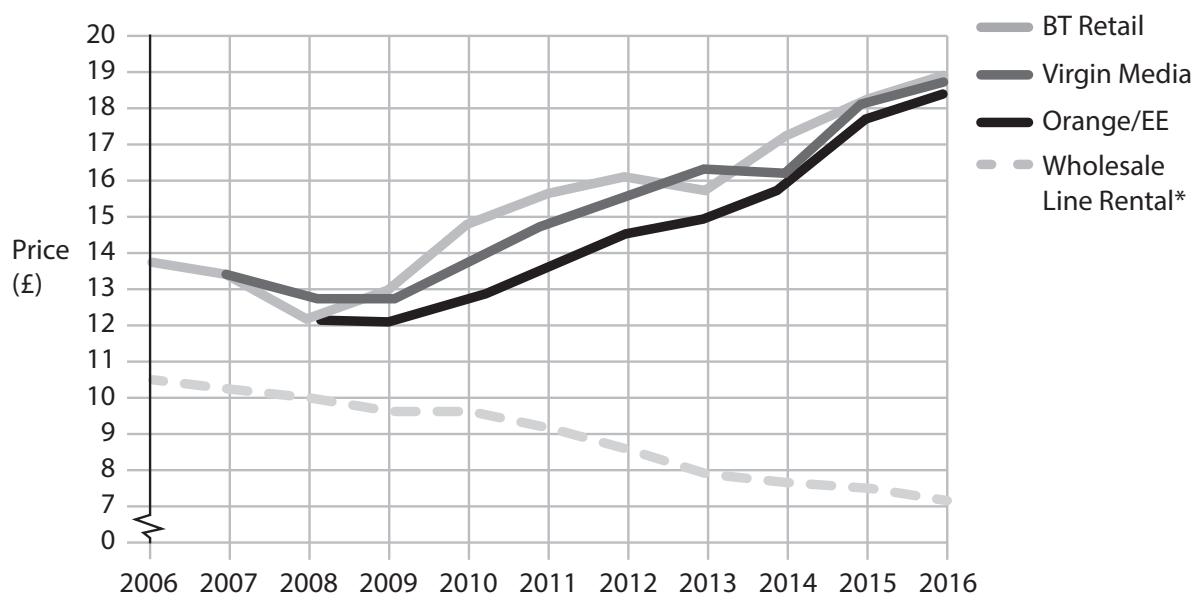
The Prime Minister recently said that the regulator Ofgem (Office of Gas and Electricity Markets) should limit electricity and gas suppliers' most expensive tariffs.

Under the planned new legislation, the energy bills of 11 million households will be capped for as long as five years. The government claimed this cap could save households up to £100 a year. This legislation would force Ofgem to change the licence conditions for energy suppliers so that they are required to cap electricity and gas prices. The measure will apply to anyone on a standard variable tariff, the expensive plans that customers are moved to when cheaper, fixed-price deals end. Ofgem will need to consult energy companies on how the cap is calculated, the government said. The Prime Minister repeated her claim that she had to act because the 'market is broken', a charge the big energy companies reject. "I have been clear that our broken energy market has to change – it has to offer fairer prices for millions of loyal customers who have been paying hundreds of pounds too much," she said.

However, Michael Lewis, chief executive of E.ON said "the government must guard against any unintended consequences that undermine customer service and push up prices as a whole. A price cap will not be good for customers. It will reduce competition and innovation". Smaller suppliers such as First Utility said the Big Six had only themselves to blame for the cap, because they had kept millions of people on standard variable tariffs.

(Source: adapted from 'UK puts energy efficiency at heart of climate change strategy'; Adam Vaughan, Copyright Guardian News & Media Ltd 2017 <https://www.theguardian.com/money/2017/oct/12/may-energy-price-cap-ofgem-electricity-gas-tariffs>)

Figure 2: The monthly rental cost of a telephone landline



*Wholesale line rental – the rental price BT Openreach charges telephone service providers

(Source: <https://www.ofcom.org.uk/about-ofcom/latest/features-and-news/landline-prices-review>)



Extract B**BT profit rises**

BT Group, which includes BT Openreach and BT Retail, reported a rise in profit as revenue increased following the integration of the consumer mobile business, EE. BT finalised the takeover of EE in August 2016, and the integration has resulted in BT controlling 35% of the mobile consumer market. The profit of the UK-based telecommunication group in its second quarter 2017 rose to £566 million. 5

BT Group chief executive Gavin Patterson said: "We will operate a multi-brand strategy with UK customers being able to choose a mix of BT, EE or Plusnet services, depending on which suits them best. The acquisition enables us to offer great value bundles of services and customers are set to be the winners as we compete for their business". 10

(Source: adapted from www.marketwatch.com (Oct 27 – 2016) and <http://home.bt.com/news/bt-life/bt-to-retain-ee-brand-as-acquisition-confirmed-11364037422234>)

Extract C**BT to slash landline charges for 1 million customers**

Rental charges for landline-only customers – households with a telephone-only contract but no BT broadband – will fall from £18.99 to £11.99 per month after the regulator attacked existing deals as 'poor value for money'. This rental reduction will save a million landline-only customers £84 a year. 5

The regulator Ofcom (Office of Communications) said it stepped in because these bills for landline-only customers – nearly two-thirds of whom are over 65 – have "soared" in recent years. This is despite BT and other landline providers benefiting from significant cuts in the wholesale line rental cost of providing the service by BT Openreach. Many landline-only customers are elderly, and have been with BT for decades. Ofcom has focused on BT because it accounts for two-thirds of the UK's 1.5m landline-only customers. 10

A spokesperson for Ofcom said "This position [of dominance] has allowed BT to increase prices without much risk of losing customers, and other providers have followed BT's pricing lead. We expect BT's price cut to mean other providers will follow suit". Ofcom said that over three-quarters of BT's landline-only customers have never switched provider, which has left them a prime target for price rises. The regulator said that all major landline providers have increased their line rental charges by between 23% and 47% in recent years, while their own costs for providing the service have fallen about 27%. Ofcom said it is also looking at measures to help people shop around for better deals with more confidence. 15 20

(Source: adapted from 'BT to slash landline charges for 1m customers', Mark Sweney, Copyright Guardian News & Media Ltd 2017 <https://www.theguardian.com/business/2017/oct/26/bt-to-slash-landline-charges-for-1m-customers>)



(5)



SECTION A

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You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** Statement 1: Since Poland joined the European Union (EU) in 2004, over one million of its workforce have migrated to other countries in the EU.

Statement 2: Many engineers have left Poland for higher paid jobs in other countries in the EU.

(Source: <https://www.forbes.com/sites/freylindsay/2019/08/09/polands-emigration-rate-is-falling-but-people-are-still-worried-about-the-brain-drain-bogeyman/#9550525792e6>)

- (a) Which **one** of the following best describes the two statements above?

(1)

	Statement 1	Statement 2
☐ A	Normative	Normative
☐ B	Normative	Positive
☐ C	Positive	Normative
☐ D	Positive	Positive



(4)

26

SECTION A

Read Figures 1 and 2 and the following extracts (A and B) before answering Question 1.

Answer ALL Questions 1(a) to 1(c), and EITHER Question 1(d) OR 1(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 1**The UK economy**

Figure 1: UK gas prices in pence per therm, August 2002 to August 2022

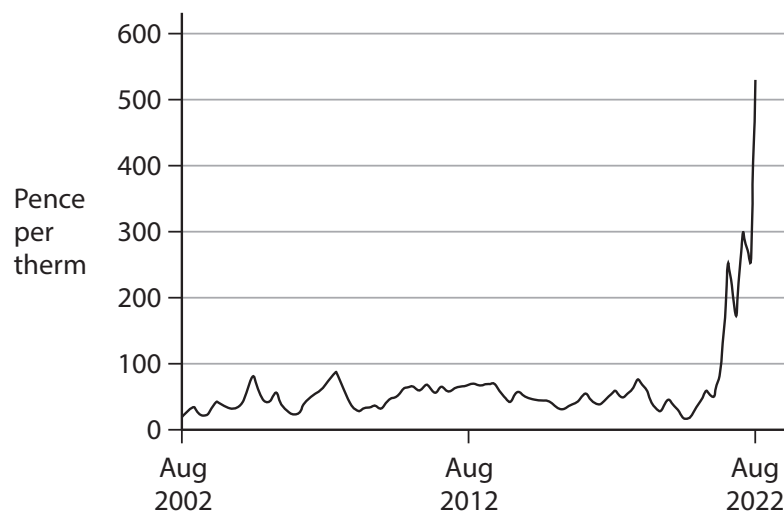
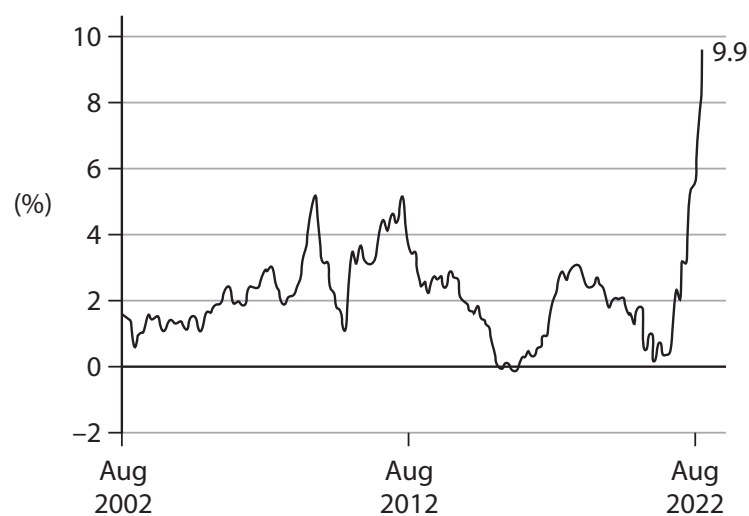


Figure 2: UK inflation, CPI, August 2002 to August 2022



Extract A**Fiscal policy changes in the UK, Autumn 2022**

After many changes in policy, people earning above £150 000 will now no longer benefit from the tax cut in the September 2022 mini-budget, which proposed the removal of the 45% tax band. The proposed change in the main 20% standard rate of income tax moving to 19% has been postponed.

5

In April 2022, a 1.25% rise in national insurance contributions was implemented, labelled as a health and social care levy. It was cancelled in Autumn 2022. Britain's poorest households would have lost £7.56 a year from the national insurance rise. The richest 10% of households, earning an average of £108 000, would have lost £1 800.

Another measure in the Truss Government's £30 billion tax cut proposals that would have benefitted the rich, was the removal of the 2023 planned rise in corporation tax from 19% to 25%. The former chancellor wanted to cut the tax to 15% but this was the wrong time to do this. The former chancellor also removed the 2014 cap on bankers' bonuses, clearly an unfair decision at the time when public sector workers were told to accept pay caps to keep inflation under control.

10

15

The reflationary fiscal policy triggered warnings that the Monetary Policy Committee of the Bank of England would raise interest rates further – having already raised them from 0.1% in 2021 to 2.25% in September 2022. This meant an end to the fiscal rules set by the government in the recent past: debt to be falling as a share of national income by 2024 and no borrowing for day-to-day spending.

20

(Source: adapted from 'Tax cuts benefit high income earners the most' R Merrick The Independent: 19 September 2022 and FT Source: adapted from Sebastian Payne and Chris Giles in London 29 August 2022)

Extract B**Inequality to rise in the UK**

The rising cost of living is expected to affect low-income families the most. Inflation in Autumn 2022 is expected to hit 14% for families in the poorest tenth of the income distribution, compared with 8% for families in the richest tenth, driven in large part by rising energy costs and food prices. Around half of the food consumed in the UK is imported, and the 20% fall in the value of the pound in 2022 has affected lower income groups more because food is a higher proportion of their spending. The government's decision to freeze benefits, rather than allowing them to rise in line with current inflation, means that the support provided is a real terms cut for families currently receiving high levels of benefits. A two-year freeze on energy price caps will now only last until April 2023, which would have kept the average energy bill at £2 500 rather than £3 500.

5

10

(Source: adapted from IFS Report: Living standards, poverty and inequality in the UK: July 2022 and <https://www.ft.com/content/6de5b52e-64c8-4997-8939-e1c59172daa7?shareType=nongift>)

(5)



SUB-TOPIC 1.1.3

THE ECONOMIC PROBLEM

Sub-topic 1.1.3 · 12 questions · 36 marks · lowest tariff first



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

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You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** Scarcity of non-renewable resources, such as oil, is a key reason why alternative resources have been developed by economies. In recent years, within the energy market there has been a large increase in the production of wind power.

(b) Which **one** of the following best describes 'scarcity'?

(1)

- ☐ **A** An extension of the demand curve
- ☐ **B** Excess supply
- ☐ **C** Insufficient resources to satisfy wants
- ☐ **D** The misallocation of resources

(Total for Question 1 = 4 marks)

(Total for Question 1(b) = 1 mark)



- 2** Vanilla bean prices increased to a record \$600 a kilogramme in 2018 after a cyclone hit the tropical island of Madagascar, damaging crops. Madagascar supplies 75% to 80% of the world vanilla bean market.

(a) Define the term 'supply.'

(1)

(Total for Question 2(a) = 1 mark)



SECTION A

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Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** (a) Spending on capital goods in the UK rose by 4.8% in Quarter 4, 2022.

Which **one** of the following is an example of a capital good?

(1)

- ☐ **A** A computer
- ☐ **B** Savings in the bank
- ☐ **C** Shares in a company
- ☐ **D** Underground reserves of oil

(Total for Question 1(a) = 1 mark)



- 2** Vanilla bean prices increased to a record \$600 a kilogramme in 2018 after a cyclone hit the tropical island of Madagascar, damaging crops. Madagascar supplies 75% to 80% of the world vanilla bean market.

(c) Annotate the diagram below to show the effect of the cyclone on the price of vanilla beans.

(2)

(Total for Question 2(c) = 2 marks)



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You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

(b) Using an example from your own knowledge, explain the distinction between renewable and non-renewable resources.

(3)

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(Total for Question 1(b) = 3 marks)

SECTION B

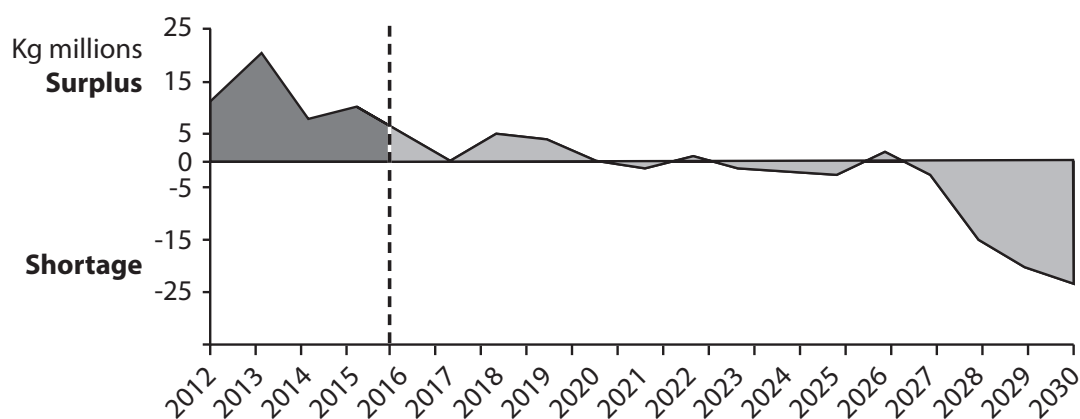
Read Figure 1 and the following extracts (A to C) before answering Question 6.

Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour 5 minutes on this section.

