



## **Economics Questions By Topic:**

### **Government Intervention in Markets (1.4.1) Mark Scheme**

### **A-Level Edexcel Theme 1**

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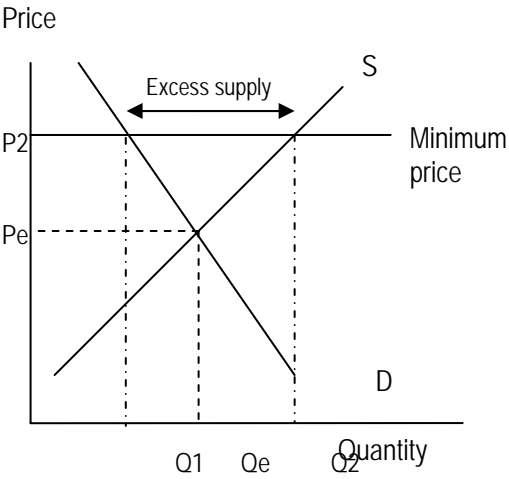
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## Section A

| Question Number | Answer | Mark       |
|-----------------|--------|------------|
| <b>1 (a)</b>    | C      | <b>(1)</b> |

| Question Number | Answer   | Mark       |
|-----------------|--|------------|
| <b>1 (b)</b>    | <p style="text-align: center;"><b>Knowledge 1, Application 2</b></p> <p><b>Knowledge</b><br/>One mark for identifying measure e.g.</p> <ul style="list-style-type: none"> <li>• tax on water or water consumers (1) OR</li> <li>• regulation (1) OR</li> <li>• subsidise water efficiency or substitute water provision to lake (1) OR</li> <li>• permits (1)</li> </ul> <p><b>Application</b><br/>2 marks for linked application (1+1), e.g.</p> <ul style="list-style-type: none"> <li>• increased taxes/regulation would make it more expensive/less profitable (1) reducing consumption (1)</li> <li>• diagram e.g. showing supply shifting in (1) and quantity falling (1)</li> </ul> | <b>(3)</b> |

| Question Number | Answer   | Mark |
|-----------------|--|------|
| 2               | <p>A (1 mark)</p> <ul style="list-style-type: none"> <li>• Reward a comment on government intervention to correct a market failure (1 mark).</li> <li>• Definition of minimum price (the lowest price a good is allowed to be sold for or it is a floor price) (1 mark).</li> <li>• Explanation of excess supply (surplus): where the quantity supplied exceeds the quantity demanded (1 mark).</li> <li>• Written explanation of the process of excess supply: as price rises then supply extends or rises / demand contracts (falls) or consumption falls (1+1 marks).</li> </ul> <p>OR diagram depicting the minimum price above the free market price / showing excess supply (<math>Q_1 - Q_2</math>) (2 marks).</p>  <p>Note: no marks available for a response stating that the excess supply is purchased by government.</p> <p>Note: no marks available for a diagram depicting just a demand and supply curve without the minimum price.</p> <p>Rejection marks</p> <ul style="list-style-type: none"> <li>• Option B is incorrect since the minimum price is set above the market price and so price will have to rise. (1 mark)</li> <li>• Option C is incorrect since a rise in price will lead to a contraction in demand - (not enough to just reverse key with 'a decrease in consumption'. (1 mark)</li> <li>• Option D is incorrect since only if a minimum price is set below the market price will there be no effect in the market. (1 mark)</li> </ul> | (4)  |

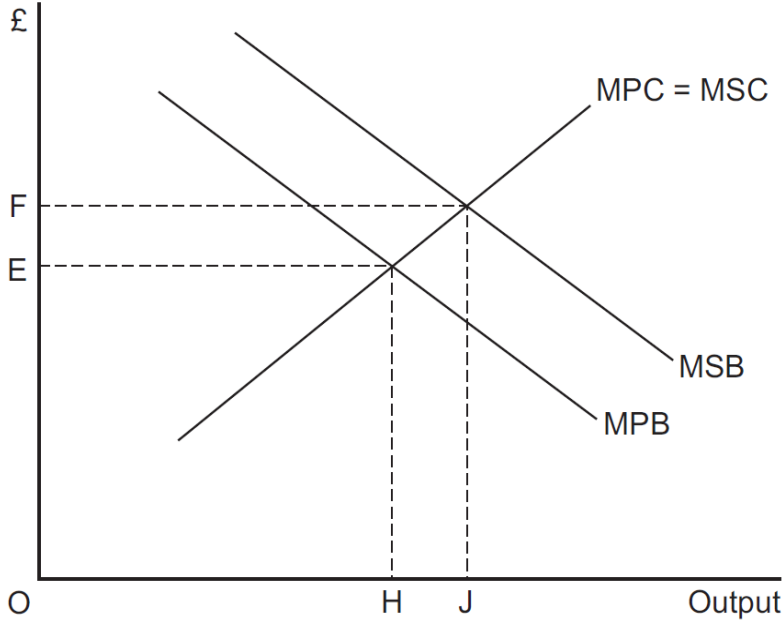
| Question Number | Answer  | Mark |
|-----------------|---|------|
| 3               | <p>Answer A</p> <ul style="list-style-type: none"> <li>• Definition of market failure (the price mechanism leads to a net welfare loss / inefficient allocation of resources) (1 mark).</li> <li>• Explanation of type of market failure e.g. : external benefits may be ignored by the price mechanism / this could lead to under provision or under consumption of health care / relevant example such as reduced time off work or a reduction in the spread of diseases (1+ 1 + 1 marks)</li> <li>• A diagrammatic analysis showing external benefits (1 mark)</li> <li>• Explanation of type of market failure e.g. imperfect market knowledge or asymmetric information / many people do not realise the importance of making provisions for healthcare for when they may become ill (1 +1 marks).</li> <li>• Explanation of type of market failure e.g. inequality of income so some people lack of income to afford private healthcare / government intervention in the form of taxation of incomes to help fund healthcare so it is free at point of consumption (1 + 1 marks).</li> </ul> <p>Rejection marks include</p> <ul style="list-style-type: none"> <li>➤ Option B is incorrect since the government should subsidise a good which yields external benefits as there is under-consumption / under-provision (1 mark).</li> <li>➤ Option C is incorrect since abolition of tradable permits will increase pollution (1 mark).</li> <li>➤ Option D is incorrect since the government should tax goods which yield high external costs as there is over-consumption / over-provision (1 mark).</li> </ul> | (4)  |

