



A-level
ECONOMICS
7136/1

Paper 1 Markets and Market Failure

Mark scheme

June 2024

Version: 1.0 Final



Mark schemes are prepared by the Lead Assessment Writer and considered, together with the relevant questions, by a panel of subject teachers. This mark scheme includes any amendments made at the standardisation events which all associates participate in and is the scheme which was used by them in this examination. The standardisation process ensures that the mark scheme covers the students' responses to questions and that every associate understands and applies it in the same correct way. As preparation for standardisation each associate analyses a number of students' scripts. Alternative answers not already covered by the mark scheme are discussed and legislated for. If, after the standardisation process, associates encounter unusual answers which have not been raised they are required to refer these to the Lead Examiner.

It must be stressed that a mark scheme is a working document, in many cases further developed and expanded on the basis of students' reactions to a particular paper. Assumptions about future mark schemes on the basis of one year's document should be avoided; whilst the guiding principles of assessment remain constant, details will change, depending on the content of a particular examination paper.

No student should be disadvantaged on the basis of their gender identity and/or how they refer to the gender identity of others in their exam responses.

A consistent use of 'they/them' as a singular and pronouns beyond 'she/her' or 'he/him' will be credited in exam responses in line with existing mark scheme criteria.

Further copies of this mark scheme are available from aqa.org.uk

Copyright information

AQA retains the copyright on all its publications. However, registered schools/colleges for AQA are permitted to copy material from this booklet for their own internal use, with the following important exception: AQA cannot give permission to schools/colleges to photocopy any material that is acknowledged to a third party even for internal use within the centre.

Copyright © 2024 AQA and its licensors. All rights reserved.

Level of response marking instructions

Level of response mark schemes are broken down into levels, each of which has a descriptor. The descriptor for the level shows the average performance for the level. There are marks in each level.

Before you apply the mark scheme to a student's answer read through the answer and annotate it (as instructed) to show the qualities that are being looked for. You can then apply the mark scheme.

Step 1 Determine a level

Start at the lowest level of the mark scheme and use it as a ladder to see whether the answer meets the descriptor for that level. The descriptor for the level indicates the different qualities that might be seen in the student's answer for that level. If it meets the lowest level then go to the next one and decide if it meets this level, and so on, until you have a match between the level descriptor and the answer. With practice and familiarity you will find that for better answers you will be able to quickly skip through the lower levels of the mark scheme.

When assigning a level you should look at the overall quality of the answer and not look to pick holes in small and specific parts of the answer where the student has not performed quite as well as the rest. If the answer covers different aspects of different levels of the mark scheme you should use a best fit approach for defining the level and then use the variability of the response to help decide the mark within the level, ie if the response is predominantly level 3 with a small amount of level 4 material it would be placed in level 3 but be awarded a mark near the top of the level because of the level 4 content.

Step 2 Determine a mark

Once you have assigned a level you need to decide on the mark. The descriptors on how to allocate marks can help with this. The exemplar materials used during standardisation will help. There will be an answer in the standardising materials which will correspond with each level of the mark scheme. This answer will have been awarded a mark by the Lead Examiner. You can compare the student's answer with the example to determine if it is the same standard, better or worse than the example. You can then use this to allocate a mark for the answer based on the Lead Examiner's mark on the example.

You may well need to read back through the answer as you apply the mark scheme to clarify points and assure yourself that the level and the mark are appropriate.

Indicative content in the mark scheme is provided as a guide for examiners. It is not intended to be exhaustive and you must credit other valid points. Students do not have to cover all of the points mentioned in the Indicative content to reach the highest level of the mark scheme.

An answer which contains nothing of relevance to the question must be awarded no marks.

Section A

Below is the levels of response marking grid to be used when marking any 25-mark question.