Question 6**Energy markets**

Figure 1: Annual surplus or shortage of uranium, measured in millions of kilograms



Figures from 2016 are forecast

(Source: adapted from <http://www.telegraph.co.uk/business/2016/11/20/uranium-the-unloved-metal-whose-price-is-poised-to-go-radioactiv/>)



Extract A**Uranium: the unloved metal**

Uranium is a fuel source for nuclear energy production. The price of uranium has fallen to a 13-year low. Uranium is a relatively common metal but locating it in the right concentrations can be difficult. Australia has the biggest known resource of uranium, followed by Kazakhstan. Kazakhstan's production has increased significantly since 2007, accounting for a large proportion of the surplus of this metal. Given the large stockpiles of uranium some firms have ceased production. 5

The biggest impact on the uranium market has been the devastating accident at the nuclear power station in Fukushima, Japan, in 2011. The accident caused a leak of radiation. The accident reduced confidence in the entire nuclear industry, as high doses of radiation leaks increase the risk of cancer. In addition the high cost of safely storing radioactive waste has delayed the building of new nuclear power stations. Japan initially closed all of its 50 nuclear power stations which reduced the demand for uranium. But it has since concluded that nuclear power must be part of its mix of energy suppliers. 10

Despite this setback in 2016 work started on a new uranium mine in Spain to meet the expected rise in demand for the metal. Uranium is a controlled material, so mining companies have to comply with many regulations before opening a new mine. When it opens in 2018, this will be the only uranium mine in Europe, producing 2.2 million kilos a year. It has been in development for more than a decade. 15

Most developed countries, with the notable exception of Germany, have concluded that nuclear power is an essential part of their energy supply. The US and UK are committed to building new nuclear power stations, the latter providing a £30 billion subsidy to build a new nuclear plant at Hinkley Point. China is also building a further 60 nuclear power stations. 20

Supporters of nuclear power say it provides a reliable source of energy at a time when the world's population is increasing, unlike solar power and wind power which both vary with the weather. In addition they argue that no country can significantly reduce carbon emissions, which are causing climate change, without nuclear. France and the UK have committed themselves to shut down all coal-fired power stations by 2025. So demand for uranium over the next two decades seems guaranteed. 25 30

(Source: adapted from Uranium: the unloved metal whose price is poised to go radioactive, Jon Yeomans, The Telegraph, 20 November 2016
<http://www.telegraph.co.uk/business/2016/11/20/uranium-the-unloved-metal-whose-price-is-poised-to-go-radioactiv/>)



Extract B**Irrational consumers pay the price**

The UK Government has announced that it might introduce maximum price controls on energy used by households.

The UK's largest energy suppliers are braced for what could be the industry's most significant government intervention following a decade of rising energy bills and low numbers of consumers switching between energy providers. 5

The Prime Minister promised to intervene because the energy market is "manifestly not working" for consumers. Energy prices have risen by 158% in the last 15 years, and four million households, especially those on low incomes, are still on the most expensive energy rates. 10

Some energy analysts have warned the Government against taking a highly interventionist approach that could undermine the energy market and leave customers paying higher prices in the future.

(Source: adapted from <http://www.telegraph.co.uk/business/2017/03/22/governments-pledge-cut-energy-prices-risks-leaving-consumers/>)

Extract C**The economics of climate change**

Rising carbon dioxide emissions result from the increase in the use of coal, gas and oil in transport and for energy production. In addition, deforestation, food production and processing methods make the problem worse. These carbon emissions are causing a rise in global average temperatures, known as climate change. Climate change could cause hundreds of millions of people to suffer hunger, water shortages and coastal flooding. 5

Three elements of policy are required for an effective global response to reduce carbon emissions. The first is the pricing of carbon, implemented through tax, trading pollution permits or regulation. The second policy is to support innovation and the deployment of low-carbon technologies. And the third is action to remove barriers to energy efficiency, and to inform, educate and persuade individuals about what they can do to respond to climate change. 10

(Source: adapted from www.sternreview.org.uk/)



(4)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 Scarcity of non-renewable resources, such as oil, is a key reason why alternative resources have been developed by economies. In recent years, within the energy market there has been a large increase in the production of wind power.

- (a) With reference to the information provided, explain the distinction between renewable and non-renewable resources.

(3)

- (b) Which **one** of the following best describes 'scarcity'?

(1)

- ☒ **A** An extension of the demand curve
- ☐ **B** Excess supply
- ☐ **C** Insufficient resources to satisfy wants
- ☐ **D** The misallocation of resources

(Total for Question 1 = 4 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** (a) Spending on capital goods in the UK rose by 4.8% in Quarter 4, 2022.

Which **one** of the following is an example of a capital good?

(1)

- ☐ **A** A computer
- ☐ **B** Savings in the bank
- ☐ **C** Shares in a company
- ☐ **D** Underground reserves of oil

- (b) Using an example from your own knowledge, explain the distinction between renewable and non-renewable resources.

(3)

(Total for Question 1 = 4 marks)



SECTION B

Read Figures 2, 3 and the following extracts (D to F) before answering Question 2.

Answer ALL Questions 2(a) to 2(c), and EITHER Question 2(d) OR 2(e).

Write your answers in the spaces provided.

You are advised to spend 1 hour on this section.

Question 2

Mozambique

Figure 2: Interest rates (bank rate of the central bank) and inflation rates of selected African countries, 2017

Selected country	Central bank rate of interest	Inflation rate (CPI measure)
Congo (D.R.)	14%	13.8%
Ghana	21%	9.1%
Kenya	10%	10.1%
Malawi	18%	21.4%
Mozambique	21.75%	18.0%
Nigeria	14%	21.1%

(Source: official government websites, and other news sources, July 2017)

Extract D

Rising debt levels in Africa

Increases in national debt have brought several African governments towards a debt-servicing crisis when the repayment of debt and interest become unsustainable. Between 2010 and 2015, many sub-Saharan countries raised debt totalling more than £20 billion. Back then, with commodity prices soaring and foreign loans available at very low interest rates, everyone agreed that borrowing was the way to grow an economy with expansionary fiscal policy. Since 2015, some African governments – beneficiaries of big debt write-offs at the start of the century – have taken to private debt markets too eagerly, leaving them with heavy repayment schedules at a time of lower commodity prices.

Until recently, the International Monetary Fund (IMF) has played down African debt concerns, pointing to better management of public resources and greater transparency. But it was shaken by Mozambique's default on more than £2 billion of secret loans used to purchase a non-existent tuna-fishing fleet, raising fears of hidden debt in other African countries with similar levels of corruption. The median level of debt in sub-Saharan Africa had risen sharply from 34% of gross domestic product in 2013 to 48% in 2017. Although that is low by international standards, analysts said debt burdens were heavier than they appeared because of most African countries' low tax base. "The real thing to look for is debt to revenue, or debt-service as a percentage of government spending," said John Ashbourne, Africa Economist at Capital Economics. In several countries, he said, debt payments were above 20% of government revenue, with an opportunity cost in terms of government spending.

(Source: adapted from African debt worries intensify as levels near tipping point by David Pilling © Financial Times 2017 <https://www.ft.com/content/939808dc-b4d8-11e7-a398-73d59db9e399>)



Extract E**Mozambique's economic stability is being put to the test**

The economy of Mozambique, which gained independence from Portugal in 1975, has continued to under-perform. Large-scale emigration, especially of skilled workers, economic dependence on South Africa, a severe drought, a prolonged civil war and political tensions have hindered the country's development. More than half of Mozambique's 26 million people continue to live below the poverty line. 5

GDP growth declined to 3.6% in 2016 due to fiscal tightening and a slowdown in foreign direct investment. A weak manufacturing sector employs just 3.2% of the population, and is made up of small enterprises (90%), many of which were set up with the aid of microfinance. Traditional export earnings dropped due to depressed global demand. 10
In addition a wide-scale drought seriously affected agricultural production. Foreign currency inflows have weakened – as large-scale gas projects were put on hold, and 14 external lenders suspended direct budget support, as a lesson to be learned from the tuna-fleet scandal. The state budget deficit was 10.7% of GDP in 2017. High interest rates have reduced aggregate demand, and import costs added to inflation following further depreciation of Mozambique's currency, the *metical*, to a new low of 100 meticals to £1. 15

Mozambique needs urgently to improve its investment environment and confidence in its institutions. The World Economic Forum's global competitiveness ranking placed Mozambique 136 out of 137 countries.

Longer term, Mozambique's economic prospects are promising. There has been progress in talks on restoring international confidence in the government's running of the economy, leading to a lasting and sustainable agreement between rival political groups. The development of gas fields off Mozambique's coast discovered in 2011 is set to transform the economy, coming into production in the 2020s. A rise in coal and electricity exports should help growth to increase. But in the short term, it remains uncertain whether Mozambique can deliver badly needed economic stability. 20
25

(Source: adapted from <http://www.africaneconomicoutlook.org/en/country-notes/mozambique> and <https://www.chathamhouse.org/expert/comment/mozambique-s-stability-being-put-test> 6 October 2017 Dr Alex Vines OBE)



(5)



SECTION B

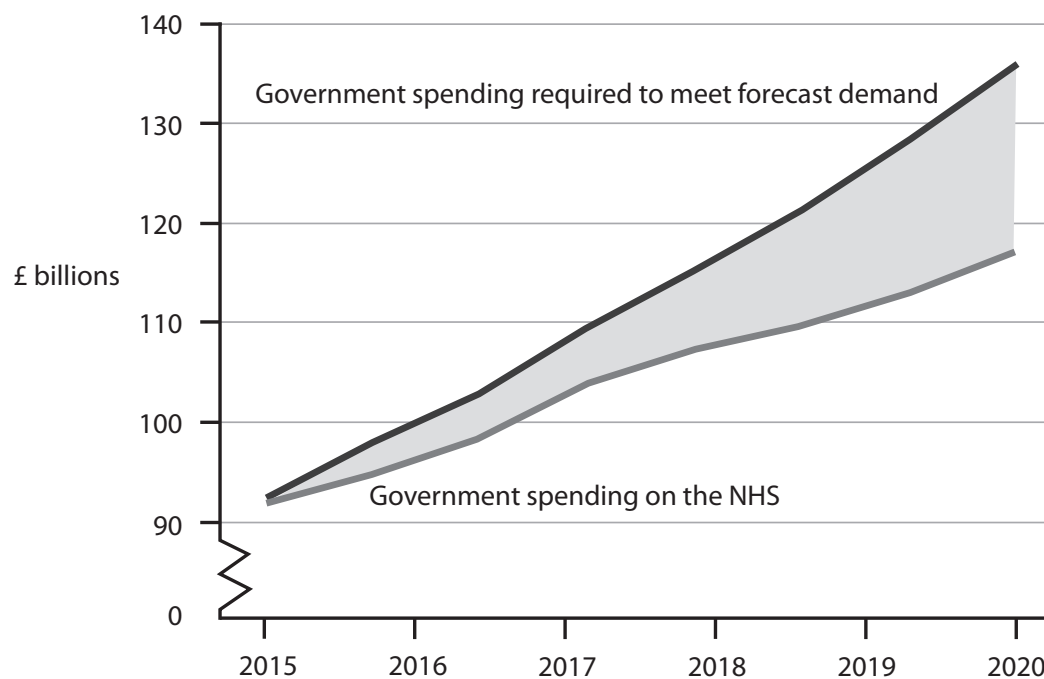
Read Figure 1 and 2 and the following extracts (A to C) before answering Question 6.

Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour 5 minutes on this section.

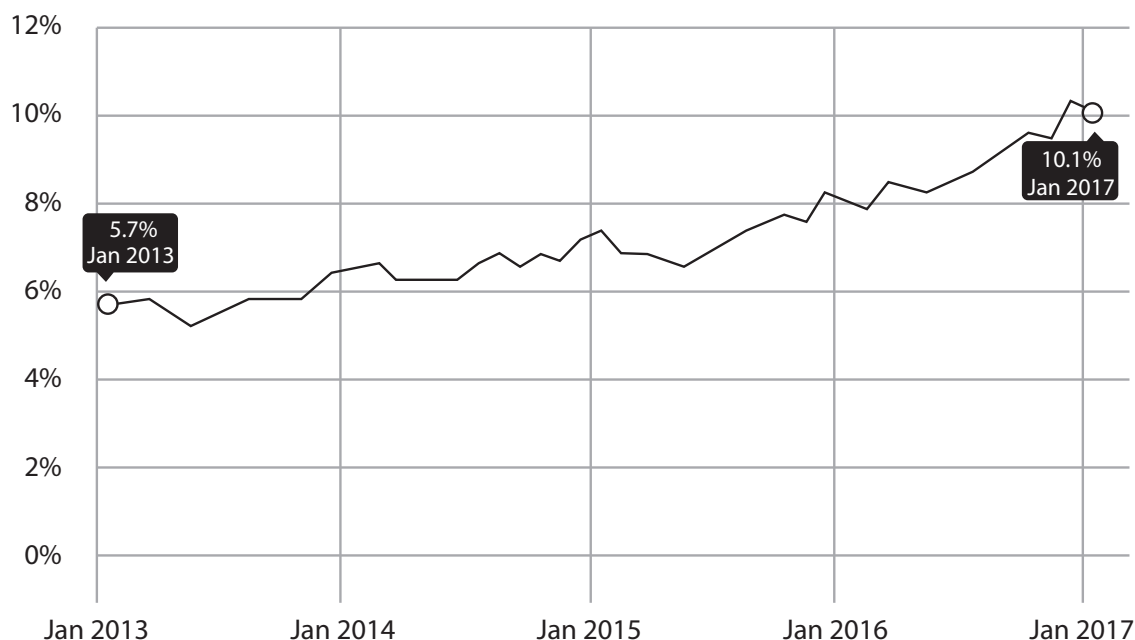
Question 6**Health provision**

Figure 1: National Health Service (NHS) in England: Government spending and projected funding gap, £ billions, 2015 to 2020



(Source: <https://www.economist.com/news/britain/21706563-nhs-mess-reformers-believe-new-models-health-care-many-pioneered>)

Figure 2: Percentage of NHS patients in England waiting over 18 weeks for non-emergency treatment



(Source: <https://www.statista.com/chart/8813/more-and-more-people-made-to-wait-by-the-nhs/>)

Extract A

Hospitals already full

National Health Service (NHS) managers' warned that bed occupancy rates are approaching 99% in some parts of the country, compared with recommended levels of 85%. In 2017 the number of patients waiting for non-urgent treatment passed the four million mark, the highest figure for almost a decade.

5

The chief executive of the NHS suggested that waiting list targets for routine operations such as hip and knee replacements would have to be sacrificed in order to protect other services, including accident and emergency (A&E) and cancer care.

However, the government has insisted waiting time targets must still be met. Recently the Chancellor awarded the NHS £2.8 billion over three years, including £1.6 billion in 2018 - less than the £4 billion which NHS officials had asked for to keep up with an ageing population and new medical technologies.

10

NHS managers said there was now very little spare capacity in the system, warning of shortages of paramedics, doctors, A&E consultants and nurses.

(Source: adapted from <http://www.telegraph.co.uk/news/2017/12/07/hospitals-already-full-bursting-pressures-mount-warn-nhs-chiefs/>)



Extract B**How health care is funded**

Most countries have a mixed economy of health provision typically funded from taxation, patient fees and private health insurance.

The NHS was launched in the UK in 1948 to ensure direct state provision by the government of health care 'free at the point of use'. The NHS is mainly funded from general taxation. However, some NHS patients pay for some of their medical care, such as prescriptions to buy medicine. 5

In the ongoing debate about how best to fund the NHS, some people have proposed introducing a £12 charge for visiting a General Practitioner (GP) doctor. Proponents argue that such a charge would deter overuse of GP services by those who do not have genuine health needs. It would also raise additional money for the NHS and create incentives which will stimulate innovation and more choice. 10

Estimates suggested that a £12 charge on the 450 million visits a year to GPs could have raised enough to cover hospitals' overspend in 2016. Based on exemptions for prescriptions, 90% of patients will not be charged including the elderly, children and low income groups. There would also be administrative costs of collecting the charge and verifying exemptions. These arrangements would significantly reduce the amount a charge would generate, assuming no one paying would be dissuaded from visiting their GP. 15

The proportion of people in the UK taking out private health insurance (PHI) to pay for private health care has increased to 10.6%, despite significant increases in the prices of treatment in private hospitals. Some economists argue that the government should provide subsidies to encourage people to take out private health insurance. This would reduce the burden on the NHS by taking some people out of the state system. Furthermore it is argued that private health care increases choice for users, encourages competition and drives up standards of care. 20

A typical PHI policy for a healthy 35-year-old costs about £650 a year but this rises steeply to £2 300 for those aged 70, when claims are far more likely. The level of contribution is based on their risk of requiring health care. PHI also tends to incur high management and administrative costs due to the resources required to assess risk and claims. Also there is the possibility of market failure given asymmetric information. 25

(Source: adapted from <https://www.kingsfund.org.uk/publications/how-health-care-is-funded>)

Extract C**Public parks are a public good**

Public parks are places which people can use for free to exercise or to relax. Parkrun Limited organises free weekly runs in local parks attracting hundreds of joggers per park to enjoy healthy exercise. The government is proposing to ban local authorities charging Parkrun for the use of public parks to fund the maintenance of public parks. The government considers that it is appropriate for the public to pay a reasonable sum for the private use of a facility such as a tennis court or a football pitch which may be used exclusively. However, the government does not consider it appropriate for a local authority to charge a volunteer community group 'seeking to provide a free weekly event' for the use of a public park. Parkrun share the park with other park users. Although a running course may be marked out there is no restriction on other people using the park. 5

(Source: adapted from © Crown Copyright Running Free – Government consultation on preserving the free use of public parks, April 2017, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/608372/Parkrun_ConDoc.pdf and <http://www.telegraph.co.uk/news/2017/04/14/councils-banned-charging-runners-take-part-regular-saturday/>)



(5)



SUB-TOPIC 1.1.4

PRODUCTION POSSIBILITY FRONTIERS

Sub-topic 1.1.4 · 14 questions · 34 marks · lowest tariff first



- 5** During the global health crisis, 11.7 million jobs were furloughed, costing the UK Government £70 billion. This meant people were paid by the government 80% of their wages even though they did not work. Some private sector employers continued to pay the remaining 20%.