| Question Number | Answer  | Mark |
|-----------------|---|------|
| 4               | <p><b>Answer A (1)</b></p> <ul style="list-style-type: none"> <li>• Explanation of the free rider problem (difficulty in charging people for consuming a good once it is provided) NB: Only award if reference made to the inability for charging consumers. (1)</li> <li>• The free rider problem leads to under-provision of a good and so is market failure. (1)</li> <li>• Definition of public goods (non-excludable and non-rivalry) (1)</li> <li>• Example of a public good, for example, light house, pavements, street lighting, flood defence scheme, national defence and public firework display. (1)</li> </ul> <p><b>Rejection marks</b></p> <ul style="list-style-type: none"> <li>• Option B is incorrect since taxation of public goods will lead to a further reduction in their provision / increase market failure. (1)</li> <li>• Option C is incorrect since luxury goods are private goods and so not relevant. (1)</li> <li>• Option D is incorrect since subsidies to goods which yield high external costs will increase market failure / increase the gap between the market equilibrium and social optimum position / examples of goods which yield external costs such as tobacco smoking, alcohol consumption or private motoring. (1)</li> </ul> | (4)  |

| Question Number | Answer   | Mark |
|-----------------|--|------|
| 5               | <p>Answer D (1 mark)</p> <ul style="list-style-type: none"> <li>• Definition of external benefits (e.g. positive third party effects / benefits external to an exchange / positive spillover effects / benefits from a transaction which the price mechanism ignores / difference between social benefits and private benefits) (1mark).</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li>• Definition of subsidy (grant to firms) / lower production costs (1 mark).<br/>NB: Award just one mark even if both definitions are given.</li> <li>• Application to goods / service which yield external benefits e.g. education and healthcare services. (1 mark).</li> <li>• Diagrammatic analysis showing the subsidy increase in output and decrease in price (this could be shown by an MSB and MPB diagram, where the social equilibrium output is higher than the market equilibrium output) (1 mark).</li> <li>• Also accept definition of market failure (price mechanism / market fails to allocate resources efficiently) (1 mark).</li> </ul> | (4)  |

| Question Number | Answer  | Mark |
|-----------------|---|------|
| 6               | <p>Answer C (1 mark)</p> <ul style="list-style-type: none"> <li>• Definition of minimum price scheme (a floor price / minimum price below which price cannot fall) or explanation of the aim of a minimum price scheme (e.g. stabilise prices or increase producer income) (1 mark).</li> <li>• Initial government spending on barley is Q1Q2WZ (1 mark).</li> <li>• New government spending on barley is Q3Q4YX OR an explanation of how an increase in excess supply of barley will lead to an increase in the expenditure of the EU (1 mark).</li> <li>• Alternatively, the original and new areas of government spending may be annotated on the diagram) (1+1 marks).</li> </ul> | (4)  |

**Section B**

| Question Number | Answer  | Mark               |
|-----------------|---|--------------------|
| 7               | <p align="center"><b>Knowledge 4, Application 4, Analysis 6</b></p> <p>Education creates positive externalities in consumption. Left to the market alone there will be under-consumption of education. This can be illustrated through an externalities diagram:</p>  <ul style="list-style-type: none"> <li>• The diagram below shows the marginal private benefit (MPB) and marginal social benefit (MSB) curves and the marginal private cost (MPC) and marginal social cost (MSC) curves for higher education</li> <li>• The external benefits of education are social benefits that spillover to benefit others in the society and future generations. These include lower government health, welfare, and prison costs; strengthened democracy, human rights, political stability, and social capital; less crime and poverty; environmental benefits; better international competitiveness; new ideas and diffusion of technology</li> <li>• Government intervention can be used to ensure that the optimum quantity of education, J, is consumed rather than the free market outcome at H</li> </ul> | <p><b>(14)</b></p> |



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

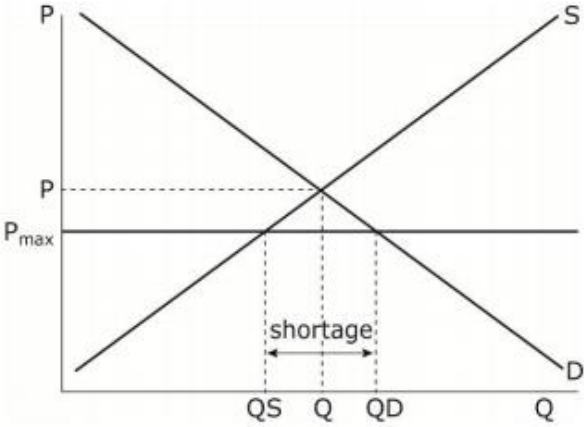
| Question Number       | Answer  | Mark       |
|-----------------------|---|------------|
| <b>7</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• There is a significant issue of measurement where externalities are concerned</li> <li>• Many of the social benefits identified above are 'vague' and ambiguous</li> <li>• As a result there can be considerable 'government failure' in education</li> <li>• Understanding of government failure as intervention that results in a net welfare loss; how is government supposed to know which degree level subjects are in demand in the future?</li> <li>• Causes of government failure: <ul style="list-style-type: none"> <li>○ distortion of price signals</li> <li>○ unintended consequences</li> <li>○ excessive administrative costs</li> <li>○ information gaps</li> </ul> </li> </ul> | <b>(6)</b> |