Level of response	Response	Max 25 marks
5	<p>Sound, focused analysis and well-supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning • includes supported evaluation throughout the response and in a final conclusion. 	21–25 marks
4	<p>Sound, focused analysis and some supported evaluation that:</p> <ul style="list-style-type: none"> • is well organised, showing sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes some good application of relevant economic principles to the given context and, where appropriate, some good use of data to support the response • includes some well-focused analysis with clear, logical chains of reasoning • includes some reasonable, supported evaluation. 	16–20 marks
3	<p>Some reasonable analysis but generally unsupported evaluation that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question, showing satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis but which might not be adequately developed or becomes confused in places • includes fairly superficial evaluation; there is likely to be some attempt to make relevant judgements but these aren't well-supported by arguments and/or data. 	11–15 marks
2	<p>A fairly weak response with some understanding that:</p> <ul style="list-style-type: none"> • includes some limited knowledge and understanding of economic terminology, concepts and principles is shown but some errors are likely • includes some limited application of relevant economic principles to the given context and/or data to the question • includes some limited analysis but it may lack focus and/or become confused • includes some evaluation which is weak and unsupported. 	6–10 marks
1	<p>A very weak response that:</p> <ul style="list-style-type: none"> • includes little relevant knowledge and understanding of economic terminology, concepts and principles • includes application to the given context which is, at best, very weak • includes attempted analysis which is weak and unsupported. 	1–5 marks

Section A

Context 1

Total for this context: 40 marks

0 1

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

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

[2 marks]

Calculation:

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

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

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

Correct answer: 24.8%

or

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

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

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

Correct answer: 24.8%

or

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

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

MAXIMUM FOR QUESTION 01: 2 MARKS

0 2

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

[4 marks]

Response	Max 4 marks
<ul style="list-style-type: none"> • Includes evidence that shows that the supply of university and private rental accommodation has failed to match the increase in student numbers. • Clearly explains how this data is evidence that the supply of university and private rental accommodation has failed to match the increase in student numbers. 	4 marks
<ul style="list-style-type: none"> • Includes evidence that shows that the supply of university and private rental accommodation has failed to match the increase in student numbers. • Explanation of how this data is evidence that the supply of university and private rental accommodation has failed to match the increase in student numbers. 	3 marks
<ul style="list-style-type: none"> • Includes some evidence that shows that the supply of university and private rental accommodation has failed to match the increase in student numbers. • Limited explanation of how this data is evidence that the supply of university and private rental accommodation has failed to match the increase in student numbers. 	2 marks
<ul style="list-style-type: none"> • Includes evidence that does not clearly show that the supply of university and private rental accommodation has failed to match the increase in student numbers. • No explanation of how this data is evidence that the supply of university and private rental accommodation has failed to match the increase in student numbers. 	1 mark

Relevant issues include:

- total student numbers have increased from approximately 1.7 million to 2.1 million in the period, an increase of 24%
- university rental properties have barely changed at all, hovering around the 330 000 level
- private rental properties have increased slightly, from 650 000 to 750 000
- the shortfall of around 300 000 is accounted for by the increase in students living at home, from 750 000 to just over 1 million
- Table 1 shows that the nominal cost of university rent has risen by 39.8% (allow 24.8% increase in real terms) from £121.16 to £169.35
- the rise in rents indicates that the supply of university and private rental accommodation has not matched the increased demand as reflected in the increase in student numbers.

Allow a margin of error of +/- 100 000

MAXIMUM FOR QUESTION 02: 4 MARKS

0 3 *Extract B (lines 3–4) states that ‘Universities have expanded the number of places on offer to students, but the supply of student accommodation is highly inelastic’.*