(Source: adapted from <https://commonslibrary.parliament.uk/examining-the-end-of-the-furlough-scheme>)

- (b) The diagram shows the production possibility frontier of an economy. Assuming the economy is at point W, annotate the diagram to show the opportunity cost of producing more consumer goods.

(1)

(Total for Question 5(b) = 1 mark)



- 2 Vanilla bean prices increased to a record \$600 a kilogramme in 2018 after a cyclone hit the tropical island of Madagascar, damaging crops. Madagascar supplies 75% to 80% of the world vanilla bean market.

(a) Define the term 'supply.'

(1)

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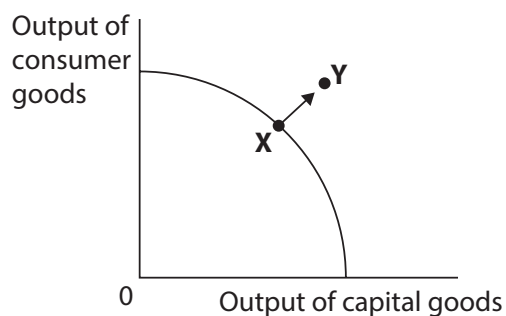
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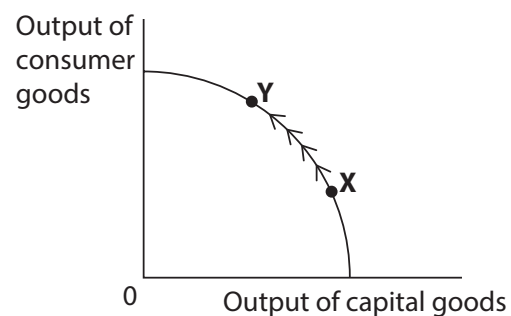
- (b) The diagrams below show movements from position X to Y on production possibility frontiers. In which **one** of the diagrams does the movement from X to Y illustrate the most likely impact on Madagascar's economy of a natural disaster such as a cyclone?

(1)

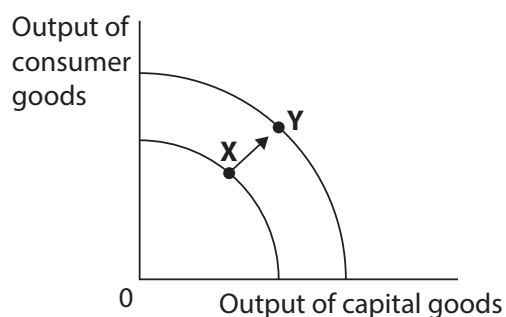
☐ A



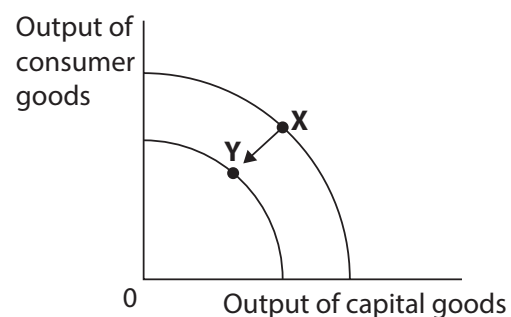
☐ B



☐ C



☐ D



SECTION A

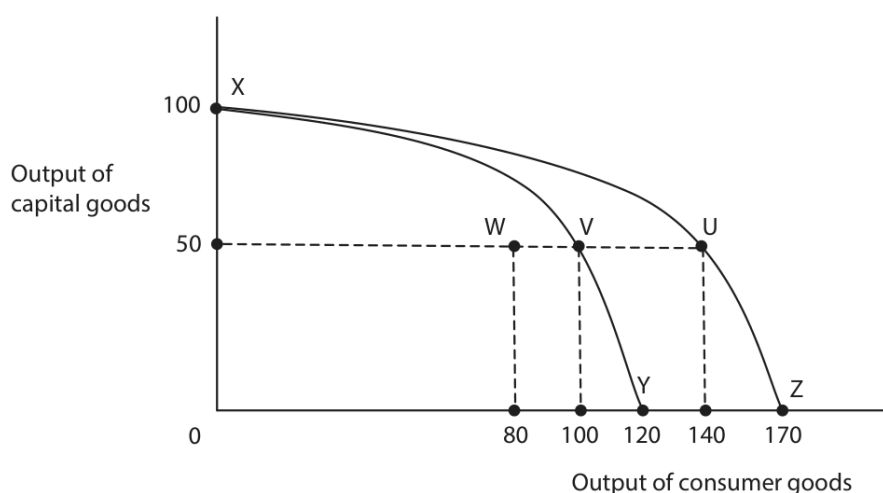
Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 The diagram refers to production possibility frontiers for a country that produces capital goods and consumer goods.



Originally, the economy has a production possibility frontier shown by the line **XY**, operating at point **V**. The production possibility frontier then moves to **XZ**, operating at point **U**.

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- (b) Which **one** of the following was the most likely cause of the movement in the production possibility frontier from **XY** to **XZ**?

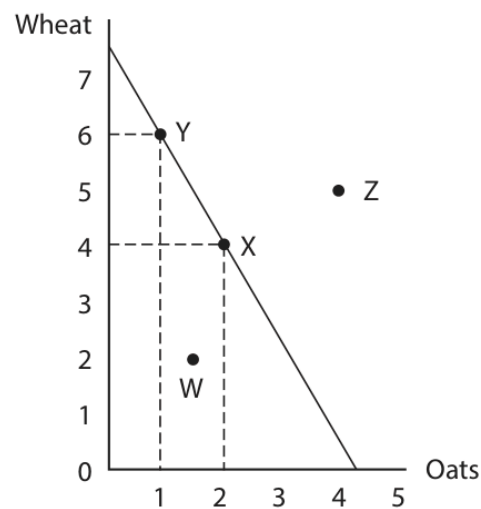
(1)

- ☐ **A** A reduction in unemployment in consumer goods industries
- ☐ **B** A rise in the cost of producing consumer goods
- ☐ **C** An increase in demand for consumer goods
- ☐ **D** A technological improvement in the production of consumer goods

(Total for Question 1(b) = 1 mark)



2 The production possibility frontier shows last year's harvest for a UK farmer at point X.



(c) Which **one** of the following would be most likely to help the farmer reach point Z?

An increase in

(1)

- ☐ A investment in milk production machinery
- ☐ B investment in modern farming technology
- ☐ C the demand for wheat
- ☐ D the price of oats

(Total for Question 2(c) = 1 mark)



SECTION A

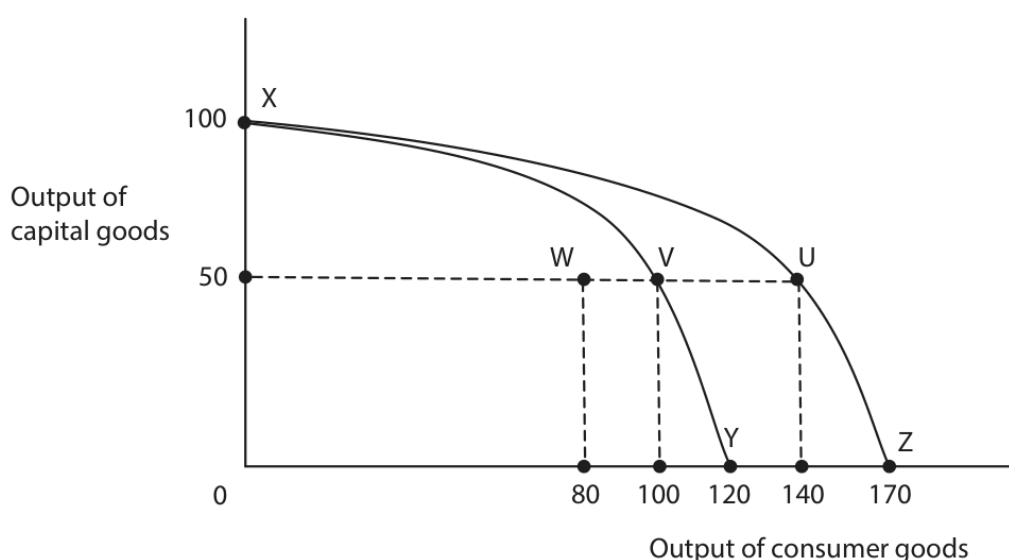
Answer ALL questions. Write your answers in the spaces provided.

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You are advised to spend 30 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 The diagram refers to production possibility frontiers for a country that produces capital goods and consumer goods.



Originally, the economy has a production possibility frontier shown by the line **XY**, operating at point **V**. The production possibility frontier then moves to **XZ**, operating at point **U**.

- (a) Calculate the **original** and the **new** opportunity cost of producing 50 capital goods. You are advised to show your working.

(2)

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(Total for Question 1(a) = 2 marks)



SECTION A

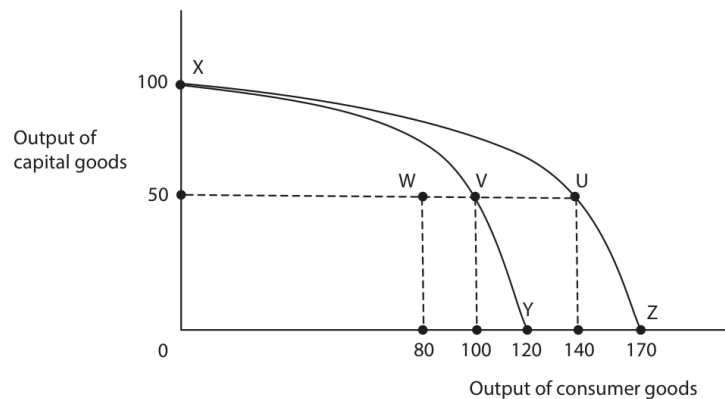
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Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

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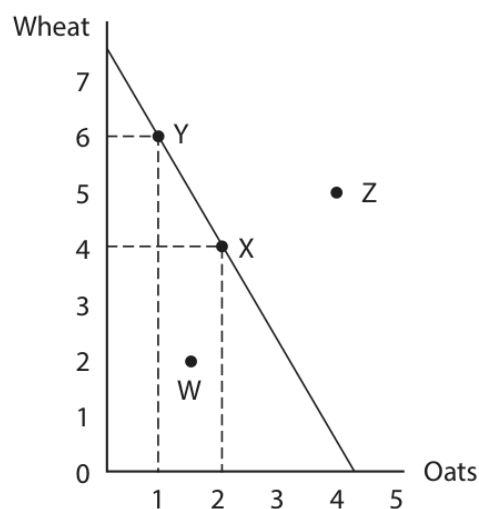
- (c) Explain **one** characteristic of the economy at position **W**.

(2)

(Total for Question 1(c) = 2 marks)



- 2 The production possibility frontier shows last year's harvest for a UK farmer at point X.



- (a) Calculate the opportunity cost of the decision by the farmer to harvest 6 units of wheat this year at point Y (movement from point X to point Y).

(2)

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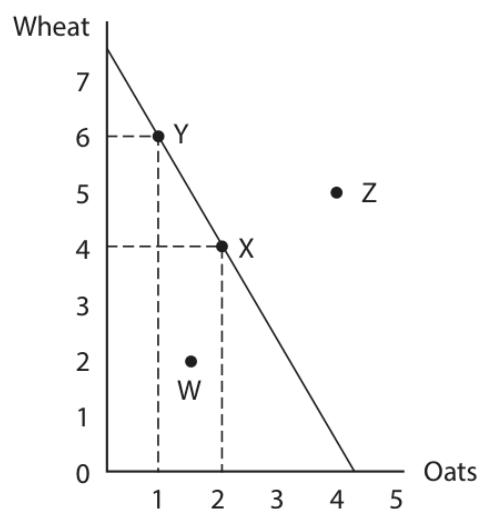
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(Total for Question 2(a) = 2 marks)



2 The production possibility frontier shows last year's harvest for a UK farmer at point X.



(b) Explain the impact on efficiency of producing at point W in the following year.

(2)

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(Total for Question 2(b) = 2 marks)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 The production possibility frontier for an economy is shown in the table below.

Capital goods output (million units)	Consumer goods output (million units)	Opportunity cost
0	42	–
10	40	
20	36	
30	30	
40	22	
50	12	
60	0	

(a) Explain, using marginal analysis from the table above, the concept of opportunity cost. (You may use the last column in answering the question.)

(3)

(Total for Question 1(a) = 3 marks)

SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

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0	42	–
10	40	
20	36	
30	30	
40	22	
50	12	
60	0	

(a) Explain, using marginal analysis from the table above, the concept of opportunity cost. (You may use the last column in answering the question.)

(3)

(b) Which **one** of the following is the most likely effect of an economy producing more capital goods?

(1)

- ☐ **A** Reduced specialisation of labour
- ☐ **B** A shift in the production possibility frontier
- ☐ **C** A reduction in marginal utility
- ☐ **D** A shift in demand for consumer goods

(Total for Question 1 = 4 marks)



- 2 Vanilla bean prices increased to a record \$600 a kilogramme in 2018 after a cyclone hit the tropical island of Madagascar, damaging crops. Madagascar supplies 75% to 80% of the world vanilla bean market.

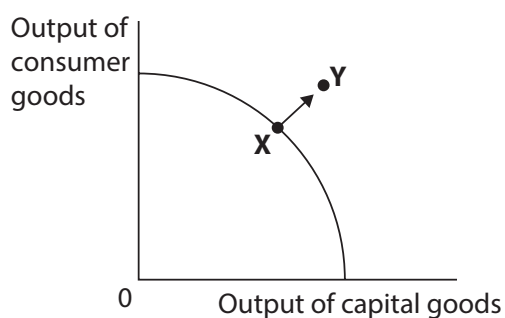
(a) Define the term 'supply.'

(1)

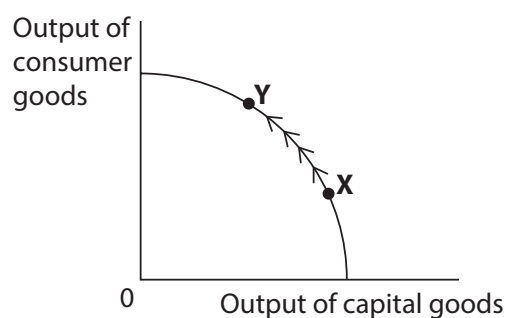
- (b) The diagrams below show movements from position X to Y on production possibility frontiers. In which **one** of the diagrams does the movement from X to Y illustrate the most likely impact on Madagascar's economy of a natural disaster such as a cyclone?