| Level   | Mark       | Descriptor  |
|---------|------------|---|
|         | <b>0</b>   | No evaluative comments.   |
| Level 1 | <b>1-2</b> | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.  |
| Level 2 | <b>3-4</b> | 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 | <b>5-6</b> | 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 | Indicative content  | Mark        |
|-----------------|---|-------------|
| <b>8</b>        | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6</b></p> <p>Define excess demand.<br/>Application of excess demand to state funded health care.</p> <p>Government interventions:</p> <p>Factors influencing demand and supply (PES) that may result in the removal of excess demand (new hospitals built/doctors trained).</p> <p>Purpose of intervention with reference to market failure and using diagrams in various contexts:</p> <ul style="list-style-type: none"> <li>• government spending on direct provision increases supply</li> <li>• charging for NHS health care rations</li> <li>• indirect taxation (ad valorem or specific) on sugar/high fat content food/drinks or cutting taxes on healthier lifestyle options</li> <li>• subsidies on healthy food/gym memberships</li> <li>• maximum and minimum prices on healthy and unhealthy food/drinks</li> </ul> <p>Other methods of government intervention:</p> <ul style="list-style-type: none"> <li>• state provision of public goods e.g. public parks</li> <li>• provision of information e.g. 5 a day</li> <li>• regulation e.g. restricting sugar content</li> <li>• subsidising private treatment</li> </ul> | <b>(14)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>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       |
|-----------------------|--|--|------------|
| <b>8</b><br>continued | <b>Evaluation 6</b>  |  |            |
|                       | <p>Government failure to reduce excess demand.</p> <p>Understanding of government failure as intervention that results in a net welfare loss; consumers face an under provision of food/drink that satisfies them i.e. marginal social benefits now exceed marginal social costs.</p> <p>Consumer choice restricted e.g. heavily subsidised healthy school meals and regulations against unhealthy options.</p> <p>Causes of government failure:</p> <ul style="list-style-type: none"> <li>• distortion of price signals</li> <li>• unintended consequences – charging for health care results in under consumption.</li> <li>• excessive administrative costs</li> <li>• information gaps – what is healthy, concerns about low sugar food/drink contents</li> <li>• time lag of the policies</li> <li>• magnitude depending on size of funding change.</li> </ul> <p>Irrational consumer behaviour - peer pressure.</p> |  | <b>(6)</b> |
| Level                 | Mark   | Descriptor   |            |
|                       | 0  | No evaluative comments.  |            |
| Level 1               | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |            |

| Question Number    | Indicative content   | Mark              |
|--------------------|--|-------------------|
| <p><b>9(a)</b></p> | <p style="text-align: center;"><b>Knowledge 3, Application 3, Analysis 3</b></p> <ul style="list-style-type: none"> <li>• Understanding of maximum price.</li> </ul> <div style="text-align: center;">  </div> <p>The effect of a maximum price on consumers:</p> <ul style="list-style-type: none"> <li>• Energy prices more affordable for consumers, end of 'decade of rising energy bills', extension in demand for energy or increase in quantity demanded (inefficient use).</li> </ul> <p>The effect of a maximum price on producers:</p> <ul style="list-style-type: none"> <li>• Contraction in supply or decrease in quantity supplied, power stations turned off 'undermine energy market', decline in producer surplus or revenue/profit.</li> </ul> <p><b>NB Level 3 responses must consider the effects on both energy consumers and producers.</b></p> <p><b>NB If no valid diagram then the maximum of Level 2 may be awarded</b></p> | <p><b>(9)</b></p> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to link knowledge and understanding in context using relevant and focused examples which are fully integrated.<br>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       |
|--------------------------|---|------------|
| <b>9(a)</b><br>continued | <b>Evaluation 6</b>   |            |
|                          | <ul style="list-style-type: none"> <li>• It depends on whether and how far the maximum price is below the market equilibrium price.</li> <li>• It depends on the PES of energy.</li> <li>• It depends on the PED for energy.</li> <li>• Comment on the costs to consumers – loss of consumer surplus, energy shortages, 'higher prices in the future'.</li> <li>• Comment on the impact on producers – producer behaviour e.g. may move up to the price cap, reduce investment</li> <li>• Government failure e.g. distortion of price signals, unintended consequences</li> </ul> | <b>(6)</b> |

| Level   | Mark | Descriptor   |
|---------|------|--|
|         | 0    | No evaluative comments.  |
| Level 1 | 1–2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.  |
| Level 2 | 3–4  | Evidence of evaluation of alternative approaches which is unbalanced.<br>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.<br>Evaluation is balanced and considers the broad elements of the question.           |



| Question Number | Indicative content   | Mark        |
|-----------------|--|-------------|
| 9(b)            | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6</b></p> <p>Reasons for government intervention e.g. to correct market failure<br/> Link intervention to reducing carbon emissions.<br/> Appropriate diagram(s) accurately drawn.</p> <p>Ways might include:</p> <ul style="list-style-type: none"> <li>• Indirect taxation (ad valorem and/or specific) on carbon emissions providers e.g. coal/gas power stations, or workplace parking, reference to taxes directed at getting people out of their cars</li> <li>• Subsidies to solar/wind/nuclear energy/cycling/public transport</li> <li>• Maximum price on low/zero carbon emissions providers and minimum prices on carbon emitters.</li> <li>• Tradable pollution permits e.g. EU emissions trading scheme.</li> <li>• Provision of information, energy efficiency measures.</li> <li>• Regulation e.g. shut down all coal-fired power stations by 2025, reduction in car emissions by using low emission zones.</li> </ul> <p><b>NB KAA can be treated as Evaluation and vice versa</b></p> <p><b>NB If there is no Diagram, max Level 3</b></p> | <b>(14)</b> |

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|---------|-------|--|
|         | 0     | A completely inaccurate response.  |
| Level 1 | 1–3   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>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       |
|--------------------------|--|------------|
| <b>9(b)</b><br>continued | <b>Evaluation 6</b>  |            |
|                          | <p>Why the ways given may or may not be successful e.g.</p> <ul style="list-style-type: none"> <li>• Distortion of price signals.</li> <li>• Unintended consequences, energy shortages.</li> <li>• Excessive administrative costs, pollution permits.</li> <li>• Information gaps, external costs of non-carbon based energy sources, questioning link between carbon emissions and climate change.</li> <li>• Government failure to provide, solar and wind power 'vary with weather', nuclear accidents.</li> <li>• Relative benefits/costs of government intervention versus market based solutions.</li> </ul> | <b>(6)</b> |