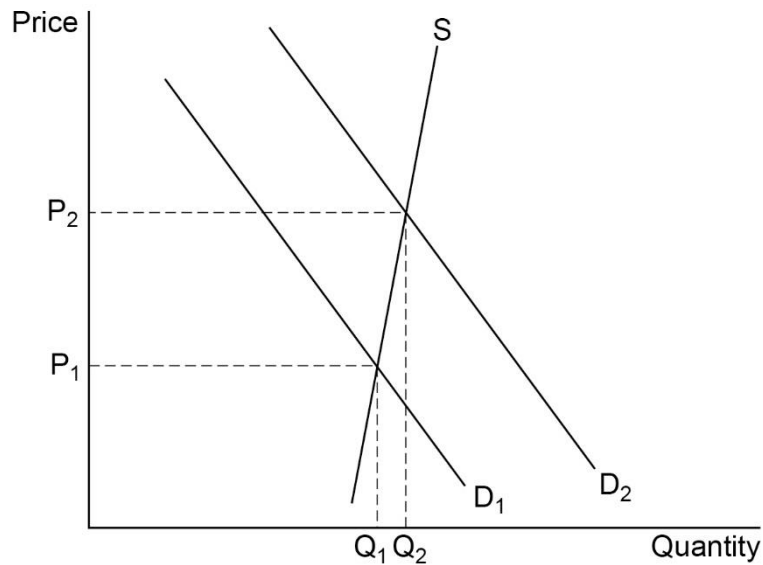
With the help of a diagram, explain the impact of the increase in the number of students attending university on the market for student accommodation.

[9 marks]

Level of response	Response	Max 9 marks
3	<ul style="list-style-type: none"> • Is well organised and develops one or more of the key issues that are relevant to the question. • Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. • Includes good application of relevant economic principles and/or good use of data to support the response. • Includes well-focused analysis with a clear, logical chain of reasoning. • Includes a relevant diagram that will, at the top of this level, be accurate and used appropriately. 	7–9 marks
2	<ul style="list-style-type: none"> • Includes one or more issues that are relevant to the question. • Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present. • Includes reasonable application of relevant economic principles and/or data to the question. • Includes some reasonable analysis but it might not be adequately developed and may be confused in places. • May include a relevant diagram. 	4–6 marks
1	<ul style="list-style-type: none"> • Is very brief and/or lacks coherence. • Shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely. • Demonstrates very limited ability to apply relevant economic principles and/or data to the question. • May include some very limited analysis but the analysis lacks focus and/or becomes confused. • May include a relevant diagram but the diagram is not used and/or is inaccurate in some respects. 	1–3 marks

Expected diagram

A supply and demand diagram is expected, showing a shift in demand to the right. It is also expected that the student's diagram will show an inelastic supply curve.

**Relevant issues include:**

- definitions of demand, supply, inelastic supply
- explanation of why student numbers are rising
 - rising numbers of foreign students
 - demographic change leading to more UK 18-year-olds
- explanation of why this leads to an increase in demand for student accommodation
 - the demand for university places and the demand for student accommodation are complementary
- explanation of why supply of student accommodation is inelastic including
 - planning restrictions
 - high construction costs, rising interest rates and inflation
 - time taken to build new accommodation
- explanation of why the expected outcome is that prices would rise and rise substantially including
 - the price (rent) rises because there is excess demand at the original price (rent)
 - the rationing and/or incentive functions of the price mechanism
- explanation of why the expected outcome in terms of quantity is that quantity would increase but only slightly.

MAXIMUM FOR QUESTION 03: 9 MARKS

0 4

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

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

[25 marks]

Areas for discussion include:

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

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

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

MAXIMUM FOR QUESTION 04: 25 MARKS

Context 2

Total for this context: 40 marks

0 5

Using the data in **Extract D (Table 2)**, calculate the difference between the mean percentage trade union membership in the private sector and the mean percentage trade union membership in the public sector over the period 2001–2021.