(1)

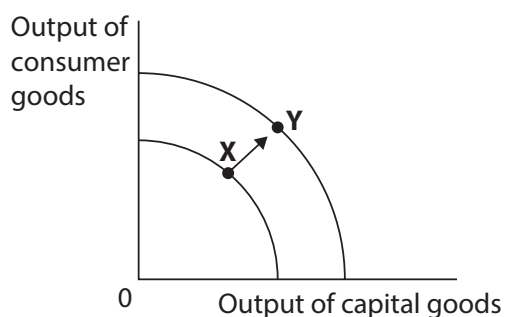
☐ A



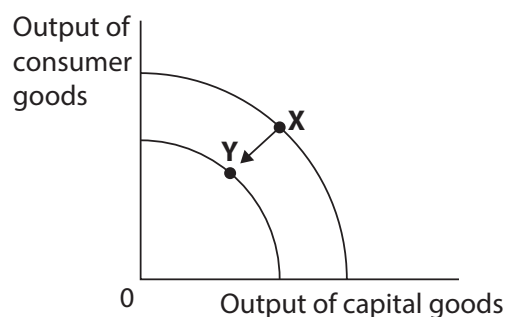
☐ B



☐ C

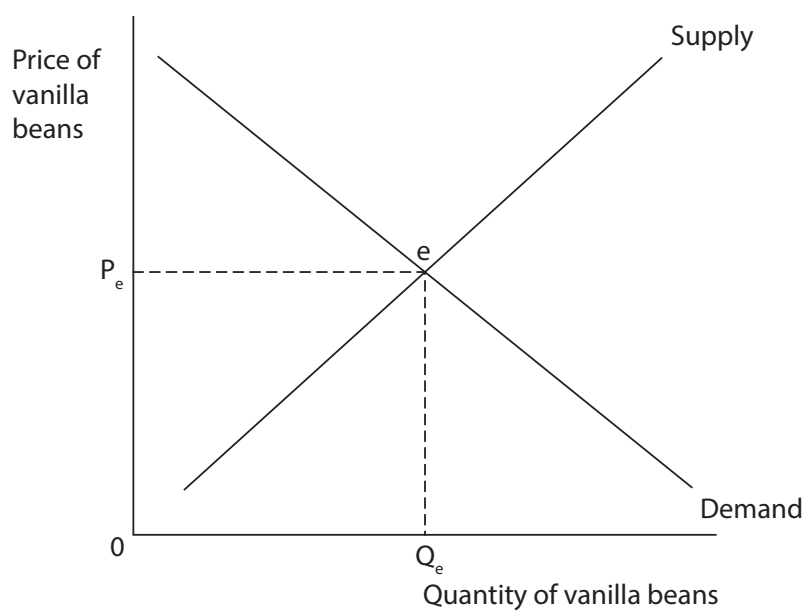


☐ D



- (c) Annotate the diagram below to show the effect of the cyclone on the price of vanilla beans.

(2)



(Total for Question 2 = 4 marks)

SECTION A

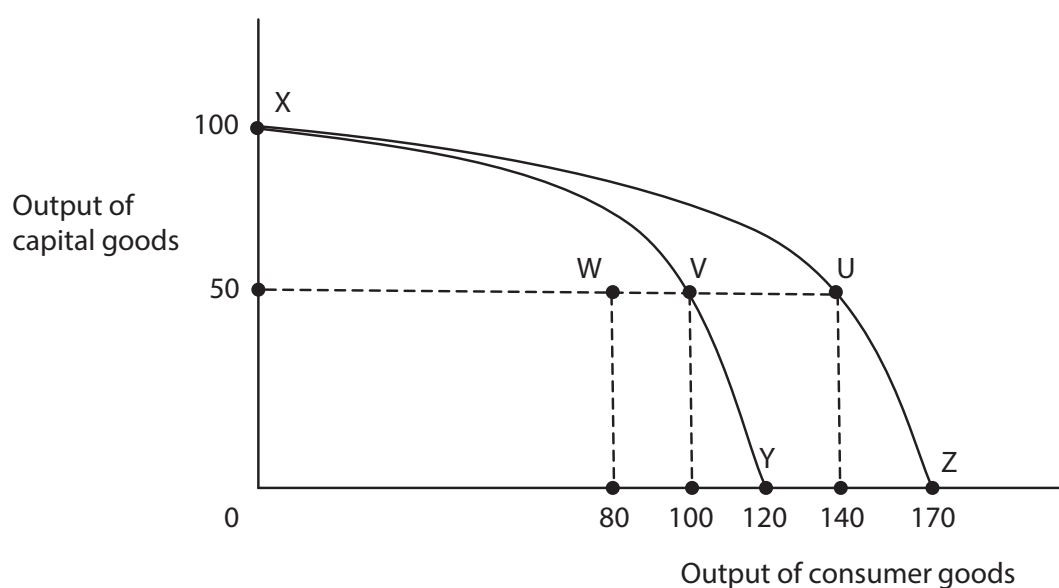
Answer ALL questions. Write your answers in the spaces provided.

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Originally, the economy has a production possibility frontier shown by the line **XY**, operating at point **V**. The production possibility frontier then moves to **XZ**, operating at point **U**.

- (a) Calculate the **original** and the **new** opportunity cost of producing 50 capital goods. You are advised to show your working.

(2)

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(b) Which **one** of the following was the most likely cause of the movement in the production possibility frontier from **XY** to **XZ**?

(1)

- ☐ **A** A reduction in unemployment in consumer goods industries
- ☐ **B** A rise in the cost of producing consumer goods
- ☐ **C** An increase in demand for consumer goods
- ☐ **D** A technological improvement in the production of consumer goods

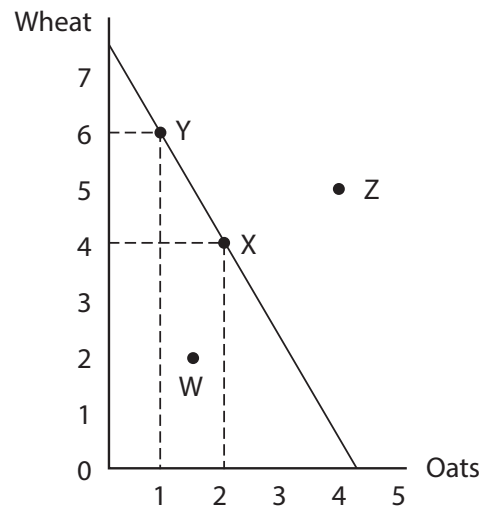
(c) Explain **one** characteristic of the economy at position **W**.

(2)

(Total for Question 1 = 5 marks)



- 2 The production possibility frontier shows last year's harvest for a UK farmer at point X.



- (a) Calculate the opportunity cost of the decision by the farmer to harvest 6 units of wheat this year at point Y (movement from point X to point Y).

(2)

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- (b) Explain the impact on efficiency of producing at point W in the following year.

(2)

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(c) Which **one** of the following would be most likely to help the farmer reach point Z?

An increase in

(1)

- ☐ **A** investment in milk production machinery
- ☐ **B** investment in modern farming technology
- ☐ **C** the demand for wheat
- ☐ **D** the price of oats

(Total for Question 2 = 5 marks)

SUB-TOPIC 1.1.5

SPECIALISATION AND THE DIVISION OF LABOUR

Sub-topic 1.1.5 · 14 questions · 48 marks · lowest tariff first



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** (a) Which **one** of the following is the most likely consequence of an increase in the division of labour in the production of smartphones?

(1)

- ☐ **A** Decrease in boredom for smartphone workers
- ☐ **B** Decrease in use of specialised manufacturing equipment
- ☐ **C** Decrease in the cost per unit of smartphones
- ☐ **D** Increase in training costs per worker

(Total for Question 1(a) = 1 mark)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** Henry Ford designed his first moving assembly line in 1913, and revolutionised the car production process of the Ford Model T. This assembly line, at the first Ford factory, became the benchmark for mass production methods around the world.

(Source: adapted from <https://www.ford.co.uk/experience-ford/history-and-heritage>)

- (a) The benefits of specialisation and division of labour are mostly associated with:

(1)

- ☐ **A** Adam Smith
- ☐ **B** Friedrich Hayek
- ☐ **C** John Maynard Keynes
- ☐ **D** Karl Marx

(Total for Question 1(a) = 1 mark)



- 3** The world's first cryptocurrency, Bitcoin is stored and exchanged securely on the internet through a digital ledger known as a blockchain. Bitcoins are divisible into smaller units known as satoshis.

(Source: <https://www.coinbase.com/price/bitcoin>)

- (a) Which **one** of the following would be most likely to cause a country's currency to no longer be acceptable as a medium of exchange?

(1)

- ☐ **A** It becomes harder to counterfeit
- ☐ **B** It becomes unlimited in supply
- ☐ **C** It is issued in smaller denominations
- ☐ **D** It is more long lasting

(Total for Question 3(a) = 1 mark)



- 3** Disruption in the supply chains of essential goods and shortages of key medical products during the global health crisis have highlighted the links between countries and renewed the debate on the advantages and disadvantages of specialisation.

(Source: adapted from <https://commonslibrary.parliament.uk/research-briefings/cbp-8978/>)

(a) Define the term 'specialisation'.

(1)

(Total for Question 3(a) = 1 mark)



- 3** Disruption in the supply chains of essential goods and shortages of key medical products during the global health crisis have highlighted the links between countries and renewed the debate on the advantages and disadvantages of specialisation.

(Source: adapted from <https://commonslibrary.parliament.uk/research-briefings/cbp-8978/>)

- (c) Explain **one** likely advantage of specialising in the production of goods to trade.

(2)

(Total for Question 3(c) = 2 marks)



5 Free market economics is being challenged. The arguments for and against are being increasingly discussed within many countries.

(c) Explain **one** advantage to a firm of using division of labour when organising its production process.

(2)

(Total for Question 5(c) = 2 marks)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☐. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☐.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- (b) Explain what function money has in improving specialisation in the production of smartphones.

(3)

(Total for Question 1(b) = 3 marks)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

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Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

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(Source: adapted from <https://www.ford.co.uk/experience-ford/history-and-heritage>)

- (b) Explain **one** advantage of the division of labour in car production.

(3)

(Total for Question 1(b) = 3 marks)



- 3** The world's first cryptocurrency, Bitcoin is stored and exchanged securely on the internet through a digital ledger known as a blockchain. Bitcoins are divisible into smaller units known as satoshis.

(Source: <https://www.coinbase.com/price/bitcoin>)

- (b) Explain how Bitcoin fulfils **one** function of money, apart from as a medium of exchange.

(3)

(Total for Question 3(b) = 3 marks)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☐. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☐.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1 (a) Which **one** of the following is the most likely consequence of an increase in the division of labour in the production of smartphones?

(1)

- ☐ **A** Decrease in boredom for smartphone workers
- ☐ **B** Decrease in use of specialised manufacturing equipment
- ☐ **C** Decrease in the cost per unit of smartphones
- ☐ **D** Increase in training costs per worker

- (b) Explain what function money has in improving specialisation in the production of smartphones.

(3)

(Total for Question 1 = 4 marks)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

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- 1 Henry Ford designed his first moving assembly line in 1913, and revolutionised the car production process of the Ford Model T. This assembly line, at the first Ford factory, became the benchmark for mass production methods around the world.

(Source: adapted from <https://www.ford.co.uk/experience-ford/history-and-heritage>)

- (a) The benefits of specialisation and division of labour are mostly associated with:

(1)

- ☐ A Adam Smith
- ☐ B Friedrich Hayek
- ☐ C John Maynard Keynes
- ☐ D Karl Marx

- (b) Explain **one** advantage of the division of labour in car production.

(3)

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(Total for Question 1 = 4 marks)



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(Source: <https://www.coinbase.com/price/bitcoin>)

(a) Which **one** of the following would be most likely to cause a country's currency to no longer be acceptable as a medium of exchange?

(1)

- ☐ **A** It becomes harder to counterfeit
- ☐ **B** It becomes unlimited in supply
- ☐ **C** It is issued in smaller denominations
- ☐ **D** It is more long lasting

(b) Explain how Bitcoin fulfils **one** function of money, apart from as a medium of exchange.

(3)

(Total for Question 3 = 4 marks)



- 3** Disruption in the supply chains of essential goods and shortages of key medical products during the global health crisis have highlighted the links between countries and renewed the debate on the advantages and disadvantages of specialisation.

(Source: adapted from <https://commonslibrary.parliament.uk/research-briefings/cbp-8978/>)

- (a) Define the term 'specialisation'.

(1)

- (b) Which **one** of the following is a positive economic statement?

(1)

- ☐ **A** Disruption to global supply chains will reduce the level of trade
- ☐ **B** Supply chain disruption is the most important issue facing governments
- ☐ **C** The free market leads to the best allocation of resources
- ☐ **D** The government ought to increase healthcare spending

- (c) Explain **one** likely advantage of specialising in the production of goods to trade.

(2)

(Total for Question 3 = 4 marks)



SECTION B

Read Extracts A and B and Figure 1 before answering Question 6.

Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

The market for fish

Extract A

Total allowable catches of North Sea cod halved in response to falling stocks

In 2020, new lower limits on the quantity of cod that can be caught by the UK fishing fleet came into force. These limits on the fish catch, called total allowable catches (TACs), were agreed at the annual EU fisheries negotiations.

It was the last December EU meeting attended by the UK before it left the EU. It was agreed that cod catch limits will be cut by 50% in the North Sea, while reduced limits were agreed for cod in the Celtic Sea, Irish Sea and west of Scotland. 5

However, there were increases for other types of fish, with TACs for haddock in the North Sea rising by 23% and for sole rising by 19%.

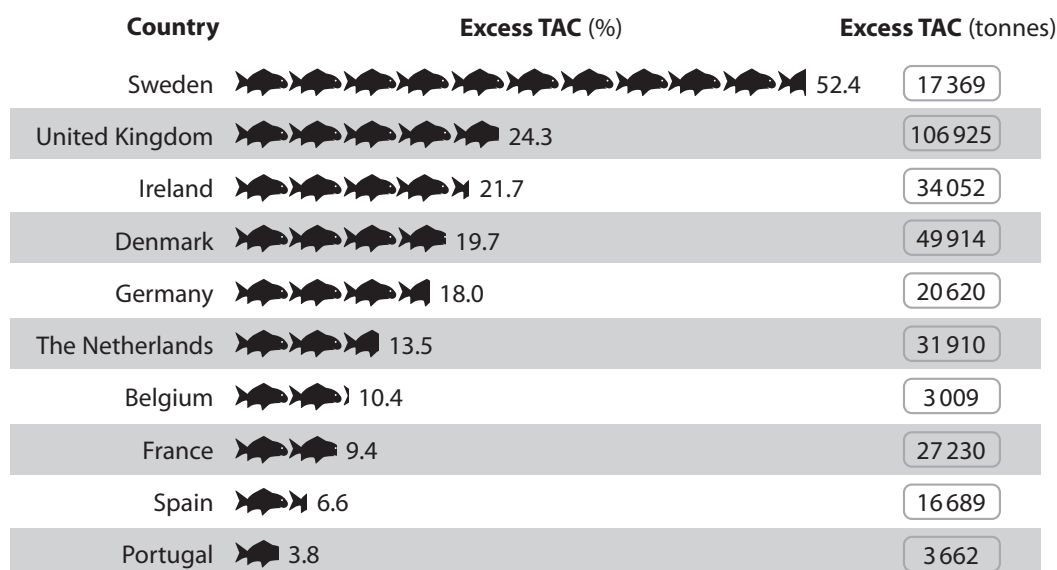
UK Fisheries Minister George Eustice said: "This year there has been mounting scientific evidence suggesting that cod is being overfished in many parts of the northeast Atlantic and we have responded to conserve stocks". 10

These new regulations applied to the UK while it remained part of the Common Fisheries Policy. In the future it will become an independent coastal state and negotiate on fisheries with the EU and other coastal states such as Norway. 15

(Source adapted from: <https://www.independent.co.uk/news/business/news/north-sea-cod-stocks-quota-climate-change-brexit-a9252196.html>)

Figure 1

Atlantic over-fishing: share of total allowable catch (TAC) in excess of scientific advice (2019)



(Source adapted from: Statista 2018)



Extract B**The tragedy of the commons**

The 'tragedy of the commons' may occur when there are common access resources (CARs). These are natural resources over which no private ownership has been established. Therefore, there are difficulties in excluding people from using or exploiting them. CARs include fisheries and common grazing lands. Oceans are so vast that it is impractical for one fishing company to establish ownership and control. This means that others cannot be prevented from exploiting the ocean. Economists have suggested that with the lack of ownership of these resources, private producers will act in their own self-interest and exploit CARs to maximise profit. This exploitation is unsustainable. In other words, CARs provide an opportunity for individuals to create profit, while creating negative externalities which impact on everybody else. This process is referred to as the 'tragedy of the commons'.

The 'tragedy of the commons' is at the core of a range of problems that are relevant and threatening to natural resources, environments and human health. In the case of overfishing, fishing companies are not made accountable for the state of the ocean. They continue to fish as much as possible to maximise profit. Today, 90% of fish stocks are depleted.

The reason for such a wide range of problems is because there is an environmental cost for everything. The 'tragedy of the commons' is the outcome of the fact that every resource is limited on this planet, coupled with the rising level of demand for these resources. These issues are large-scale and require laws, regulation and international cooperation.

(Source adapted from: <http://felixonline.co.uk/articles/2019-12-09-tragedy-commons-drama-planet-not-enjoying/>)



The UK fishing industry employs about 24 000 people, more than half of them working in Scotland.