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|---------|------|--|
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| Level 1 | 1-2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

| Question Number | Indicative content  | Mark        |
|-----------------|---|-------------|
| <b>10</b>       | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6</b></p> <p>Positive/negative effects of government intervention on tobacco cigarettes and or e-cigarettes with reference to market failure and using diagrams in various contexts:</p> <ul style="list-style-type: none"> <li>• Indirect taxation (ad valorem and specific)</li> <li>• Subsidies for tobacco replacements</li> <li>• Minimum cigarette price</li> <br/> <li>• Provision of information e.g. public health campaign</li> <li>• Regulation e.g. banning smoking in public places or advertising.</li> <li>• Direct provision – nicotine patches and e-cigarettes on NHS prescription</li> </ul> <p>Diagrams may be used to illustrate the above.</p> | <b>(14)</b> |

| Level   | Mark  | Descriptor   |
|---------|-------|--|
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| Level 2 | 4–6   | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>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.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>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              |
|--------------------------------|---|-------------------|
| <p><b>10</b><br/>continued</p> | <p style="text-align: center;"><b>Evaluation 6</b></p> <p>Negative or unsuccessful impact of the intervention methods.</p> <p>Understanding of government failure as intervention that results in a net welfare loss – tobacco cigarette tax revenue exceeding tobacco related NHS expenditure.</p> <p>Causes of government failure:</p> <ul style="list-style-type: none"> <li>• Distortion of price signals – harm reduction instead of prevention, consuming e-cigarettes rather than quitting</li> <li>• Unintended consequences – e-cigarettes draw in new users acting as a gateway to smoking; regulating e-cigarettes protect tobacco from competition; tobacco smuggling</li> <li>• Excessive administrative costs – slow down e-cigarette innovation</li> <li>• Information gaps – little research on long term effects of e-cigarettes</li> <li>• Ineffective as PED &lt;1; diminishing returns of tax and regulations. Price inelastic demand diagram.</li> </ul> <p>Other evaluation approaches include:</p> <ul style="list-style-type: none"> <li>• Consideration of the extent of government intervention e.g. could it be more regulated</li> <li>• Free market approach might be more effective</li> <li>• Depends on the country being considered</li> <li>• Short run and long run</li> </ul> | <p><b>(6)</b></p> |

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|---------|------|--|
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| Level 1 | 1-2  | Identification of generic evaluative comments without supporting evidence/reference to context.<br>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.<br>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.<br>Evaluation is balanced and considers the broad elements of the question, leading to a substantiated judgement.                    |

| Question Number | Indicative content   | Mark   |
|-----------------|--|--|
| <b>11(a)</b>    | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6</b></p> <ul style="list-style-type: none"> <li>• Effects include changing property prices, rental market, affordability, shifts in demand and supply, welfare changes, environmental impact, cost to firms, cost to government, or impact on other markets.</li> <li>• Methods of intervention – e.g. subsidies, taxation, provision of information, regulation, direct provision of housing, flood defences, Help to Buy and rent controls. One type of intervention is sufficient as long as considering range of micro-effects.</li> <li>• Purpose of Government intervention to correct market failure – housing shortages and affordability. Possibility of further market and government failure.</li> <li>• Use of Figure 1 to indicate UK’s PES may increase.</li> <li>• Use of Extract B: to increase property supply “making new homes available more quickly”.</li> <li>• Candidates may consider macro issues in a micro context if part of a chain of reasoning that identifies micro impact e.g. provides incentive to build more housing increases employment.</li> </ul> <p>NB KAA can be positive or negative effects.</p> | <p style="text-align: center;"><b>(14)</b></p> |



| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two-stage chain of reasoning only.   |
| Level 3 | 7-10  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples.<br>Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems.<br>The answer demonstrates logical and coherent chains of reasoning. |

| Question Number           | Indicative content   | Mark       |
|---------------------------|--|------------|
| <b>11(a)</b><br>continued | <p style="text-align: center;"><b>Evaluation 6</b></p> <ul style="list-style-type: none"> <li>• Magnitude – extent of government intervention.</li> <li>• Measurement difficulty</li> <li>• Short run, long run issues.</li> <li>• Information gaps.</li> <li>• Unintended consequences - mortgage help may become ineffective in catching a 'runaway train'</li> <li>• Impact on different interest groups.</li> <li>• Distortion of price signals.</li> <li>• Opportunity cost to Government.</li> <li>• Environmental impact e.g. flooding</li> </ul> <p>NB EV can be positive or negative effects.</p> | <b>(6)</b> |

| 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 | Indicative content  | Mark        |
|-----------------|---|-------------|
| <b>11(b)</b>    | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 6</b></p> <ul style="list-style-type: none"> <li>• Candidates may illustrate through use of appropriate diagram.</li> <li>• Public goods: non excludable and non rivalrous, e.g. flood defence schemes.</li> <li>• Failure of free market – free rider problem.</li> <li>• Externalities – positive or negative, e.g. housing may create these.</li> <li>• Information gaps: markets may have asymmetric information, e.g. insurance companies having incomplete information on risk of flooding.</li> <li>• Candidates may consider other types of government provision.</li> </ul> | <b>(14)</b> |

| 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.<br>Use of generic or irrelevant information or examples.<br>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.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two-stage chain of reasoning only.   |
| Level 3 | 7-10  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relate them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>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.<br>Ability to link knowledge and understanding in context using appropriate examples.<br>Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems.<br>The answer demonstrates logical and coherent chains of reasoning. |

| Question Number           | Indicative content  | Mark       |
|---------------------------|---|------------|
| <b>11(b)</b><br>continued | <b>Evaluation 6</b>   |            |
|                           | <ul style="list-style-type: none"> <li>• Unintended consequences.</li> <li>• Magnitude</li> <li>• Government failure, e.g. flood defences.</li> <li>• Opportunity cost of government provision.</li> <li>• Ineffectiveness of government provision, e.g. climate change – better to abandon areas,</li> <li>• Information gaps.</li> <li>• Non-beneficiaries pay.</li> <li>• Anti-competitive.</li> </ul> | <b>(6)</b> |