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

[2 marks]

Mean of private sector trade union membership: $(18.4+16.6+14.2+13.4+12.8)/5= 15.08$

Mean of public sector trade union membership: $(59.7+58.7+56.6+52.8+50.1)/5= 55.58$

Difference = $55.58-15.08 = 40.5$ percentage points (accept 40.5%)

Response	Max 2 marks
For the correct answer, to one decimal place, with % sign: 40.5 percentage points or 40.5%	2 marks
For the correct answer but without the % sign and/or not to one decimal place: eg 40.5 or 40% or 41% OR For the correct method, but the wrong answer, to one decimal place, with the % sign	1 mark

MAXIMUM FOR QUESTION 05: 2 MARKS

0 6

*Explain how the data in **Extract D (Figure 2)** show that, since 2015, living standards of people working in the private sector are likely to have increased compared to those working in the public sector.*

[4 marks]

Response	Max 4 marks
<ul style="list-style-type: none"> • Includes evidence that shows why living standards of people working in the private sector are likely to have increased compared to those working in the public sector since 2015. • Clearly explains how this data is evidence that the living standards of people working in the private sector are likely to have increased compared to those working in the public sector since 2015. 	4 marks
<ul style="list-style-type: none"> • Includes evidence that shows why living standards of people working in the private sector are likely to have increased compared to those working in the public sector since 2015. • Explanation of how this data is evidence that the living standards of people working in the private sector are likely to have increased compared to those working in the public sector since 2015. 	3 marks
<ul style="list-style-type: none"> • Includes some evidence that shows why living standards of people working in the private sector are likely to have increased compared to those working in the public sector since 2015. • Limited explanation of how this data is evidence that the living standards of people working in the private sector are likely to have increased compared to those working in the public sector since 2015. 	2 marks
<ul style="list-style-type: none"> • Includes evidence that does not clearly show why living standards of people working in the private sector are likely to have increased compared to those working in the public sector since 2015. • No explanation of how this data is evidence that the living standards of people working in the private sector are likely to have increased compared to those working in the public sector since 2015. 	1 mark

Relevant issues include:

- explain how growth in pay is a significant determinant of improvements in living standards
- private sector pay growth has been above public sector pay growth for much more than half of the time period since 2015
- the biggest gap between private sector pay growth and public sector pay growth was 7.6% in 2021
- there is only one period of any significant length when private sector pay growth was below public sector pay growth, in 2020
- the peak in private sector pay growth was much higher (10.5%) compared to the peak for public sector pay growth (5.5%)
- when private pay growth hit its low point of -2.2% in 2020, it rebounded very quickly to peak at 10.5% in 2021
- the end of the period shows a significant gap emerging between private and public sector pay growth (6.8% versus 2.9%)
- since the growth in private sector pay has been higher than the growth in public sector pay for most of the period, living standards for people in the private sector are likely to have increased by more than people working in the public sector.

Allow a margin of error of +/- 0.5 percentage points

MAXIMUM FOR QUESTION 06: 4 MARKS

0 7 **Extract E** (lines 9–10) states that ‘In November 2022, 13.3% of businesses reported experiencing a shortage of workers leading to upward pressure on wages’.

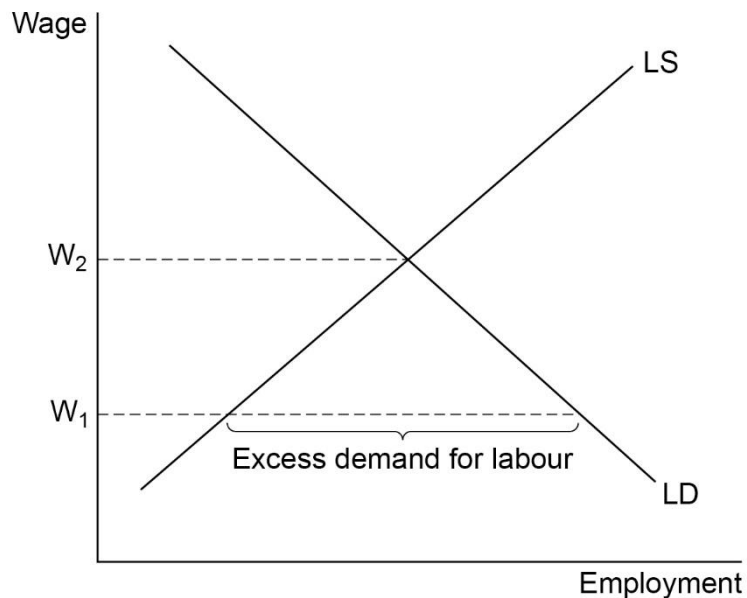
With the help of a diagram, explain how **and** to what extent a shortage of labour is likely to affect the wage in a competitive labour market.