- (e) Discuss the likely impacts on an economy of specialising in the fishing industry. Use a production possibility frontier diagram in your answer.

(15)







SUB-TOPIC 1.1.6

FREE MARKET, MIXED AND COMMAND ECONOMIES

Sub-topic 1.1.6 · 23 questions · 92 marks · lowest tariff first



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 (a) Define the term 'free market economy'.

(1)

(Total for Question 1(a) = 1 mark)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

(b) Which **one** of the following is the best example of the rationing function of the price mechanism?

(1)

- ☐ **A** An increase in demand, leading to a rise in price, will encourage new firms to enter the market
- ☐ **B** Changes in price provide information to both producers and consumers
- ☐ **C** If a product is scarce, a rise in price is likely to make the shortage worse
- ☐ **D** When there is a shortage of a product, the price will rise and discourage some consumers from buying the product

(Total for Question 1(b) = 1 mark)



4 A large number of people should be vaccinated against a new virus, so that even those who are not vaccinated will benefit.

(b) Which **one** of the following explains how market failure might occur in a free market economy?

(1)

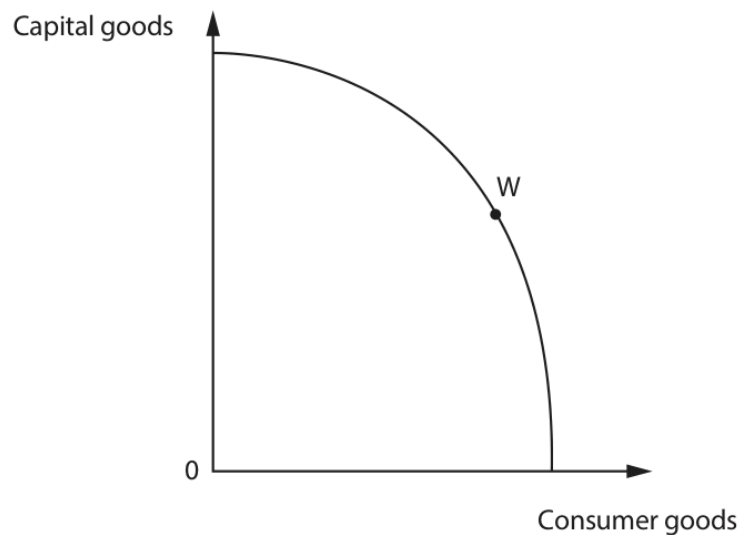
- ☐ **A** A net welfare loss results from intervention by the government
- ☐ **B** Firms enter the market in response to higher prices
- ☐ **C** Goods with positive externalities are underprovided
- ☐ **D** Prices rise when there is excess demand

(Total for Question 4(b) = 1 mark)



- 5 During the global health crisis, 11.7 million jobs were furloughed, costing the UK Government £70 billion. This meant people were paid by the government 80% of their wages even though they did not work. Some private sector employers continued to pay the remaining 20%.

(Source: adapted from <https://commonslibrary.parliament.uk/examining-the-end-of-the-furlough-scheme>)



- (c) Which **one** of the following is a likely advantage of a command economy?

(1)

- ☐ A Low levels of unemployment
- ☐ B Price acts as a signal to allocate resources
- ☐ C Price controls cause shortages of goods
- ☐ D The profit motive gives firms the incentive to be more efficient

(Total for Question 5(c) = 1 mark)

3 Singapore is mainly a free market economy.

(a) Which **one** of the following statements about a free market economy is true?

(1)

- ☐ **A** It was supported by Karl Marx
- ☐ **B** The price mechanism allocates all resources
- ☐ **C** There are no externalities
- ☐ **D** The state owns all the resources

The education system in Singapore produces some of the highest achieving students in international education rankings, with its teenagers coming top in tests in mathematics, reading and science.

(Total for Question 3(a) = 1 mark)



- 3** (a) The economy of Singapore is a highly developed free market economy with some elements of government intervention.

Define the term 'free market'.

(1)

(Total for Question 3(a) = 1 mark)



3 (a) The economy of Singapore is a highly developed free market economy with some elements of government intervention.

Define the term ‘free market’. (1)

(b) Which **one** of the following is the most likely reason why a free market fails to achieve the social optimum position? (1)

- ☐ A Public goods are provided free of charge to users
- ☐ B There is overproduction of goods with external benefits
- ☐ C There is underconsumption of goods with external benefits
- ☐ D There is underproduction of goods with external costs

(c) Explain why public goods may not be provided by the private sector. (2)

(Total for Question 3 = 4 marks)



5 Free market economics is being challenged. The arguments for and against are being increasingly discussed within many countries.

(b) Which **one** of the following statements is true?

(1)

- ☐ A Friedrich Hayek believed that the government should subsidise inefficient firms
- ☐ B Friedrich Hayek was a key advocate of command economies as a way of allocating resources
- ☐ C Karl Marx advocated allocating resources via the free market
- ☐ D Karl Marx criticised the private ownership of factors of production

Adam Smith described the benefits of specialisation and the division of labour.

(Total for Question 5(b) = 1 mark)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

**Use the data to support your answers where relevant.
You may annotate and include diagrams in your answers.**

- 1** In a major reform of its command economy, the Cuban government will allow small private businesses to operate in most fields. Free market economists have long called for the role of small business to be expanded to help jump-start the economy and to create jobs.

(Source adapted from: <https://www.telegraph.co.uk/news/2021/02/07/cuba-allows-massive-expansion-private-businesses/>)

- (b) Which **one** of the following economic thinkers supported the idea of a command economy?

(1)

- ☐ **A** Adam Smith
- ☐ **B** Friedrich Hayek
- ☐ **C** John Maynard Keynes
- ☐ **D** Karl Marx

(Total for Question 1(b) = 1 mark)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- (c) Explain **one** advantage of a free market economy compared to a command economy.

(2)

(Total for Question 1(c) = 2 marks)



- 5** During the global health crisis, 11.7 million jobs were furloughed, costing the UK Government £70 billion. This meant people were paid by the government 80% of their wages even though they did not work. Some private sector employers continued to pay the remaining 20%.

(Source: adapted from <https://commonslibrary.parliament.uk/examining-the-end-of-the-furlough-scheme>)

- (a) With reference to the above information, define the term 'mixed economy'.

(2)

(Total for Question 5(a) = 2 marks)



3 (a) The economy of Singapore is a highly developed free market economy with some elements of government intervention.

Define the term 'free market'.

(1)

(b) Which **one** of the following is the most likely reason why a free market fails to achieve the social optimum position?

(1)

- ☐ **A** Public goods are provided free of charge to users
- ☐ **B** There is overproduction of goods with external benefits
- ☐ **C** There is underconsumption of goods with external benefits
- ☐ **D** There is underproduction of goods with external costs

(c) Explain why public goods may not be provided by the private sector.

(2)

(Total for Question 3 = 4 marks)



5 Free market economics is being challenged. The arguments for and against are being increasingly discussed within many countries.

(a) Explain how resources are allocated in a free market economy.

(2)

(Total for Question 5(a) = 2 marks)



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 25 minutes on this section.

Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

- 1** (a) Define the term 'free market economy'.

(1)

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- (b) Which **one** of the following is the best example of the rationing function of the price mechanism?

(1)

- ☐ **A** An increase in demand, leading to a rise in price, will encourage new firms to enter the market
- ☐ **B** Changes in price provide information to both producers and consumers
- ☐ **C** If a product is scarce, a rise in price is likely to make the shortage worse
- ☐ **D** When there is a shortage of a product, the price will rise and discourage some consumers from buying the product



(c) Explain **one** advantage of a free market economy compared to a command economy.

(2)

(Total for Question 1 = 4 marks)



5 During the global health crisis, 11.7 million jobs were furloughed, costing the UK Government £70 billion. This meant people were paid by the government 80% of their wages even though they did not work. Some private sector employers continued to pay the remaining 20%.

(Source: adapted from <https://commonslibrary.parliament.uk/examining-the-end-of-the-furlough-scheme>)

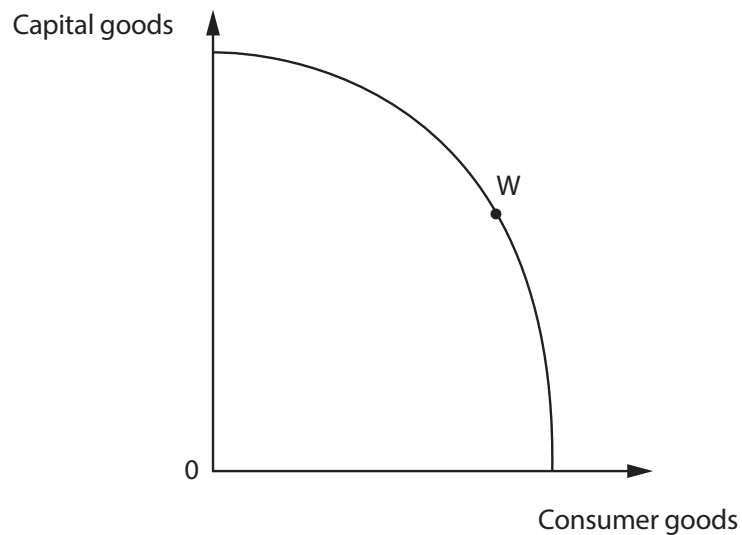
(a) With reference to the above information, define the term ‘mixed economy’.

(2)



- (b) The diagram shows the production possibility frontier of an economy. Assuming the economy is at point W, annotate the diagram to show the opportunity cost of producing more consumer goods.

(1)



- (c) Which **one** of the following is a likely advantage of a command economy?

(1)

- ☐ **A** Low levels of unemployment
- ☐ **B** Price acts as a signal to allocate resources
- ☐ **C** Price controls cause shortages of goods
- ☐ **D** The profit motive gives firms the incentive to be more efficient

(Total for Question 5 = 4 marks)

TOTAL FOR SECTION A = 20 MARKS



3 (a) The economy of Singapore is a highly developed free market economy with some elements of government intervention.

Define the term 'free market'.

(1)

(b) Which **one** of the following is the most likely reason why a free market fails to achieve the social optimum position?

(1)

- ☐ **A** Public goods are provided free of charge to users
- ☐ **B** There is overproduction of goods with external benefits
- ☐ **C** There is underconsumption of goods with external benefits
- ☐ **D** There is underproduction of goods with external costs

(c) Explain why public goods may not be provided by the private sector.

(2)

(Total for Question 3 = 4 marks)



5 Free market economics is being challenged. The arguments for and against are being increasingly discussed within many countries.

(a) Explain how resources are allocated in a free market economy.

(2)

(b) Which **one** of the following statements is true?

(1)

- ☐ A Friedrich Hayek believed that the government should subsidise inefficient firms
- ☐ B Friedrich Hayek was a key advocate of command economies as a way of allocating resources
- ☐ C Karl Marx advocated allocating resources via the free market
- ☐ D Karl Marx criticised the private ownership of factors of production

Adam Smith described the benefits of specialisation and the division of labour.

(c) Explain **one** advantage to a firm of using division of labour when organising its production process.

(2)

(Total for Question 5 = 5 marks)

TOTAL FOR SECTION A = 25 MARKS



SECTION A

Answer ALL questions. Write your answers in the spaces provided.

Some questions must be answered with a cross in a box ☒. If you change your mind about an answer, put a line through the box ☒ and then mark your new answer with a cross ☒.

You are advised to spend 30 minutes on this section.

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(Source adapted from: <https://www.telegraph.co.uk/news/2021/02/07/cuba-allows-massive-expansion-private-businesses/>)

- (a) With reference to the information provided, explain **one** advantage of a free market economy.

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(b) Which **one** of the following economic thinkers supported the idea of a command economy?

(1)

- ☐ **A** Adam Smith
- ☐ **B** Friedrich Hayek
- ☐ **C** John Maynard Keynes
- ☐ **D** Karl Marx

(Total for Question 1 = 5 marks)

SECTION B

Read Extracts A and B and Figure 1 before answering Question 6.

Answer ALL Questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

The market for fish

Extract A

Total allowable catches of North Sea cod halved in response to falling stocks

In 2020, new lower limits on the quantity of cod that can be caught by the UK fishing fleet came into force. These limits on the fish catch, called total allowable catches (TACs), were agreed at the annual EU fisheries negotiations.

It was the last December EU meeting attended by the UK before it left the EU. It was agreed that cod catch limits will be cut by 50% in the North Sea, while reduced limits were agreed for cod in the Celtic Sea, Irish Sea and west of Scotland. 5

However, there were increases for other types of fish, with TACs for haddock in the North Sea rising by 23% and for sole rising by 19%.

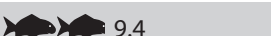
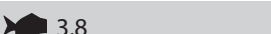
UK Fisheries Minister George Eustice said: "This year there has been mounting scientific evidence suggesting that cod is being overfished in many parts of the northeast Atlantic and we have responded to conserve stocks". 10

These new regulations applied to the UK while it remained part of the Common Fisheries Policy. In the future it will become an independent coastal state and negotiate on fisheries with the EU and other coastal states such as Norway. 15

(Source adapted from: <https://www.independent.co.uk/news/business/news/north-sea-cod-stocks-quota-climate-change-brexit-a9252196.html>)

Figure 1

Atlantic over-fishing: share of total allowable catch (TAC) in excess of scientific advice (2019)

Country	Excess TAC (%)	Excess TAC (tonnes)
Sweden	 52.4	17 369
United Kingdom	 24.3	106 925
Ireland	 21.7	34 052
Denmark	 19.7	49 914
Germany	 18.0	20 620
The Netherlands	 13.5	31 910
Belgium	 10.4	3 009
France	 9.4	27 230
Spain	 6.6	16 689
Portugal	 3.8	3 662

(Source adapted from: Statista 2018)



Extract B**The tragedy of the commons**

The 'tragedy of the commons' may occur when there are common access resources (CARs). These are natural resources over which no private ownership has been established. Therefore, there are difficulties in excluding people from using or exploiting them. CARs include fisheries and common grazing lands. Oceans are so vast that it is impractical for one fishing company to establish ownership and control. This means that others cannot be prevented from exploiting the ocean. Economists have suggested that with the lack of ownership of these resources, private producers will act in their own self-interest and exploit CARs to maximise profit. This exploitation is unsustainable. In other words, CARs provide an opportunity for individuals to create profit, while creating negative externalities which impact on everybody else. This process is referred to as the 'tragedy of the commons'.

The 'tragedy of the commons' is at the core of a range of problems that are relevant and threatening to natural resources, environments and human health. In the case of overfishing, fishing companies are not made accountable for the state of the ocean. They continue to fish as much as possible to maximise profit. Today, 90% of fish stocks are depleted.

The reason for such a wide range of problems is because there is an environmental cost for everything. The 'tragedy of the commons' is the outcome of the fact that every resource is limited on this planet, coupled with the rising level of demand for these resources. These issues are large-scale and require laws, regulation and international cooperation.

(Source adapted from: <http://felixonline.co.uk/articles/2019-12-09-tragedy-commons-drama-planet-not-enjoying/>)



(6)



SECTION B

Read Figure 1 and the following extracts (A and B) before answering Question 6.

Answer ALL Question 6 (a) to 6 (e), and EITHER Question 6 (f) OR Question 6 (g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6**The market for cigarettes**

Figure 1: Price elasticity of demand - a comparison between tobacco and e-cigarettes

Price of packet of 20 tobacco cigarettes £7.70–£9.50	Price of e-cigarette kit £9.99–£19.99
Average price per tobacco cigarette 48p	Single cigarette equivalent price of an e-cigarette 7p
Price elasticity of demand for tobacco cigarettes –0.35	Price elasticity of demand for e-cigarettes –1.9

(Source: adapted from <https://www.blucigs.co.uk/united-kingdom/kits/all-kits>)

Extract A**Government intervention on tobacco**

There was a time when smoking was fashionable. Television and magazine advertisements glorified smoking. Everyone from your dad to your doctor smoked in all places – cars, restaurants and even hospitals.

Tobacco is still the single biggest cause of cancer in the world and the leading cause of preventable deaths. Nearly 80% of the 1 billion smokers worldwide live in low- and middle-income countries. 5

Bans on tobacco advertising, promotion and sponsorship can reduce tobacco consumption. Comprehensive smoking bans covering indoor workplaces, public places and public transport have been introduced in 48 countries.