| 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 |
|-----------------|---|------|
| 12              | <p><b>KAA = 8 marks (3+3+2 or 2+2+2+2 or 2+2+2+1+1)</b></p> <ul style="list-style-type: none"> <li>➤ Definition or understanding of tradable pollution permits (e.g. a cap placed on carbon emissions of firms through the issue of permits which can be purchased and sold). <b>(1 mark)</b>.</li> </ul> <p><b>Potential benefits of tradable pollution permits to reduce pollution</b><br/>(Accept reference to the EU Emissions Trading Scheme)</p> <ul style="list-style-type: none"> <li>➤ A market created for buying and selling carbon permits where the price mechanism can internalise external costs / link up with EU in move to create a global emissions trading scheme. <b>(1+1 marks)</b></li> <li>➤ Award for suitable diagram depicting the internalisation of external costs from production. <b>(up to 3 marks)</b></li> <li>➤ Incentives for firms to reduce pollution or invest in clean technology / firms can sell excess permits to other firms or bank surplus permits for future years. <b>(1+1 marks)</b></li> <li>➤ An effective way for the Australian government to achieve its 5% carbon emissions reduction target by 2020 / especially as pollution permits can be reduced over time as part of a plan. <b>(1+1 marks)</b></li> <li>➤ Australia is one of the world's largest carbon polluters per head of population so the scheme is justified to help reduce global emissions. <b>(1 mark)</b></li> <li>➤ Government can raise funds by selling some pollution permits or fining firms / revenue can be used to reduce effects of pollution / subsidise cleaner technology / compensate victims. <b>(1+1+1 marks)</b></li> </ul> |      |

**6 Evaluation marks (2+2+2 or 3+3 or 1+2+3 or any combination up to four points)**

**Candidates may consider costs and disadvantages of tradable pollution permits**

- Data reference from Extract 3 of the increase in costs to the mining industry and a danger of less jobs and less funds for investment.
- Structural unemployment may be created in mining areas.
- Little incentive for firms to reduce pollution since heavy polluters can purchase surplus permits from other firms / rather than invest in expensive clean technology.
- Problem that most countries in the world are not part of emissions trading schemes / for example, China, so little impact on reducing global carbon emissions.
- The valuation of pollution permits may be too risky to leave to the market / disputes arise over allocation of permits / too many or too few allocated to the market.
- It may be difficult for new entrants to the market / development of this e.g. high cost of permits or existing firms not releasing permits for sale.
- Other measures might be more effective in reducing carbon emissions e.g. Policy of Direct Action which involves grants to firms / development.
- Cost to the government of monitoring and enforcing emissions trading scheme / problem of asymmetric information.
- Accept macro arguments: for example, multiplier effect of job losses in mining communities or impact on balance of payments.

**(14)**

|  |   |  |
|--|---|--|
|  | <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> |  |
|--|---|--|



| Question Number | Answer  | Mark |
|-----------------|---|------|
| 13              | <p><b>8 KAA marks</b></p> <p>A variety of measures can be used which include:<br/> <b>subsidies of renewable energy schemes (other than the tidal barrage), minimum pricing for renewable energy schemes, taxation of non-renewable energy, tradable carbon permits, regulation and deregulation.</b></p> <p><b>Regulations may come in various forms, for example, relaxation of planning laws, carbon-offsetting, renewable energy certificates.</b></p> <p>NB: accept nuclear power as a renewable energy source.</p> <p><b>Two measures: (4+4 or 5+3 or 6+2)</b></p> <ul style="list-style-type: none"> <li>• Subsidies for renewable energy schemes / lower production costs / raise supply and reduce price / encourage firms into the market / raise producer surplus or profits / application to specific schemes. <ul style="list-style-type: none"> <li>➤ Award up to 2 marks for diagram (increase in supply curve / subsidy area).</li> </ul> </li> <li>• Taxation of non-renewable energy producers / higher production costs / lower supply and raise price / firms may exit market / lower producer surplus or profits / tax revenue can be used to subsidise renewable schemes / application to specific schemes. <ul style="list-style-type: none"> <li>➤ Award up to 2 marks for diagram (decrease in supply / tax area).</li> </ul> </li> <li>• Regulations: this may take various forms such as tighter planning controls for non-renewable energy schemes / looser planning controls on renewable energy schemes / these may raise or lower production costs. Regulations could include Renewable energy certificates, carbon offsetting.</li> <li>• Tradable pollution permits / cap and trade system / penalises heavy polluters who have to buy extra permits / incentive for firms to reduce pollution and sell spare permits / pollution permits can be reduced over time. <ul style="list-style-type: none"> <li>➤ Award up to 2 marks for diagram (decrease in supply of permits / identification of higher price).</li> </ul> </li> <li>• Minimum price schemes for renewable energy / being proposed for nuclear power / ensure long term returns for the investment / impact on price and output.</li> </ul> | (14) |

- Award up to 2 marks for diagram (demand and supply diagram / minimum price set above free market price).

**NB: If just one measure considered cap at 6 KAA marks**

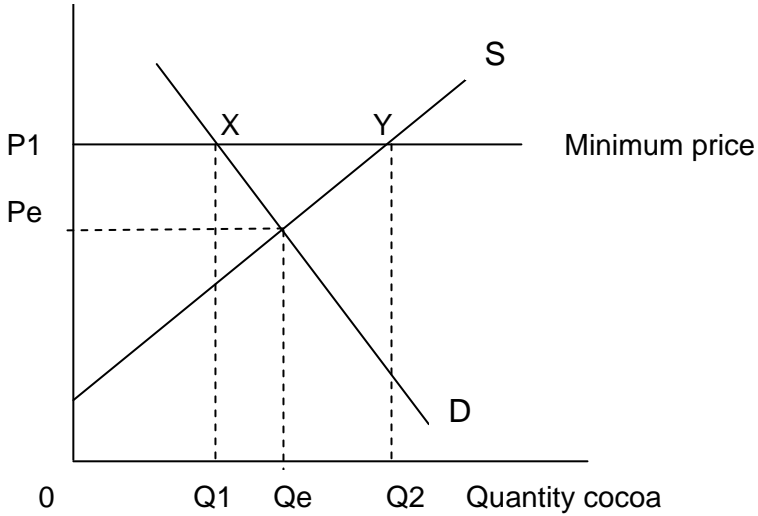
**NB: If more than two measures discussed, award for the best two responses.**