[9 marks]

Level of response	Response	Max 9 marks
3	<ul style="list-style-type: none"> • Is well organised and develops one or more of the key issues that are relevant to the question. • Shows sound knowledge and understanding of relevant economic terminology, concepts and principles. • Includes good application of relevant economic principles and/or good use of data to support the response. • Includes well-focused analysis with a clear, logical chain of reasoning. • Includes a relevant diagram that will, at the top of this level, be accurate and used appropriately. 	7–9 marks
2	<ul style="list-style-type: none"> • Includes one or more issues that are relevant to the question. • Shows reasonable knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present. • Includes reasonable application of relevant economic principles and/or data to the question. • Includes some reasonable analysis but it might not be adequately developed and may be confused in places. • May include a relevant diagram. 	4–6 marks
1	<ul style="list-style-type: none"> • Is very brief and/or lacks coherence. • Shows some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely. • Demonstrates very limited ability to apply relevant economic principles and/or data to the question. • May include some very limited analysis but the analysis lacks focus and/or becomes confused. • May include a relevant diagram but the diagram is not used and/or is inaccurate in some respects. 	1–3 marks

Suggested Diagram

A labour market diagram is expected, showing disequilibrium in the form of excess demand for labour.



Acceptable alternative diagrams include a leftward shift in the labour supply curve, or a rightward shift in the labour demand curve.

Relevant issues include:

- definition of a competitive labour market
- explanation of how wages are determined in competitive labour markets
- explanation of the reasons for labour shortages
 - those caused by an increase in the demand for labour and a rightward shift of the demand curve
 - those caused by a decrease in the supply of labour and a leftward shift of the supply curve
- explanation of how excess demand for labour puts upward pressure on wages as firms compete for workers
- explanation of the signalling, rationing and incentive functions of rising wages
- explanation of why wages are likely to rise until labour supply is in equilibrium with labour demand
- explanation of the factors which determine the extent to which wages rise including
 - the amount of the shortage
 - wage elasticity of labour supply
 - wage elasticity of labour demand.

MAXIMUM FOR QUESTION 07: 9 MARKS

0 8

Extract F (lines 12–13) states that ‘Collective pay bargaining, reinforced by the threat of strikes, has achieved some notable successes for workers’.

Using the data in the extracts and your knowledge of economics, evaluate the view that trade unions improve the operation of labour markets by protecting the interests of workers.

[25 marks]

Areas for discussion include:

- explanation of ‘improve the operation of labour markets’
- explanation of trade unions and their objectives
- explanation of the various factors that affect the ability of trade unions to influence wages and levels of employment in different labour markets
- explanation of how wages and the level of employment are determined in competitive labour markets
- discussion of how all labour markets are imperfectly competitive to some extent
- how various factors such as monopsony power, trade unions and imperfect information contribute to imperfections in a labour market
- how, in a monopsony labour market, the employer can use market power to reduce both the wage rate and the level of employment below those that would exist in a perfectly competitive labour market
- analysis and evaluation of how wages and employment are likely to be affected by the introduction of a trade union into a previously competitive labour market and into a monopsony labour market
- analysis and evaluation of how trade unions may have an impact in reducing discrimination within the labour market
- use of **Extract D** to show that pay growth in the more unionised public sector has fallen behind pay growth in the private sector, suggesting a degree of ineffectiveness in terms of pay
- use of the data in the extracts generally to support analysis and evaluation of whether trade unions improve the operation of labour markets
- analysis and evaluation of whether trade unions bring benefits to labour markets more generally, for example by providing a single negotiator for firms to deal with
- the extent to which the operation of labour markets is improved or damaged by worker interests being protected, possibly linked to the degree of monopsony power held by employers
- analysis and evaluation of the extent to which trade union actions such as strikes can have negative impact on wider labour markets by disrupting the working lives of others
- use of examples, eg beneficial effects on staff turnover, innovation and training
- market failure arguments
- government failure arguments
- an overall assessment of whether trade unions improve the operation of labour markets by protecting the interests of workers.