Tobacco taxes are the most cost-effective way to reduce tobacco use, especially among the young and people in low-income groups. A tax increase that raises tobacco prices by 10% decreases tobacco consumption by 4% in high-income countries and 5% in low- and middle-income countries. 10

However, some 8 million people are expected to die each year by 2030 – because they have smoked tobacco or have been exposed to passive smoking. The use of alternative products such as electronic cigarettes (e-cigarettes) are gaining in popularity but information about their effects is uncertain. Little research has yet been done about the long-term health effects of e-cigarettes and the nicotine dispensed by e-cigarettes is highly addictive. The illegal tobacco market still counts for 1 in every 10 cigarettes consumed globally. In addition, tobacco companies still spend tens of billions of dollars each year on advertising and promoting tobacco products and sponsoring events. They continuously challenge the regulatory measures governments are taking. 15 20

(Source: adapted from <http://www.who.int/topics/tobacco/en/> and <http://www.who.int/mediacentre/commentaries/reducing-tobacco-use/en/>)



Extract B**Free market approach**

Are free markets incompatible with good health? If the solution to every problem involves banning advertising, raising prices and restricting availability, you might easily conclude that the free market is the disease and government regulation is the cure. From this perspective, the providers of food, alcohol and tobacco are determined to push the most unhealthy products on the public at the lowest prices.

5

Contrary to this viewpoint, the profit motive is not unhealthy. Businesses have an obvious incentive to keep their customers alive and customers have a strong incentive to seek out healthier options. Any company that can make a scientifically sound health claim gains a competitive advantage over its rivals. Health sells. In contrast, government regulation can lead to negative health outcomes. Markets can correct themselves long before government failures are even acknowledged. Over a million Britons, almost all of whom are smokers or ex-smokers, use e-cigarettes, as a less hazardous product than cigarettes and yet e-cigarettes face increased regulations and in many countries they are banned.

10

It is neither consistent nor ethical to prevent smokers from switching to much safer alternatives. Efforts to regulate e-cigarettes are a far greater threat to public health than the products themselves.

15

We argue that the interests of consumers are nearly always better advanced by the provision of accurate information and free choice than by prohibitions and regulations. The government policy of small but steady tax rises on tobacco and ever-larger warning labels is becoming less effective and leads to unintended consequences.

20

(Source: adapted from <http://www.iea.org.uk/blog/free-market-solutions-in-health-should-be-allowed-to-flourish>, Christopher Snowdon, 11th July 2013)



(20)



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Continue on separate paper if required.



SECTION B

Read Figures 1, 2, 3 and the following extracts (A to B) before answering Question 6.

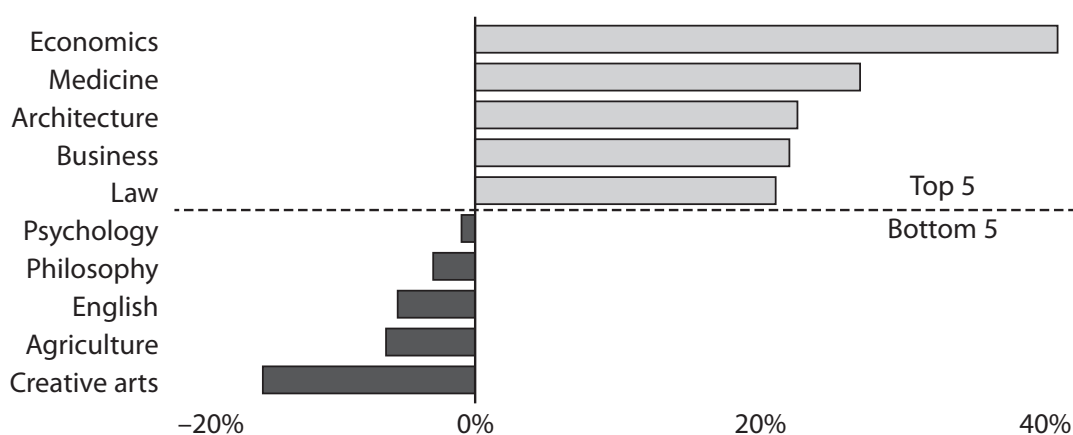
Answer ALL questions 6(a) to 6(e) and EITHER Question 6(f) OR Question 6(g).

You are advised to spend 1 hour and 5 minutes on this section.

Question 6

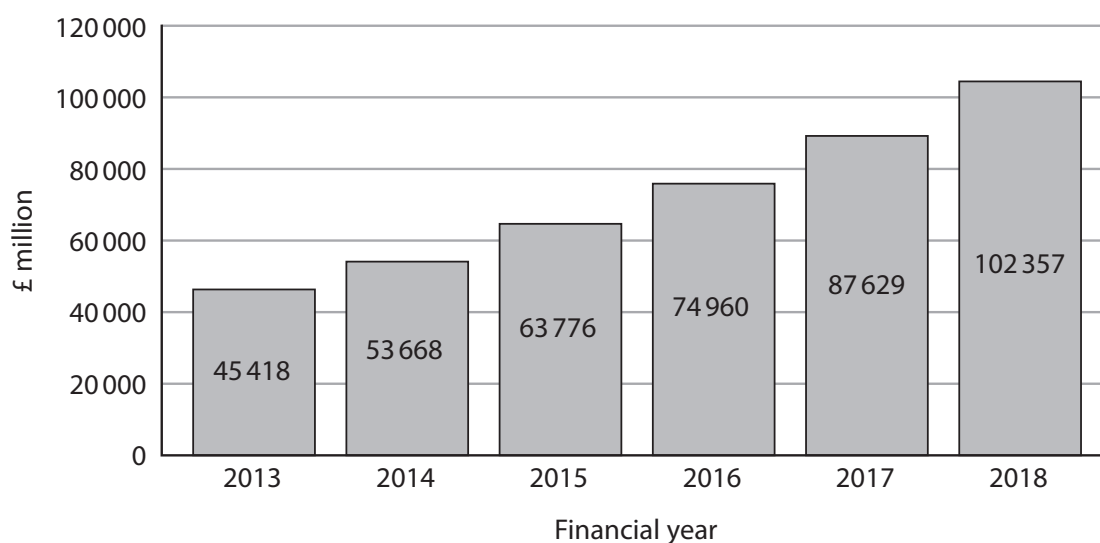
The market for higher education in the UK

Figure 1: Average graduate earnings, according to subject studied, compared to average non-graduate earnings (per cent) 2018 selected subjects.



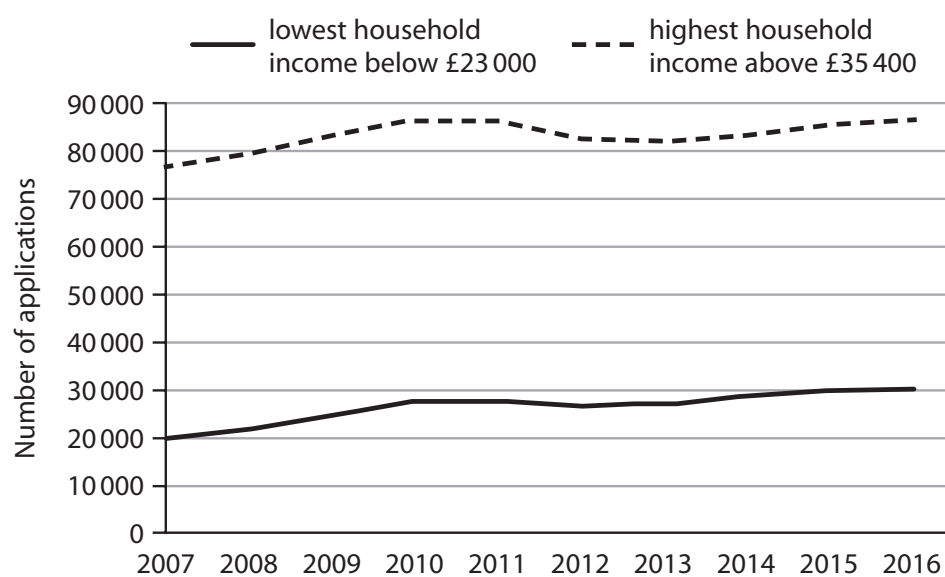
(Source: adapted from <https://www.ifs.org.uk/publications/13731>
The impact of undergraduate degrees on early-career earnings, Research report, November 2018)

Figure 2: Student loans outstanding at the end of financial years 2013 to 2018 in England



(Source: adapted from <https://www.slc.co.uk/official-statistics/student-loans-debt-and-repayment/england.aspx>)



Figure 3: Number of applications to UCAS according to median income of area

(Source: adapted from <https://www.ucas.com/corporate/data-and-analysis/ucas-undergraduate-releases/2018-cycle-applicant-figures-january-deadline>)

Extract A**Rethinking tuition fees**

The value of a degree is significant. The latest data shows that the median university graduate income was £10 000 more than the average non-graduate income in 2018. This 'graduate premium' means graduates will contribute significantly to the economy. In addition, the government will benefit greatly from additional tax revenues. 5

However, funding higher education continues to be a major issue. English universities charge some of the world's highest fees. Interest rates on student loans are now 6.3%. There are a large number of courses where graduates are likely to earn less than non-graduates, despite an average of £50 000 of debt.

The Department for Education estimates that 45% of the value of loans will not be repaid. Outstanding student loans in England totalled more than £100 billion in 2018. By 2023 total outstanding student loans are forecast to rise to £120 billion. 10

One option for revising student fees could be to charge higher fees for courses that are more expensive to teach or that have a better chance of higher earnings. That would make Science or Mathematics degrees more expensive to study than English or Philosophy. 15

At most universities the level of fees is likely to be the same flat rate of £9 250 per year. However, science-based courses need more expensive equipment and courses such as medicine require more teaching time and personal instruction.

Tuition fees were introduced in 1998 at £1 000 per year. They are currently £9 250. Economists estimate that the price elasticity of demand for higher education is about -0.5. 20

Charging £9 250 a year for an undergraduate degree makes England very expensive by international standards. Scotland has no fees for Scottish students, and fees in Wales and Northern Ireland are significantly lower. Much of Europe has low or no fees and Germany, which used to charge fees, has abolished them, replacing them with a graduate tax. 25

The only country with comparable fees is the United States. Top private colleges can charge more than the equivalent of £30 000 per year while state colleges can charge local students less than fees in England.

Despite this, student numbers at English universities have continued to increase from 450 000 in 1998 to over 700 000 in 2018. Students from all backgrounds are more likely to go to university than ever before. 30

However, applicants from low-income areas are much less likely to go to university than applicants from high-income areas. The Universities and Colleges Admissions Service (UCAS) found that in the most deprived 10% of postal areas about 20% of young people went to university in 2018, compared with 50% in the highest income areas. Research by University College London revealed that even when candidates from low-income areas had the same exam results, they were much less likely to apply to university than candidates from high-income areas. 35

(Source: adapted from <https://www.theguardian.com/education/2018/dec/16/change-in-student-loan-accounting-could-add-10bn-to-national-debt>)



Extract B**Low-income university students twice as likely to drop out than high-income ones**

The number of students from low-income areas who drop out of university before finishing their degree is at its highest in five years, indicating a considerable waste of scarce educational resources. This news comes at the same time as a drive to recruit students from poorer backgrounds, with universities spending a total of £725 million on access initiatives in the past academic year alone. 5

A number of top universities have started to lower their A level grade offers to students from low-income areas, in an attempt to encourage them to apply. However, there is a danger with 'enticing' disadvantaged students through lower grade offers, if universities are not going to provide ongoing support for them once they begin their courses. 10

The latest figures show that 9% of disadvantaged undergraduates do not continue in higher education beyond their first year. In comparison, the average drop-out rate among students from the high-income backgrounds was less than 5%. The gap continues to widen.

A report, published by the Office for Fair Access, concluded that: 'The significance of this for students is huge. Higher education can be a transformational experience that opens doors to rewarding careers and social mobility, but this is only the case if students achieve successful outcomes.' 15

(Source: adapted from <https://www.telegraph.co.uk/news/2017/06/28/number-poor-students-dropping-university-highest-level-five/>)



(20)



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(Total for this part = 20 marks)

133

MARK SCHEMES

official mark schemes



Question Number	Answer	Mark
1(a)	The only correct answer is C <i>A is not correct because Statement 1 is Positive, using testable data</i> <i>B is not correct because Statement 1 is Positive, using testable data</i> <i>D is not correct because 'ought' in Statement 2 is Normative</i>	(1)

Question Number	Answer	Mark
1(b)	Application 2 Application $11\,000\,000 / 155 (1) = 70\,968$ or $11\,000\,000 / 156 (1) = 70\,512$ Award 2 marks for an answer within the range 70 500 and 71 000.	(2)

Question Number	Answer	Mark
1(c)	Knowledge 1 Knowledge/Understanding 1 mark for definition, e.g. • centrally planned • government run • no or limited private sector • government allocates most/all resources.	(1)



Question Number	Answer	Mark
3(a)	Knowledge 1 Knowledge/understanding 1 mark for definition Allow reference to a firm, individual or country • Concentrates on one good/ service (1) • produces a narrow range of goods or services (1) • over time develops a cost advantage in producing these goods and services (1)	(1)

Question Number	Answer	Mark
3(b)	The only correct answer is A B is not correct because 'supply chain disruption is the most important issue facing governments' is a normative statement C is not correct because 'the free market leads to the best allocation of resources' is a normative statement D is not correct because 'the government should increase healthcare spending' is a normative statement.	(1)

Question Number	Answer	Mark
3(c)	Knowledge 1 Analysis 1 1 mark for advantage and 1 mark for linked development • Specialisation increases the size of the market (1) • Gives opportunities to reduce unit costs (1) • Increased or decreased quality due to specialisation (1) • Allows for increased productivity within a particular product/ market(1) and ultimately increased profits (1)	(2)



Question Number	Answer	Mark
4(a)	Knowledge 1 The only correct answer is C A not correct as statement 1 can be tested/ is objective B is not correct as statement 2 is subjective and is based on a value judgement D is not correct as statement 2 is subjective and is based on a value judgement	(1)

Question Number	Answer	Mark
4(b)	Knowledge 1, Application 1, Analysis 1 Knowledge Opportunity cost is the value of the next best alternative forgone in an economic decision (1) Application 5% of government spending in Finland is spent on education / Reduced funding for military (1) Analysis As a result of spending high levels of funding on particular areas, it means other areas of government spending need to be reduced due to scarcity/ limited resources (1) Can award 1AN mark for relevant diagram - PPF	(3)

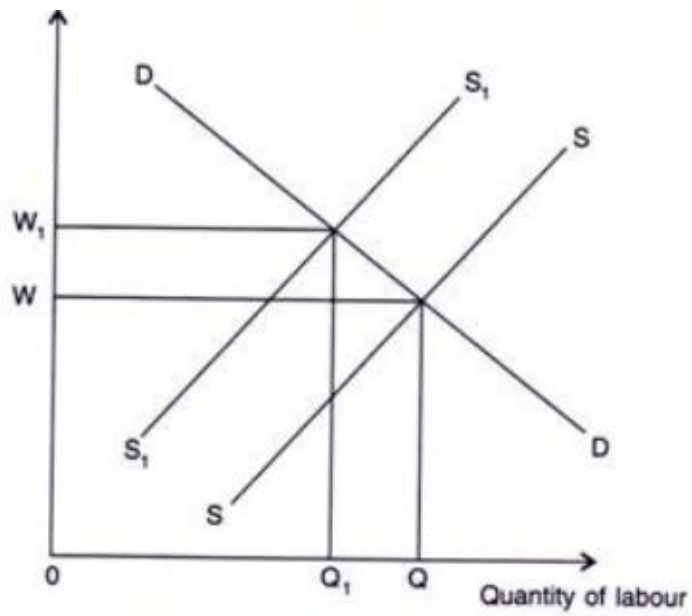


Question Number	Answer	Mark
1(a)	Knowledge 1 The only correct answer is D <i>A is not correct because Statement 1 and 2 are positive statements, they are not value judgements</i> <i>B is not correct Statement 1 is positive as it is an objective statement which can be tested</i> <i>C is not correct because Statement 2 is positive</i>	(1)

Question Number	Answer	Mark
1(b)	Knowledge 2, Application 1, Analysis 1 Knowledge / understanding: 2 marks for understanding e.g. • Supply of labour decreases (1) • Wage rises (1) Application: 1 mark for e.g. • Takes time to train engineers (1) • Migration of 1 million workers (1) • Annotating diagram in context of engineers (1) • Shortage of engineers (1) • 'Many engineers have left Poland for higher paid jobs in other countries' (1) Analysis: 1 mark for a linked development e.g. • Excess demand (1) • Firms offer higher wages (1) • Firms contract demand for labour (1) • New labour market equilibrium achieved (1) NB Full marks only to be awarded for specific reference to labour market.	(4)