**Evaluation 6 marks (2+2+2 or 3+3 marks)**

- Tax revenue may not be used for renewable energy / discussion of price elasticity of demand for fossil fuels.
- Subsidies have an opportunity cost for government / development of point.
- Subsidies may create inefficiencies / dependency of the firms.
- Specific issues with renewable energy, for example, reliability of wind power and solar power / external costs of renewable energy such as damage to wildlife.
- Problems with tradable pollution permits e.g. over-supply / extension of scheme to airlines.
- Renewable energy certificates may increase production costs for firms.
- Minimum price will increase consumer energy bills / lead to an increase in fuel poverty.
- Discovery of non-renewable resources and their development may reduce costs and increase supply e.g. fracking of gas and oil – so less need for renewable energy.
- Issues of magnitude and time period.
- Cost of monitoring and enforcing the schemes.
- General issues concerning Government failure e.g. setting the correct level of tax or subsidy to internalise externality.

**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.

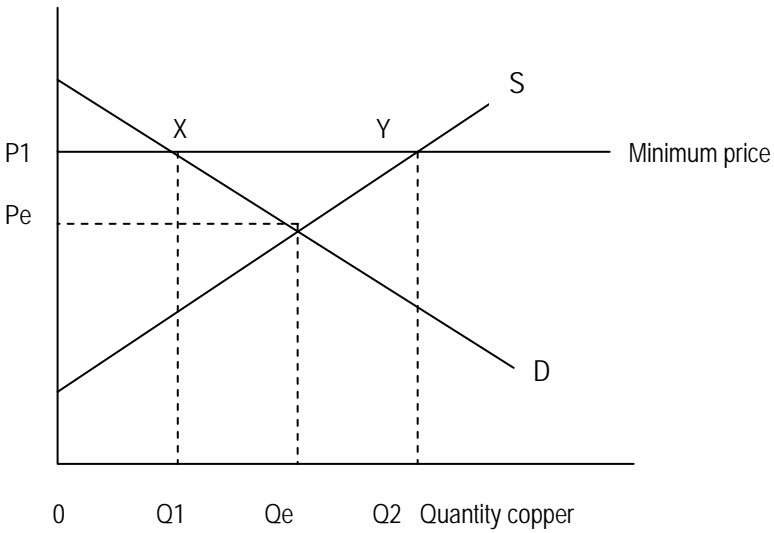
| Question Number | Answer  | Mark |
|-----------------|---|------|
| 14              | <p>8 KAA marks<br/>NB Accept answers which consider commodities other than cocoa</p> <ul style="list-style-type: none"> <li>• Definition of a minimum price scheme (a floor price / minimum price below which cocoa cannot fall). (1 mark)</li> <li>• Diagram and explanation (up to 4 marks)</li> </ul> <p>Price per tonne</p>  <p>0 Q1 Qe Q2 Quantity cocoa</p> <ul style="list-style-type: none"> <li>➤ Demand and supply curves with original equilibrium price identified. (1)</li> <li>➤ Minimum price line drawn in (Do not accept one drawn below the free market equilibrium price). (1)</li> <li>➤ Identify the excess supply or surplus cocoa as XY or Q1Q2. (1)</li> <li>➤ Area of spending by government agency as XYQ2Q1 (1)</li> <li>➤ The overall new level of revenue for farmers as 0P1YQ2 (1)</li> </ul> <p>NB: If no relevant diagram, award maximum of 4 KAA marks.</p> | (14) |

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|--|--|--|
|  | <p>Economic effects may include:</p> <ul style="list-style-type: none"> <li>➤ Reduction in price fluctuations / development of this point e.g. more stable income stream for farmers. (1+1 marks)</li> <li>➤ Increase in revenue and profit for farmers. (1 marks)</li> <li>➤ Increase government expenditure on purchasing the surplus. (1 mark)</li> <li>➤ Increase in employment / development of this point e.g. less absolute poverty among farmers. (1+1 marks)</li> <li>➤ Increase in investment by farmers / development of this point e.g. new fertilisers or planting of more cocoa trees. (1+1 marks)</li> <li>➤ Lower consumer surplus or higher producer surplus / areas identified on diagram. (1+1 marks)</li> <li>➤ Impact on consumers e.g. higher prices and affordability of goods. (1 mark)</li> <li>➤ Increase in production costs for chocolate manufacturers such as Cadbury and Nestle / development of this point e.g. lower profit. (1+1 marks)</li> <li>➤ Surpluses can be sold overseas to countries where demand is increasing e.g. China and India. (1+1 marks)</li> </ul> <p>NB: accept any relevant macroeconomic argument</p> <p>Evaluation 6 marks (2+2+2 or 3+3 or 1+1+1+1+2)<br/>The scheme may not be successful since:</p> <ul style="list-style-type: none"> <li>• Minimum price scheme may lead to government failure.</li> <li>• Problem of rising prices - prices can still fluctuate above the minimum price / may harm consumers.</li> <li>• Problem for Ivory Coast government of purchasing surplus cocoa in the auctions / difficult for a developing country / cost of storage / opportunity cost to government expenditure / example of this.</li> <li>• Discussion on position of the minimum price in relation to free market price e.g. if below there may be no effect / if significantly above there may be too high a cost to maintain minimum price scheme.</li> </ul> |  |
|--|--|--|

