



**Economics Questions By Topic:**

**Government Failure (1.4.2) Mark  
Scheme**

**A-Level Edexcel Theme 1**

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## Section A

Question Number	Answer	Mark
1	<p style="text-align: center;"><b>Knowledge 1</b></p> <p><b>Knowledge/understanding</b> 1 mark for definition, e.g. This occurs when government intervention in the economy causes a net welfare loss/decline in economic welfare.</p>	<b>(1)</b>

Question Number	Answer	Mark
2	<p><b>Answer C</b></p> <ul style="list-style-type: none"><li>• Definition of government failure (government intervention leads to a net welfare loss /inefficient allocation of resources) (1 mark).</li><li>• High taxes on tobacco make it worthwhile for some people to break the law and smuggle in cheaper tobacco from abroad (1 mark).</li><li>• It is government failure since it leads to a loss of tax revenue (1 mark).</li><li>• Allow other forms of government failure, eg cheap smuggled cigarettes means people smoke more (1 mark)</li></ul>	<b>(4)</b>

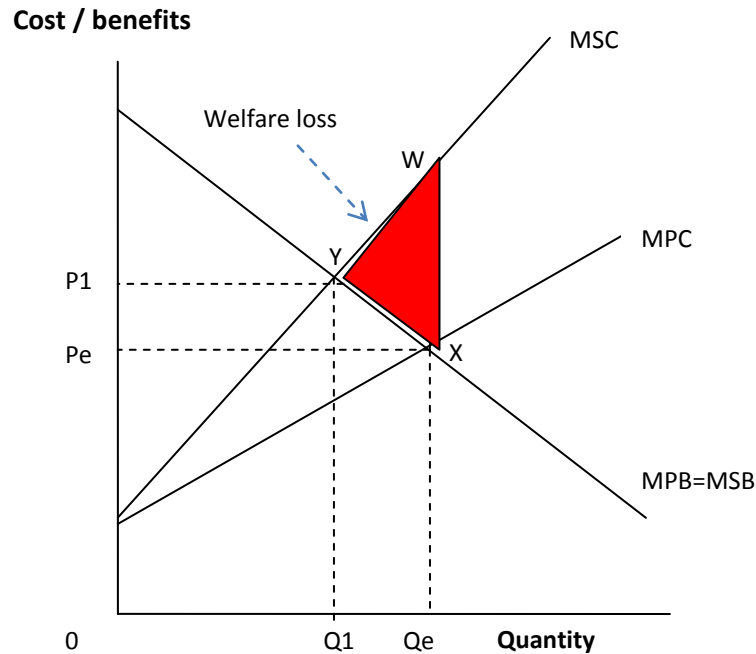
## Section B

Question Number	Answer	Mark
<b>3</b>	<p><b>Candidates can argue either way: award the most effective explanation up to 8 marks (KAA) and the alternative view up to 6 marks (Evaluation).</b></p> <p><b>Candidates may refer to other transport projects, for example, HS2 high speed rail link between London and Birmingham or building of a new airport or runway or motorway.</b></p> <ul style="list-style-type: none"> <li>• Definition of Government failure (government intervention leads to an inefficient or misallocation of resources / welfare loss). <b>(1 mark)</b></li> </ul> <p><b>Government failure may result from a major infrastructure project since: (up to 2+2+2+2 or 3+3+2 or 4+4 marks)</b></p> <ul style="list-style-type: none"> <li>• <b>Use of taxpayers money:</b> Extract 3 identifies use of taxpayers' money of £14.8 billion of money from London businesses / so may lead to higher tax bills / more government borrowing / cuts in government expenditure elsewhere / opportunity cost associated with project / unfair for taxpayers who do not use Crossrail.</li> <li>• <b>Government spending on infrastructure projects uncertain:</b> Extract 2 refers to a 50% cut in government spending on infrastructure projects in the first quarter of 2013 / this creates uncertainty over future employment for specialist workers leading to structural unemployment and loss of skills / firms might reduce investment into workforce and capital.</li> <li>• <b>Impact on property prices:</b> Extract 3 identifies that domestic and commercial property values along the Crossrail route have and are set to increase. These property owners gain far more than they are set to pay in taxes. This appears unfair for those taxpayers further away from the route / compensation may not be available for some households near to the route.</li> <li>• <b>Negative externalities:</b> these might arise from major infrastructure projects / impact on property prices very close by / increase in pollution / impact on wildlife / noise and air pollution / increase in congestion in London over the long term.</li> </ul>	<b>(14)</b>

**Note: award for negative externality diagram (up to 2 marks)**

**Diagram (up to 2 marks)**

- Original market and social optimum equilibrium quantities and price positions correctly labelled. (1 mark).
- Welfare loss area identified (1 mark)



- **Increase regional inequality:** the benefits are mainly for London and the south east and so may increase regional inequality / resources could be better to develop alternative infrastructure projects benefitting the whole UK or weaker regions.
- **Accuracy of estimates and forecasts:** construction costs may greatly exceed the original forecast costs / demand for Crossrail services may not reach the estimated number of users / problem estimating costs and benefits over the long term.
- **Best to leave the whole project to the private sector** to see whether viable / private sector managers more efficient than government managers.