Wage rate



Question Number	Answer	Mark
4(a)	Knowledge 1, Application 1, Analysis 1 Positive statements are value free/ based on facts/ can be verified and/or Normative statements contain value judgements/ not based on facts/ cannot be supported with evidence (1) The reference to 'should' in the statement suggests it is normative as this is a person's value judgement or vaccination can be good for an entire population (1) The idea that those who are not vaccinated will benefit is a positive statement as evidence will exist that shows others will benefit from others being vaccinated or if enough of its members are vaccinated, even those who are not will receive a measure of protection (1)	(3)

Question Number	Answer	Mark
4(b)	The only correct answer is C A is not correct because this is government failure B is not correct because this is the incentive function of the price mechanism D is not correct because this is the rationing function of the price mechanism	(1)



Question Number	Answer	Mark
6(d)	Knowledge 2, Application 2 Knowledge/understanding 2 marks defining both positive (1) and normative statements Positive – based on fact/ evidence and can be tested/ hypothesised Normative – involve value judgements and personal opinions Application 2 marks for giving examples of both types of statements Eating a diet high in meat will cost 7.2kg CO2 emissions a day This might benefit shareholders (high prices) but is it doing any good for the rest of us?	(4)



Question Number	Answer	Mark
6(a)	Knowledge 1, Application 2, Analysis 2 Knowledge and Analysis: (up to 3 marks) • Understanding of a positive statement e.g. statement of fact that can be tested (1) • Understanding of a normative statement e.g. statement containing a value judgement (1) Further analysis of the difference (1) e.g. • a positive statement is not linked to political viewpoint • these normative statement represents the value judgement of the Prime Minister/current political party • objective v subjective • Scientific method Application: up to 2 marks 1 for positive and 1 for normative for each example from the extract Normative example (up to 1 mark) • the regulator 'should' limit the standard variable tariff (1) • offer fairer prices for customers who are paying too much (1) • 'a price cap will not be good for consumers' (1) • The market is broken (1) Positive example (up to 1 mark) • Energy bills of 11 million households will be capped (1) • Save households up to £100 (1)	(5)



Question Number	Answer	Mark
1(a)	Knowledge 2, Application 2, Analysis 1 Knowledge Up to 2marks, points might include: • positive statement e.g. statement of fact (1) • normative statement e.g. value judgement, moral, ethical (1) Application: 2 marks for data (1+1): • Positive example (1) e.g. ◦ 'removal of the 45% tax band' ◦ '1.25 % rise in national insurance was implemented' ◦ 'already raised them from 0.1% in 2021 to 2.25% by September 2022' ◦ 'Britain's poorest households would have lost £7.56 a year' • Normative example (1) e.g. ◦ 'wrong time to do this' ◦ 'an unfair decision at the time' Analysis (1 mark) for linked development e.g. • can / cannot be tested (1) • subjective / objective (1)	(5)



Question Number	Answer	Mark
1(a)	Knowledge 1, Application 1, Analysis 1 Explain the distinction between renewable and non-renewable resources Knowledge/Analysis • Renewable resources e.g. can naturally replenish themselves / will not run out(1) • Non-renewables e.g. are limited in supply / cannot be used sustainably (1) Application 1 Oil and/or wind power – must be linked to either renewable or renewable source (1)	(3)

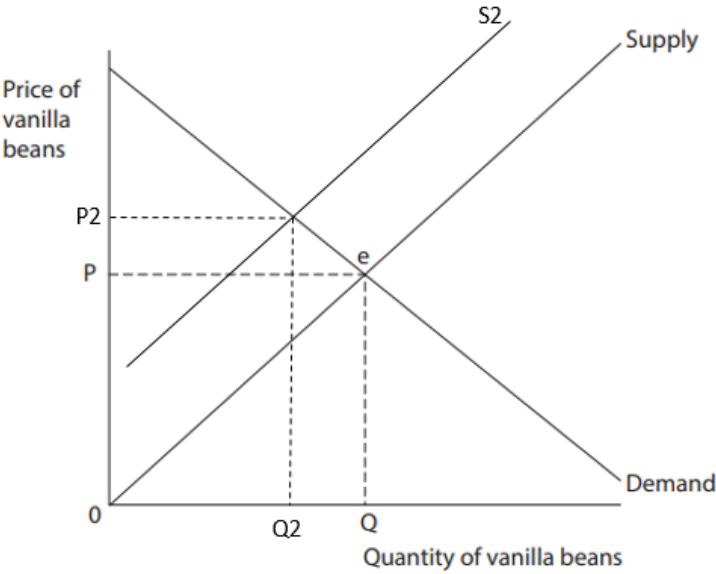
Question Number	Answer	Mark
1(b)	Knowledge 1 The only correct answer is C A Is not correct as scarcity not moving along a demand curve B Is not correct as supply does not exceed demand when an item is scarce D Is not correct, there are too few resources to be allocated	(1)



Question Number	Answer	Mark
2(a)	Knowledge 1 Knowledge/ Understanding 1 mark for e.g. • willingness and ability of producers to create goods and services to take them to market • the amount of a good that can be produced by a business • the quantity of a good or service that a firm is willing to sell at a given price – over a given time period	(1)

Question Number	Answer	Mark
2(b)	Knowledge 1 The only correct answer is D A – is not correct, as it is an unobtainable level of resources B – is not correct as shows a movement along the PPF curve, increasing the level of consumer goods C – is not correct as displays a shift out of the PPF curve illustrating increased productive potential/ resources	(1)



Question Number	Answer	Mark
2(c)	Knowledge 1 Application 1 Application 2 marks for e.g. • New supply curve drawn and labelled, showing an inwards/leftwards shift (1) • New equilibria labelled, showing a rise in price (1) 	(2)

Question Number	Answer	Mark
1(a)	The only correct answer is A <i>B is not correct because savings are money, which is not a capital good</i> <i>C is not correct because shares in a company are another form of saving</i> <i>D is not correct because oil reserves are an example of natural resources or 'land'.</i>	(1)

Question Number	Answer	Mark
1(b)	Knowledge 1 Application 1 Analysis 1 Knowledge 1 mark for defining either renewable or non-renewable resources Application 1 mark for a relevant example e.g. coal, oil, natural gas are non-renewable Analysis 1 mark for linked development of the distinction e.g. non-renewable are scarce/ finite	(3)

Question Number	Answer	Mark
2(a)	Knowledge 1, Application 2 Knowledge/Understanding 1 mark for identifying formula for PED (this understanding may be implicit) Application 1 mark for calculating percentage change in quantity demanded (-4%). $-0.2 = x/+20$ 1 mark for 4% of 2.5m is 100000 sausage rolls Award 3 marks for correct answer of 2.4m	(3)



Question Number	Answer	Mark
6(d)	Knowledge 2, Application 2 Knowledge/understanding 2 marks for e.g. Renewable energy is a resource made from something which can be renewed itself/infinite supply (1) Non-renewable energy is a resource which once exploited cannot be replaced/finite supply (1). Application 2 marks for, e.g. Energy generated by nuclear or coal is non-renewable (1) Solar or wind energy is renewable (1).	(4)



Question Number	Answer	Mark
2(a)	Knowledge 2, Application 2, Analysis 1 Knowledge and analysis (3): • Definition of opportunity cost as the next best alternative foregone (1) • Governments have to pay interest (1) at the expense of other expenditure (1) • Servicing means paying back interest and minimum capital requirements (1) e.g. to prevent a default, loss of confidence, other repercussions (1) • The debt is external (1), and in this case owed by governments as they have been borrowing from abroad (1) • Use of PPF to show opportunity cost may be awarded as analysis (1) Application (2 marks for 1 point, or 1 + 1): e.g. • Debt service payments above 20% of G (1) are unsustainable (Extract D) (1) • £20billion raised 2010-2015 (Extract D) (1) • Commodity prices soaring and foreign loans available' (Extract D) (1) • 'Heavy repayment schedules at a time of low commodity prices' (Extract D) (1) • Governments have taken to 'private debt too eagerly' (Extract D) (1) • 'Median level of debt risen from 34% to 48% in 2017' (Extract D) (1) is heavy because of 'low tax base' (Extract D) (1) • High levels of poverty – half of the 26 million people (1), so many feel the effects of reduced government expenditure (Extract E) (1) • 'non-existent tuna fleet' or other hidden debt (Extract D) or corruption (1) at the expense of other government spending (1) • Opportunity costs applied to any developing country, e.g. spending on poverty alleviation, education and health spending or recent cyclone April 2019 (1). Award a maximum of 1 application mark if there is no reference to Extract D	(5)



Question Number	Answer	Mark
6(a)	Knowledge 1, Application 2, Analysis 2 Knowledge/understanding 1 mark for infinite wants and finite resources (1) Application 1 mark each for any one of the following for infinite wants: • Consumers of health care have a growing list of medical concerns for essential/non essential treatment/waiting list 4 million (1) • Ageing population (1) • New medical technologies(1) 1 mark each for any one of the following for finite resources: • Number of doctors/nurses (1) • Number of hospital beds available/bed occupancy rates 99% (1) use of Figure 2 e.g. • Waiting time has increased from 5.7% (1) to 10.7% (1) Analysis Up to 2 marks for any one of the following in linked development OR two limited examples of analysis (1+1): • Health resources are scarce (1) so Hospitals have to make choices about who to treat (1) • Decisions need to be made on what, how, why and for whom to treat (1+1) • Opportunity cost of making a medical choice/decision (1) • Government health priorities (1)	(5)



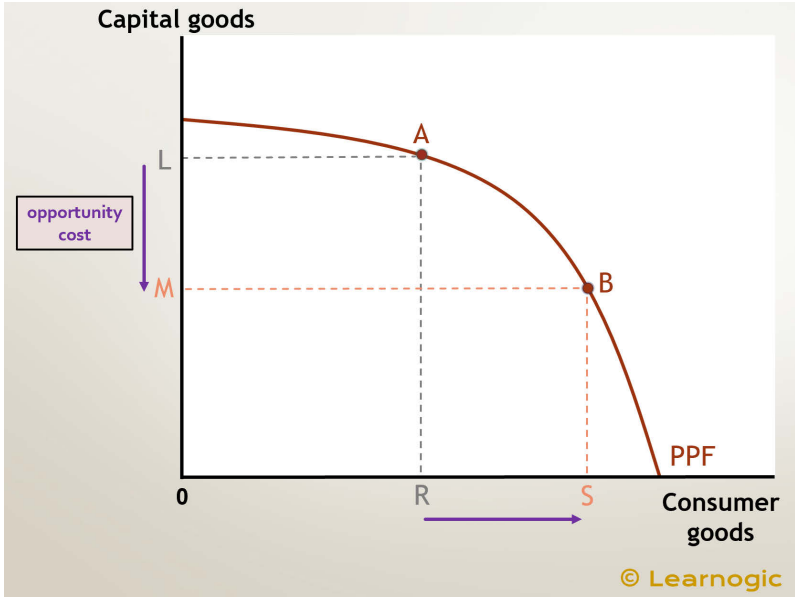
Question Number	Answer	Mark																								
1(a)	Knowledge 1, Application 1, Analysis 1 Knowledge/understanding 1 mark for definition of opportunity cost (e.g. value of the next best alternative foregone) 1 mark for definition of production possibility frontier (e.g. the maximum potential output combinations of two goods an economy can achieve when all its resources are fully and efficiently employed) Application 1 mark for application – Application to the table information to demonstrate that opportunity cost increases or is small for manufacturing goods as more is produced (at least two calculations need to be shown for opportunity cost increasing and this may be in the table or in the written explanation or one data reference to opportunity cost being small) <table border="1"> <thead> <tr> <th>Capital goods output (million units)</th><th>Consumer goods output (million units)</th><th>Opportunity cost</th></tr> </thead> <tbody> <tr><td>0</td><td>42</td><td>-</td></tr> <tr><td>10</td><td>40</td><td>2</td></tr> <tr><td>20</td><td>36</td><td>4</td></tr> <tr><td>30</td><td>30</td><td>6</td></tr> <tr><td>40</td><td>22</td><td>8</td></tr> <tr><td>50</td><td>12</td><td>10</td></tr> <tr><td>60</td><td>0</td><td>12</td></tr> </tbody> </table> Analysis 1 mark for linked development e.g. the opportunity cost for the economy of moving from consumer goods to capital goods is small compared to the gains in production made (1 Analysis) or diagram of production possibility frontier, illustrating concept of increasing opportunity cost – it must be correctly labelled with consumer goods and capital goods (concave to origin) (1)	Capital goods output (million units)	Consumer goods output (million units)	Opportunity cost	0	42	-	10	40	2	20	36	4	30	30	6	40	22	8	50	12	10	60	0	12	(3)
Capital goods output (million units)	Consumer goods output (million units)	Opportunity cost																								
0	42	-																								
10	40	2																								
20	36	4																								
30	30	6																								
40	22	8																								
50	12	10																								
60	0	12																								

Question Number	Answer	Mark
1(b)	B	(1)



Question Number	Answer	Mark
5(a)	Knowledge 1 Application 1 Knowledge/understanding 1 mark for definition, e.g. A mixed economy means that part of the economy is left to the free market and part of it is managed by the government (1) Public and private sectors existing within the economy (1) Application 1 mark • 11.7 million jobs were furloughed during the global health crisis (1) • Costing the UK Government £70 billion (1) • ‘80% wages paid by the government 80% of their wages/. Some private sector employers continued to pay the remaining 20%’ (1)	(2)



Question Number	Answer	Mark
5(b)	Application 1 Opportunity cost relating to higher production of consumer goods must result in a fall in capital goods – this must be clearly highlighted on the curve The diagram below earns 1 mark  (1)	

Question Number	Answer	Mark
5(c)	The only correct answer is A B is not correct because 'price acts as a signal to allocate resources' is an advantage of a free market economy C is not correct because 'price controls cause shortages of goods' is a disadvantage of a command economy D is not correct because 'the profit motive gives firms the incentive to be more efficient' is an advantage of a free market economy (1)	



Question Number	Answer	Mark
1(a)	Application 2 Application: Calculation of original opportunity cost of producing 50 capital goods is $120 - 100 = \mathbf{20}$ consumer goods. (1 mark) Calculation of new opportunity cost of 50 capital goods is $170 - 140 = \mathbf{30}$ consumer goods. (1 mark)	(2)

Question Number	Answer	Mark
1(b)	The only correct answer is D <i>A is not correct because this would be describing a change in actual output such as W to V from inside the PPF XY</i> <i>B is not correct because PPF shows potential output and not the cost of output</i> <i>C is not correct because PPF shows potential output and not the demand for a good or service</i>	(1)

Question Number	Answer	Mark
1(c)	Knowledge 1, Analysis 1 Knowledge/understanding: 1 mark for e.g. Position W represents an • inefficient allocation of resources (1) • unemployment of resources (1) Analysis: 1 mark for e.g. • It is possible to increase output of both consumer goods and capital goods by using unemployed resources (1) • The economy could produce at either 100 or 140 consumer goods but is currently producing 80 (1) • The country is operating inside the PPF (1)	(2)



Question Number	Answer	Mark
2(a)	Application 2 Application 2 marks for e.g. • The opportunity cost is 1 unit of oats (2) • 2 more units of wheat to be produced (1)	(2)

Question Number	Answer	Mark
2(b)	Knowledge 1, Analysis 1 Knowledge 1 mark for understanding, e.g. • Efficiency will decrease • Inefficient allocation of resources • Not productively efficient Analysis 1 mark for e.g. • Not producing at maximum potential output • Potentially produce more wheat and oats • Spare capacity • Unemployed resources • Lower output the next year • No opportunity cost from moving from W towards PPF	(2)

Question Number	Answer	Mark
2(c)	Knowledge 1 The only correct answer is B A is not correct because the PPF shows the production of oats and wheat, not milk C is not correct because a PPF does not show demand for a product D is not correct because a PPF does not consider the price of the product once sold	(1)



Question Number	Answer	Mark
1(a)	C	(1)

Question Number	Answer	Mark
1(b)	Knowledge 1, Application 1, Analysis 1 Knowledge/understanding 1 mark for definition of specialisation or definition of money acting as a medium of exchange or a measure of value or a store of value or a method of deferred payment. Specialisation requires exchange. Application 1 mark for application to a process, business or worker, e.g. Worker lives by exchanging earnings from making smartphones or receives training or is incentivised by money or smartphone company earns profit by trading in smartphones. Analysis 1 mark for linked development from money to improved specialisation, e.g. new technology enables further specialisation thus improving productivity or building up capital or increasing skills of workers.	(3)