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|--|---|--|
|  | <ul style="list-style-type: none"> <li>• Discussion of price elasticity of demand or supply of cocoa and how this affects size of surplus / government expenditure on scheme.</li> <li>• Consumers may seek alternative supplies of cocoa from other countries e.g. Ghana and Nigeria / issue of 40% of global supply from Ivory Coast / non-compliance.</li> <li>• It may reduce competitiveness / reduce efficiency of farmers / less productivity since offered a guaranteed price.</li> <li>• Minimum price schemes have tended to fail for other commodities e.g. tin, rubber, coffee and wool / scheme unworkable in long run due to the high cost.</li> <li>• Dumping of surpluses abroad could undermine cocoa producers in other countries / discussion of perishability.</li> </ul> <p>NB: Do not award for discussion of buffer stock scheme but be prepared to award marks where relevant e.g. the minimum price and purchase of stock.</p> |  |
|--|---|--|

| Question Number  | Answer   | Mark               |
|------------------|--|--------------------|
| <p><b>15</b></p> | <p><b>KAA = 6 marks</b></p> <p><b>Candidates may consider the positive and negative impact of the fishing ban in 30% of UK coastal waters.</b></p> <p><b>The development of one point of view constitutes KAA and the alternative view is considered as evaluation.</b></p> <p><b>Award the highest scoring case as KAA marks.</b></p> <p><b>Negative impact (2+2+2 or 3+3 or 1+2+3 marks)</b></p> <ul style="list-style-type: none"> <li>➤ An immediate reduction in the quantity of fish caught in UK coastal waters or a decrease in supply of fish / an increase in the price of fish / lower consumer surplus / accept a diagram depicting a decrease in supply and higher price.</li> <li>➤ Impact on households: fish may become a luxury good and difficult for low income households to afford / switch to substitutes.</li> <li>➤ Loss of employment on fishing boats / canning industry / industries servicing the boats or making nets.</li> <li>➤ Localised nature of the fishing industry means possibility of high unemployment in fishing ports / negative multiplier effects.</li> <li>➤ Consideration of geographical and / or occupational immobility of labour.</li> <li>➤ Impact on government finances: loss of tax revenue / higher benefits expenditure.</li> <li>➤ It may lead to an increase in imported fish from other fishing vessels / increase pressure on fish stocks outside of fish exclusion zones.</li> <li>➤ The no-fishing zones may be ineffective since: fish could move outside the protected areas / the extract refers to mackerel migrating northwards away from UK territorial waters.</li> </ul> | <p><b>(10)</b></p> |

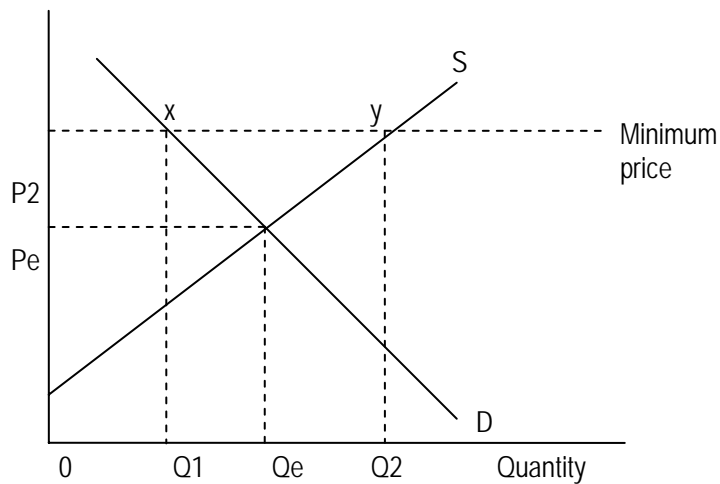
|  |   |  |
|--|---|--|
|  | <ul style="list-style-type: none"> <li>➤ Cost of monitoring and enforcing fishing exclusion zones / possibility of illegal fishing / hidden markets.</li> <br/> <li>➤ Danger of conflict with other nations excluded from fishing in these areas / possibility of retaliation by other governments setting up fish exclusion zones.</li> <br/> <li style="text-align: center;"><b>Positive impact (2+2 or 1+3 marks)</b></li> <li>➤ Producer income might increase if fish is price inelastic in demand.</li> <br/> <li>➤ Improve the marine environment / benefits to other marine life and tourism.</li> <br/> <li>➤ Increase in demand for farmed fish / price rise / producer incentives to set up more fish farms.</li> <br/> <li>➤ Increase in demand for substitutes such as meat / raising revenue and profits.</li> <br/> <li>➤ In the long run it may lead to greater quantity of fish stocks / ensure fish stocks are sustainable for future generations / lower prices. <b>NB: some candidates will develop their whole answer based on these lines and should be credited.</b></li> <br/> <li style="text-align: center;"><b>NB: Evaluation marks can also be awarded for evaluation of any of the positive or negative points.</b></li> <br/> <li style="text-align: center;"><b>NB: Accept macroeconomic arguments.</b></li> </ul> |  |
|--|---|--|

| Question Number | Answer   | Mark |
|-----------------|--|------|
| 16              | <p>KAA = 8 marks</p> <ul style="list-style-type: none"> <li>• Definition of a minimum pricing scheme (a floor price / a minimum price set by an agency (1 mark)</li> <li>• The scheme requires government agency / producer organisation to set minimum price and purchase surpluses at this price (1 mark)</li> <li>• Diagram / explanation (Up to 4 marks) <ul style="list-style-type: none"> <li>➢ Demand and supply curves with equilibrium price (1).</li> <li>➢ Minimum price line (can be below equilibrium) (1).</li> <li>➢ Identifying excess supply or surplus (1).</li> <li>➢ Area of spending by agency (1).</li> </ul> </li> </ul> <p>Price</p>  <p>0      Q<sub>1</sub>      Q<sub>e</sub>      Q<sub>2</sub>      Quantity copper</p> <ul style="list-style-type: none"> <li>• Economic effects may include: increase in quantity supply and decrease in quantity demand / increase revenues and profits / increase in employment / increase in investment / increase production costs for firms that use copper e.g. builders and car manufacturers / reduce consumer surplus / increase producer surplus.<br/>(1+1+1+1 or 2+2 marks)</li> </ul> <p>NB: If no diagram award a maximum of 4 marks for KAA<br/>Evaluation (2+2+2 or 3+3 marks)</p> <p>The scheme is unlikely to be successful since</p> <ul style="list-style-type: none"> <li>➢ Problem of rising prices - mean price fluctuations can still occur above the minimum price.</li> <li>➢ Problem of purchasing the surplus copper output / will run into huge sums of money / opportunity cost.</li> <li>➢ It requires all the major copper producers to participate in the scheme to be successful / danger of secondary markets developing.</li> <li>➢ Problem of deciding on the price to set the minimum price - if below</li> </ul> |      |



|  |   |      |
|--|---|------|
|  | <p>market equilibrium price then it has no impact / if too high then it causes problems of excess production.</p> <ul style="list-style-type: none"> <li>➤ Discussion of price elasticity of demand and price elasticity of supply which determine the size of surplus and expenditure on scheme.</li> <li>➤ Cost of storage / non-perishable commodity.</li> <li>➤ It may reduce competitiveness / efficiency of firms since guaranteed price.</li> </ul> <p><b>NB: Do not award for discussion of a buffer stock scheme but be prepared to award marks where relevant e.g. the minimum price and purchase of stock.</b></p> | (14) |
|--|---|------|

| Question Number | Answer   | Mark |
|-----------------|--|------|
| 17              | <p>Award up to 6 marks for KAA:</p> <ul style="list-style-type: none"><li>• Definition of minimum price (e.g. the minimum price below which the price of a good cannot fall / a floor price)(1)</li></ul> <p>Price</p> |      |