**Government failure may not occur since: (up to 2+2+2+2 or 3+3+2 or 4+4 marks)**

- Improved transport infrastructure could lead to more inward investment / job creation rising incomes in long term (accept macro-economic arguments such as use of multiplier effects).
- Commercial property along route (and other properties such as residential) increase in value is a benefit to the owners not a failure of government.
- The project is being run by private sector managers and work done by private sector firms – so not really a government failure / the project may never occur if left to private sector as the risk and time span of benefits is over a very long time period / so government intervention is to correct a market failure.
- Extract 2 indicates that other regions have directly benefited from the Crossrail project in terms of company orders and job creation.
- Accuracy of estimates: always an issue for projects which take a long time to build but benefits include reduction in congestion and faster journey times.
- The contract with builders may mean any cost overruns is paid by them rather than the government and tax payers.

The quality of written communication will be assessed in this question based on the candidate's ability:

- To present an argument and conclude on the basis of that argument.
- To organise information clearly and coherently.
- To use economics vocabulary appropriately.
- To use grammar, spelling and punctuation appropriately.

Question Number	Answer	Mark
4	<p><b>8 KAA marks</b></p> <ul style="list-style-type: none"> <li>• Definition of government failure (government intervention leads to a misallocation of resources / leads to a net welfare loss). <b>(1 mark)</b></li> </ul> <p><b>NB: Be prepared to accept one view as KAA and the other as evaluation</b></p> <p><b>Government failure since:</b></p> <ul style="list-style-type: none"> <li>• High tobacco taxes may have encouraged illegal smuggling of tobacco / as 80 per cent of the price of cigarettes comprises tax or 20 per cent of cigarettes smoked in Britain are illegal / encourages people to break the law. <b>(1+1 marks)</b></li> <li>• Counterfeit) cigarettes may be more harmful than branded cigarettes / some development e.g. plain packaging regulation may it easier to counterfeit cigarettes. <b>(1+1 marks)</b></li> <li>• High tobacco taxes may increase inequality / since a greater proportion of lower income groups smoke (29%) than higher income groups (13%). <b>(1+1 marks)</b></li> <li>• Unintended consequences: Government regulations or high taxes may have contributed to closure of pubs and shops or a decrease in employment / increase in losses or fall in profits. <b>(1+1 marks)</b></li> <li>• Costs of monitoring and enforcing regulations / some development e.g. under-age smoking or funding border customs. <b>(1+1 marks)</b></li> <li>• Accept critical approach to other regulations not mentioned in extracts. <b>(1+1 marks)</b></li> </ul> <p><b>6 Evaluation marks (2+2+2 or 3+3)</b></p> <p><b>Not government failure since:</b></p> <ul style="list-style-type: none"> <li>• Without government intervention there would be a much greater market failure / use of data from Figure 1.</li> <li>• The tobacco tax helps to pay for the costs of smoking or internalise external costs / development of this point e.g. the £12.1 billion tobacco tax revenue covers a large portion of the £13.7 billion estimated total costs of smoking / reduce effects of passive smoking.</li> <li>• Government can reduce asymmetric information or imperfect knowledge / development of this point e.g. public health campaigns so consumers realise the true costs of tobacco smoking / reduce problem of myopia among tobacco smokers.</li> <li>• Government intervention can reduce the chances of addiction to a dangerous substance / development of this point e.g. high tobacco taxes may discourage teenagers from smoking.</li> </ul>	<b>(14)</b>