Question Number	Answer	Mark
1(a)	Knowledge 1 The only correct answer is A <i>B is not correct because whilst Hayek is associated with free market economy thinking, reference to Adam Smith is made in the context of specialisation and the division of labour.</i> <i>C is not correct because Keynes is mostly associated with 'animal spirits' and the multiplier effect.</i> <i>D is not correct because Marx is associated with the disadvantages of the free market and the case for a command economy.</i>	(1)

Question Number	Answer	Mark
1(b)	Knowledge 1, Application 1, Analysis 1 Knowledge/understanding 1 mark for definition of division of labour or workers specialised e.g. Where a task is broken down into its component parts or Where an individual concentrates on one particular task to the exclusion of others Application 1 mark for application – Application to the car industry e.g. A worker who adds tyres to a car Analysis 1 mark for linked development e.g. increased productivity or reduces unit costs or higher output	(3)



Question Number	Answer	Mark
3(a)	The only correct answer is B A is not correct because difficulty in counterfeiting is an attribute of money C is not correct because divisibility is an attribute of money D is not correct because durability is an attribute of money	(1)

Question Number	Answer	Mark
3(b)	Knowledge 1 Application 2 Award one function e.g. A measure of value (1) e.g. prices can be measured in satoshis (1) people can compare prices of goods and services (1) OR A store of value (1) when an individual saves bitcoin (1) they are confident they will receive the equivalent value back (1) OR A standard of deferred payment (1) when an individual loans another person bitcoin (1) they are confident they will receive the equivalent value back (1)	(3)

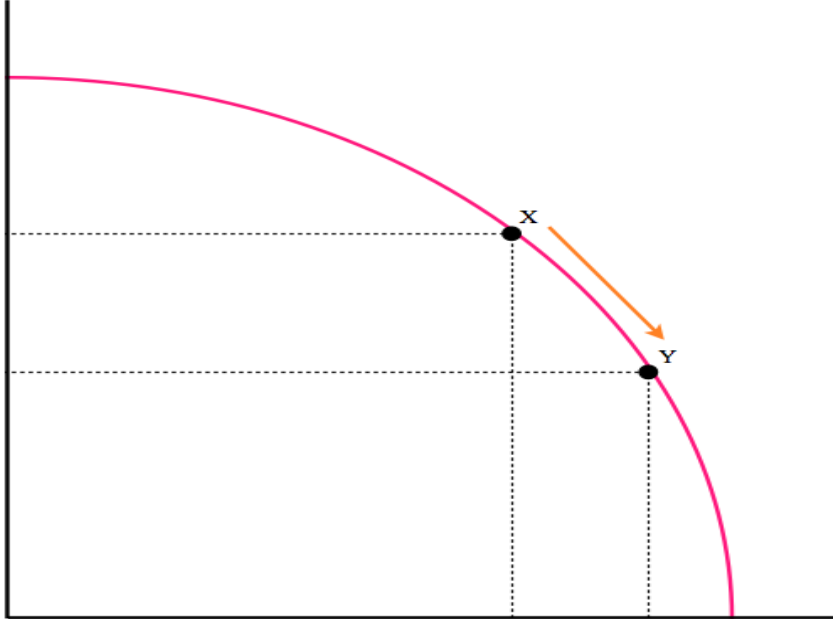


Question Number	Answer	Mark
5(a)	Knowledge 1, Analysis 1 - Resources are allocated via the price/market mechanism/market forces of supply and demand/ the invisible hand of the market (1) - If there is an increase in demand prices rise to ration the good (1) - Price changes act as a signal (1) - If there is a fall in supply prices rise to ration the good (1) - Consumer sovereignty (1) - By privately owned firms (1) - Limited intervention by government/laissez-faire (1)	(2)

Question Number	Answer	Mark
5(b)	Knowledge 1 The only correct answer is D A is not correct because Hayek promoted the idea of private investment rather than government spending B is not correct because Hayek was a critic of command economies allocating resources, advocating instead the many price signals in a free market economy C is not correct because Marx was a critic of the free market economy allocating resources	(1)

Question Number	Answer	Mark
5(c)	Knowledge 1, Analysis 1 Knowledge Identification of a benefit of division of labour (1) - Less training needed - Faster production process - Greater output from given workforce - Less time wasted moving between jobs - Increased skill within specific role - Increased efficiency Analysis Linked development (1) e.g. A benefit is that the firm only needs to train workers in one specific role (1k) this means that they can lower costs (1an)	(2)



Question Number	Indicative content	Mark
6(e)	Knowledge 3, Application 3, Analysis 3 Impacts can be positive or negative. - Understanding of specialisation. The number of workers in the fishing industry relative to other workers will be more in Scotland relative to the rest of the UK: People working in non-fishing related industries  People working in fishing related industries NB If there is no valid diagram - maximum level 2 KAA Advantages might include: - Fishing fleets develop expertise based on years of experience - This will be the case for both labour and capital - Fishing ports have the infrastructure to process the catch and to distribute it to markets in the UK and overseas - Employment opportunities will be available and will grow as the industry develops - Specialisation enables training providers to specialise in developing skills for workers in the region - more resources can go in to	(9)



		preparing for fishing industry without having to invest in training in other areas. • Spillover effects - skilled labour more freely available so if a new worker is needed they can benefit from training with a different company • Efficient use of resources – a region that specialises in fishing due to availability of resources e.g. good fishing grounds. • Creates jobs – people of Scotland will be able to find employment in the fishing industry • Scotland specialising in the production of fish can catch more and then trade with other countries who specialise in the production of other goods. • By catching more fish the economy can sell these, increasing income in the Scottish economy • By specialising and division of labour increasing output/ reducing costs of production the economy can improve income, living standards. NB KAA can be treated as Evaluation and vice versa	
Level	Mark	Descriptor	
	0	A completely inaccurate response.	
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.	
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response; chains of reasoning are developed but the answer may lack balance.	
Level 3	7–9	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.	



Question Number	Indicative content	Mark
6(e) continued	Evaluation 6 There are many disadvantages of specialising in the production of goods and services to trade: • Over-exploitation of resources leaves economic agents over-exposed, leading to possible business failures and job losses • The reduction of the cod TAC could lead to major issues for Scottish fishing • External costs related to congestion and pollution • Demand for fish falls with the increased trend towards vegetarianism and veganism, the economy would be at risk • Workers could find it difficult to transfer to other industries if they are over-specialised • Current consumption may be unsustainable leading to reduced incomes for future generations	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant chain of reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question.



Question Number	Answer	Mark
1(a)	Knowledge 1 Knowledge/Understanding 1 mark for definition, e.g. A free market economy refers to an economic system where the prices of goods and services are set freely by the forces of supply and demand (1) or without intervention by the government (1)	(1)

Question Number	Answer	Mark
1(b)	The only correct answer is D <i>A is not correct because this is the incentive function</i> <i>B is not correct because this is the signalling function</i> <i>C is not correct because a rise in price will reduce the shortage</i>	(1)

Question Number	Answer	Mark
1(c)	Knowledge 2 Knowledge/understanding 1 mark for one reason. Possible answers include: - Competitive markets responsive to consumers (1) no competition in command economies to ensure firms are efficient (1) - Market prices transmit information between buyers and sellers (1) no need for costly bureaucracy (1) - Reduces risk of government failure (1) as governments do not know what is demanded (1)	(2)



Question Number	Answer	Mark
3(a)	Knowledge 1 The only correct answer is B A Is not correct as Karl Marx thinks free market economies result in exploitation of workers. C Is not correct as there are externalities in all economic systems D Is not correct as in a free market the private sector owns all resources and there is no/ very little government	(1)

Question Number	Answer	Mark
3(b)	Knowledge 1, Application 1, Analysis 1 Knowledge 1 Education is paid for/ funded by government and tax revenue / positive consumption externalities (1) Education is seen as a merit good that benefits wider society (1) Application International education rankings / with its teenagers coming top in tests in maths, reading and science (1) Analysis • Education is underprovided in a free market as the external benefits are not considered (1) • Any explanation of the externality and its positive impact upon 3rd party (1) • Due to asymmetric information, is unclear to individuals what the full benefits are to education (1) • Diagram highlighting positive consumption externalities (1 AN)	(3)



	$0.05 / 1.2 = 4\%$ change in price 20% price change PED -0.2 $-0.2 = x / +20$ $0.2 = -4 / +20$ NB Maximum of 2 marks if correct answer is not given	
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Question Number	Answer	Mark
2 (b)	The only correct answer is C <i>A is incorrect as is perfectly inelastic and would mean the coefficient would be 0</i> <i>B is not correct as the coefficient would be greater than 1</i> <i>D is not correct because the coefficient would be 1 with the same proportionate change in quantity demanded as price</i>	(1)

Question Number	Answer	Mark
3(a)	Knowledge 1 Knowledge/understanding 1 mark for definition, e.g. A free market is a system of buying and selling goods and services without government intervention.	(1)



Question Number	Answer	Mark
3(b)	The only correct answer is C <i>A is not correct because public good provision free of charge would help achieve a social optimum</i> <i>B is not correct as an overproduction of good with external benefits would be in the public's interest and optimum</i> <i>D is not correct because an underproduction of these goods would be beneficial to society</i>	(1)

Question Number	Answer	Mark
3(c)	Knowledge 2 Knowledge/Understanding 1 mark for reason and 1 mark for linked development. Possible answers include: • The private sector is profit driven (1) therefore only producing those goods that will be able to sold for a profit (1) • Public goods with external benefits are under-produced (1) therefore requiring government intervention (1) • Characteristics of public goods such as non-rivalry and non-excludability (1) mean that there is no incentive to pay for these goods (1)	(2)



Question Number	Answer	Mark
1(a)	Knowledge 2, Application 1, Analysis1 K + An up to 3 marks e.g.: • More choice (1) because of consumer sovereignty (1) and profit motive / greater incentive (1) • More efficient allocation of resources (1) because of allocative efficiency / productive efficiency / dynamic efficiency / lack of X-inefficiency (1) because of profit motive / greater incentive (1) • Lower prices (1) because of more competition (1) and greater incentive (1) • Better quality products (1) because of competition (1) and profit motive (1) • More innovation (1) because of competition (1) and profit motive (1) Application 1 mark for e.g. ○ Cuban government allow small private businesses ○ 'Jump-start the economy' ○ Create jobs ○ Role of small business ○ Reform of command economy	(4)

Question Number	Answer	Mark
1(b)	Knowledge 1 The only correct answer is D A is not correct because Adam Smith supported the free market B is not correct because Friedrich Hayek supported the free market C is not correct because John Maynard Keynes did not advocate a command economy, rather higher borrowing to provide an injection of demand into the economy	(1)



Question Number	Answer	Mark
6(c)	Knowledge 2, Application 2 Analysis 2 Knowledge and Analysis (1+1)x2 • Excludability (1) e.g. private ownership enables individuals to charge for the use of an asset (1) • Private ownership of resources (1) e.g. land, labour, capital and enterprise may be exploited by private individuals or firms (1) • Rivalry (1) e.g. private owners of resources can choose to buy and sell resources in order to generate profit (1) • Private ownership in a free market economy may lead to wage disparities or other inequalities (1+1) Application (1+1) 1 mark for use of Extract B e.g. ‘private producers will act in their own self-interest’ individuals ‘maximise profit’ 1 mark for use of own knowledge e.g. private ownership of a resource means someone is accountable for it (1) If someone owns something then they legally stop other people from using it (1)	(6)

Question Number	Answer	Mark
6(d)	Knowledge 2, Application 2 1 mark for e.g. Identifies the correct formula (1) e.g. the formula for XED is $\% \Delta QD \text{ Good A} / \% \Delta P \text{ Good B}$ $-8 = x/2\%$ (1) $-8 \times 2\% = -16\%$ (1) (decrease in quantity demanded of bags of chips) $950\,000 \times 16\% = 152\,000$ (1) $950\,000 - 152\,000$ (1) = 798 000 If correct answer is given award all 4 marks. Award up to 3 marks for correct working but overall correct answer missing.	(4)



Question Number	Indicative content	Mark
6(f)	Knowledge 4, Application 4, Analysis 6 Functions of the price mechanism to allocate resources: • rationing • incentive • signalling Market diagrams for tobacco and e-cigarettes, making use of supply and demand analysis. * Consumers with knowledge of the potential harm of cigarette smoking may quit smoking. * Smokers will maximise their private utility * Consumers will decide what is in their best interests * Reduction in smoking will happen automatically, without government intervention, as e-cigarettes become popular. Candidates may refer to Adam Smith Consumers free to pursue own self interest Profit incentive will mean firms will want their consumers to live long – so move out of tobacco and into e-cigarette market. Without government regulations e-cigarettes market will be easier for new firms to enter thus improving competition. Competition between e-cigarette manufacturers to maximise profits will drive health improvements and lower costs making them more price competitive. Candidates may refer to Friedrich Hayek Resource allocation from tobacco to e-cigarettes will be brought about by market forces, which will be far superior to any state planning system. Individuals do not have perfect information on cigarettes but have the best knowledge of their own situation. The price mechanism acts as a communication network, markets are self-correcting. Government lacks sufficient information about everything happening in the cigarettes market to be able to make informed decisions.	(14)



Level	Mark	Descriptor
	0	A completely inaccurate response.
Level 1	1–3	Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models. Use of generic or irrelevant information or examples. Descriptive approach which has no chains of reasoning or links between causes and consequences.
Level 2	4–6	Displays elements of knowledge and understanding of economic principles, concepts and theories. Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question. A narrow response or superficial, two stage chains of reasoning only.
Level 3	7–10	Demonstrates accurate knowledge and understanding of the concepts, principles and models. Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer. Analysis is clear and coherent, although it may lack balance. Chains of reasoning are developed but the answer may lack balance.
Level 4	11–14	Demonstrates precise knowledge and understanding of the concepts, principles and models. Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated. Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning.



Question Number	Indicative content	Mark
6 (f) continued	Evaluation 6 Failings of the price mechanism • Information gaps • Asymmetric information • Externalities • Peer pressure ignores utility • Habit forming distorts utility Possible different disadvantages or approaches : * While consumers may maximise their private utility $MSC > MSB$, with explanation. e.g. passive smoking/health care costs * Without government intervention the oligopolistic/monopolistic power of cigarette firms, in the form of advertising and propaganda, will go unchecked Candidates may refer to Karl Marx Consumers exploited in past by misinformation on tobacco and due to being addictive they become dependent. Competition and the need to profit maximise will mean firms cut costs risking consumers health and increase prices thus reducing consumer surplus. Nature of free market is for powerful monopolies to emerge that can further exploit consumers.	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
Level 3	5–6	Evaluative comments supported by relevant reasoning and appropriate reference to context. Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.



Question Number	Answer	Mark
6(f)	Knowledge 4, Application 4, Analysis 6 The extracts contain plenty of examples from an international context. • Re-designing the structure of fees in England according to the 'value of the degree' • This could be done by subject, institution etc. • Cutting fees for poorer groups and introducing maintenance grants • The US model where top institutions charge high fees and state universities much lower ones • The European model of lower fees • A graduate tax as in Germany • Discussion of efficient/inefficient allocation of resources • Education as a merit good • External benefits application (with appropriate diagram) • Impact on income inequality/fairness/impact on poorer communities • Free market system will discourage 'fringe degrees' and focus on degrees that offer more vocational benefits that pay higher salaries (Good or bad?) Candidates may use supply and demand analysis to develop the idea of different subjects charging different fees.	(14)

Level	Mark	Descriptor
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Question Number	Answer	Mark
6(f) continued	Evaluation 6 England is similar to the U.S. and quite different from Europe • Good evaluation will consider the strengths and weaknesses of each method • European approaches recognise the increase in graduate earning potential and the much higher taxes that graduates will pay in the future. They are much cheaper at the point of use and encourage applicants from poorer families. The taxpayer pays the majority of the cost at the point of use • U.S. and English approaches recognise that the consumer of education must pay at the point of use and be prepared to make a personal investment in future earning power. Students are encouraged to consider whether their degree is worth the cost. If creative arts confer no benefits, then why study them?	(6)

Level	Mark	Descriptor
	0	No evaluative comments.
Level 1	1–2	Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements. Evaluative comments with supporting evidence/reference to context and a partially developed chain of reasoning.
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