**Diagram up to 4 marks:**

- Original equilibrium price (1)
- Guaranteed minimum equilibrium price (1)
- Identify excess supply or surplus as XY or Q1Q2(1)
- Area of government expenditure (Q1Q2xy) (1)

- Explanation of the effects of a minimum price e.g. production increases or more incentives to produce / government spending / revenue for farmers increase / demand contracts and supply extends (excess supply - unless already awarded in the diagram) / higher price in market (1+1).
- Consumer surplus falls / could be shown on diagram (1)
- Producer surplus rises / could be shown on diagram (1)
- Reduction in dependency on food imports / use of extract information

**Note:** If no relevant diagram, award up to 4 marks in this section.

**Evaluation (3+3 or 2+2+2 marks)**

- Depends on magnitude of minimum price above free market price.
- Minimum price might have no effect if set below free market price.
- Depends on price elasticities of demand & supply.
- Depends on how long the minimum price scheme is in operation.
- Impact on other countries e.g. dumping of food surpluses.
- Impact of higher food prices on the distribution of income.
- Discussion on perishability and costs of storing food surpluses.
- Discussion of how farmers may use their extra revenue e.g. investment.
- Opportunity cost to government spending on minimum price scheme.
- Discussion on quality of produce falling as farmers concentrate on maximising output.
- Discussion of government failure / misallocation of resources.

**NB:** Do not accept argument on buffer stocks, unless the focus is on the minimum price rather than the maximum price.

(12)

**SECTION C**

| Question Number | Indicative content  | Mark        |
|-----------------|---|-------------|
| <b>18</b>       | <p style="text-align: center;"><b>Knowledge 4, Application 4, Analysis 8, Evaluation 9</b></p> <ul style="list-style-type: none"> <li>• Definition of external costs.</li> <li>• Identification of external costs likely in the energy market.</li> <li>• Explain the reason for government intervention, e.g. overconsumption and the need to reduce it.</li> <li>• Diagram identifying external costs and the need to reduce it – linking to overproduction/deadweight loss: <ul style="list-style-type: none"> <li>– Indirect taxation – ad valorem and specific – costs rise for firm – reducing supply and quantity/may use funds to compensate third party/increases incentive to move to production of energy with lower external costs. But if demand inelastic just passed on to consumer/little impact on consumer/measurement problem to decide size of tax/may not be reinvested/used to compensate third parties/avoidance/evasion</li> <li>– Tradable pollution permits – how it works/incentive to reduce pollution to be able to sell them/those that do rewarded/ those that don't have added costs/ But only works if right quantity sold/some may not bother if surplus permits/costs to administer/monitor</li> <li>– Extension of property rights – third party can seek compensation. But only those that can afford to pursue will/no guarantee that you can prove they are the guilty party/energy companies large have expensive and powerful lawyers</li> <li>– Regulation – banning or setting limits on energy production. But expensive to police/measurement problem – what limits to set.</li> </ul> </li> <li>• Diagrams may be rewarded where appropriate.</li> </ul> <p><b>NB For a Level 4 response, candidates must consider two methods in their answer.</b></p> | <b>(25)</b> |

| <b>Knowledge, application and analysis</b> |       |  |
|--|-------|--|
| Level                                      | Mark  | Descriptor   |
|  | 0     | A completely inaccurate response.  |
| Level 1                                    | 1–4   | Displays isolated or imprecise knowledge and understanding of terms, concepts, theories and models.<br>Use of generic or irrelevant information or examples.<br>Descriptive approach which has no chains of reasoning or links between causes and consequences.  |
| Level 2                                    | 5–8   | Displays elements of knowledge and understanding of economic principles, concepts and theories.<br>Applies economic ideas and relates them to economic problems in context, although does not focus on the broad elements of the question.<br>A narrow response or superficial, two stage chains of reasoning only.  |
| Level 3                                    | 9–12  | Demonstrates accurate knowledge and understanding of the concepts, principles and models.<br>Ability to apply economic concepts and relates them directly to the broad elements of the question with evidence integrated into the answer.<br>Analysis is clear and coherent, although it may lack balance.<br>Chains of reasoning are developed but the answer may lack balance.   |
| Level 4                                    | 13–16 | Demonstrates precise knowledge and understanding of the concepts, principles and models.<br>Ability to link knowledge and understanding in context using appropriate examples. Analysis is relevant and focused with evidence fully and reliably integrated.<br>Economic ideas are carefully selected and applied appropriately to economic issues and problems. The answer demonstrates logical and coherent chains of reasoning. |

| <b>Evaluation</b> |      |  |
|-------------------|------|--|
| Level             | Mark | Descriptor   |
|                   | 0    | No evaluative comments.  |
| Level 1           | 1–3  | Identification of generic evaluative comments without supporting evidence/reference to context. No evidence of a logical chain of reasoning.   |
| Level 2           | 4–6  | Evidence of evaluation of alternative approaches which is unbalanced leading to unsubstantiated judgements.<br>Evaluative comments with supporting evidence/reference to context and a partially-developed chain of reasoning.   |
| Level 3           | 7–9  | Evaluative comments supported by relevant reasoning and appropriate reference to context.<br>Evaluation recognises different viewpoints and is critical of the evidence provided and/or the assumptions underlying the analysis enabling informed judgements to be made. |