	<ul style="list-style-type: none"><li>• Government intervention help reduce tobacco smoking among children / development of this point e.g. ban on advertising or selling to under 18 year olds / ban on selling cigarettes in vending machines which children can often use.</li><li>• High tobacco taxes may not be significant cause of tobacco smuggling / Spain and Italy have much lower tobacco taxes but higher rates of smuggling.</li><li>• Government intervention can increase the quality of life / raise life expectancy.</li><li>• Government intervention may increases output of labour at work / higher profits.</li><li>• Government intervention can reduce pressure on NHS / enable resources to be diverted to treat other illnesses.</li></ul> <p>The quality of written communication will be assessed in this question based on the candidate's ability:</p> <ul style="list-style-type: none"><li>➤ To present an argument and conclude on the basis of that argument.</li><li>➤ To organise information clearly and coherently.</li><li>➤ To use economics vocabulary appropriately.</li><li>➤ To use grammar, spelling and punctuation appropriately.</li></ul>	
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Question Number	Answer	Mark
5	<p>KAA 8 marks (2+2+2+2 marks or 3+3+2 marks)</p> <p>Candidates may argue either way. The development of one point of view constitutes KAA. The alternative view is considered as evaluation</p> <p>Definition / understanding of government failure (Government intervention leads to a net welfare loss / inefficient allocation of resources / intervenes to correct market failure but makes it worse) (1 mark).</p> <p>Government failure may have occurred since:</p> <ul style="list-style-type: none"> <li>➤ Extract 2 refers to the faster increase in NHS managerial staff over nurses and doctors / adding to bureaucracy / use of figures.</li> <li>➤ Extract 2 refers to the introduction of competition in the NHS may have added to bureaucracy and fragmentation according to Dr Brent of BMA.</li> <li>➤ Figure 1 refers to the reduction in number of hospital beds suggests possible reduction provision of service / use of figures.</li> <li>➤ Figure 3 refers to the decrease in productivity for NHS workers between 1997 and 2007 / use of figures.</li> <li>➤ Extract 1 refers to current inefficiencies in the NHS - the government should have taken action earlier to reduce them (cost of purchasing goods and services, staff sickness, IT programme, use of buildings).</li> <li>➤ There may be government failure since the extra resources used in healthcare could have been allocated to other areas (opportunity cost).</li> </ul> <p>Evaluation (2+2+2 marks or 3+3 marks)</p> <p>Government failure may not have occurred since:</p> <ul style="list-style-type: none"> <li>➤ Figure 2 shows hospital waiting times in excess of 13 weeks have fallen / use of figures.</li> <li>➤ More managers may be required to improve the allocation of funds and health provision since a huge operation / reference to the massive NHS budget of £127 billion in 2011.</li> <li>➤ The quality of healthcare may have improved - it is difficult to measure this against productivity shown in</li> </ul>	

	<p>Figure 3.</p> <ul style="list-style-type: none"> <li>➤ Extract 1 refers to faster treatment of patients in hospital as revealed by the fall in the average length of stay in hospital / from 8.8 to 6.3 days.</li> <li>➤ The health reforms are to do with opening up to competition - more of a market failure rather than government failure.</li> <li>➤ Extract 1 shows the government has identified ways to increase NHS efficiency (cost of purchasing goods and services, staff sickness, IT programme, use of buildings).</li> <li>➤ Figure 3 shows rising productivity between 2005 and 2007 / use of figures.</li> <li>➤ Discussion of data accuracy as huge sums of money involved so hard to tell if there has been government failure.</li> <li>➤ Other things are not equal / other factors may have affected the general health of the population e.g. decrease in smoking or increase in alcohol consumption.</li> <li>➤ Discussion of short run and long run effects e.g. only time will tell if there is government failure from the health reforms.</li> </ul>	(14)
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Level	Mark	Descriptor
Level 1	1-2	Definition of government failure and basic reference to information.
Level 2	3-6	Use of information to present one view on government failure.
Level 3	7-10	Extensive use of information to present one view on government failure and one evaluation comment.
Level 4	11-14	Extensive use of information to present one view on government failure and two or more evaluation comments.

Question Number	Answer	Mark
6	<ul style="list-style-type: none"> <li>• Definition / understanding of government failure (government intervention in a market which leads to a net welfare loss / inefficient allocation of resources) (1 + 1 marks).</li> <li>• Government intervention takes the form of restricting exports / which mean producers may switch supplies to domestic markets / reducing price for domestic consumers (1 + 1 + 1 marks),</li> <li>• Government failure will occur if farmers lose incentive to grow rice for domestic market due to low price (1 mark). Development of this point, for example, farmers have less revenue to re-invest into rice production / farming commodities suffer a fall in incomes (1 + 1 marks).</li> </ul> <p><b>Evaluation (2 + 2 marks)</b></p> <ul style="list-style-type: none"> <li>• Magnitude of restriction on exports. The greater the restrictions the greater the effect on domestic farmers. The policy could backfire on the governments since there could still be rice shortages.</li> <li>• Time period in which restrictions on exports of rice may occur - over a short period there may be little effect. Over a long period farmers may exit the market / suffer bankruptcy.</li> <li>• Discussion of other effects, for example, a worsening in the Balance of Trade for rice exporting countries / negative multiplier effects / emergence of hidden market for exporting rice.</li> <li>• Discussion of view that it is not a government failure since it should reduce food shortage / reduce food prices in domestic market. It depends on the response of rice farmers.</li> </ul> <p><b>Quality of written communication skills will be assessed in this question based on the candidate's ability:</b></p> <ul style="list-style-type: none"> <li>• To present an argument and conclude on the basis of that argument.</li> <li>• To organise information clearly and coherently.</li> <li>• To use economics vocabulary appropriately.</li> <li>• To use grammar, spelling and punctuation appropriately</li> </ul>	(10)

Level	Mark	Descriptor
Level 1	1-2	Definition of government failure. No development.
Level 2	3-4	Explanation of why government failure - lower domestic price or rice may lead to lower production and revenue. (Mark cap of 6 if no evaluation).
Level 3	5-7	Explanation of why government failure and one evaluation point offered.
Level 4	8-10	Convincing explanation and two or more evaluation points.