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

MAXIMUM FOR QUESTION 08: 25 MARKS

Section B

Below is the levels of response marking grid which should be used to mark the 15-mark questions.

Level of response	Response	Max 15 marks
3	<p>A good response provides an answer that:</p> <ul style="list-style-type: none"> • is well organised and develops a selection of the key issues that are relevant to the question • shows sound knowledge and understanding of economic terminology, concepts and principles with few, if any, errors • includes good application of relevant economic principles to the given context and, where appropriate, good use of data to support the response • includes well-focused analysis with clear, logical chains of reasoning. 	11–15 marks
2	<p>A reasonable response provides an answer that:</p> <ul style="list-style-type: none"> • focuses on issues that are relevant to the question • shows satisfactory knowledge and understanding of economic terminology, concepts and principles but some weaknesses may be present • includes reasonable application of relevant economic principles to the given context and, where appropriate, some use of data to support the response • includes some reasonable analysis which might not be adequately developed or becomes confused in places. 	6–10 marks
1	<p>A weak response provides an answer that:</p> <ul style="list-style-type: none"> • has identified one or more relevant issues • has some limited knowledge and understanding of economic terminology, concepts and principles but some errors are likely • has very limited application of relevant economic principles to the given context and/or data to the question • might have some limited analysis but it may lack focus and/or become confused. 	1–5 marks

Section B**Essay 1****Total for this context: 40 marks****0 9**

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

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

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

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

Use the level mark scheme on page 16 to award students marks for this question.

MAXIMUM FOR QUESTION 09: 15 MARKS

1 0

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

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

- explanation of nudges and other techniques from behavioural economics, such as choice architecture, framing
- why the consumption of unhealthy foods can lead to market failure
- analyse why unhealthy foods are demerit goods and negatively impact consumers by affecting health outcomes and quality of life
- explanation of how unhealthy foods also impose negative externalities on third parties via healthcare burdens paid by taxpayers
- identification of why consumers may struggle to make optimal/utility-maximising choices around diet, eg imperfect information, bounded rationality, bounded self-control, biases in decision making, social and cultural norms, advertising and marketing, relative price of unhealthy versus healthy choices
- analysis and evaluation of techniques from behavioural economics to influence the consumption of food, for example:
 - nudges
 - default choice
 - restricted choice
 - mandated choice
 - choice architecture and framing
- discussion of the effectiveness of behavioural techniques
- analysis and evaluation of traditional policies as an alternative, for example:
 - subsidies for healthy food
 - free healthy school meals
 - taxation of unhealthy food
 - regulation of ingredients
 - education
 - advertising
- use of examples
- market failure arguments
- government failure arguments
- an overall assessment of whether the consumption of unhealthy foods can best be reduced through the use of nudges and other techniques from behavioural economics.

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

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

MAXIMUM FOR QUESTION 10: 25 MARKS

Essay 2

Total for this essay: 40 marks

1 1

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

[15 marks]

Areas for discussion include:

- definitions of perfect competition, monopoly, oligopoly, consumer surplus and producer surplus
- explanation of the features of competitive markets
- explanation of the features of concentrated markets
- the connection between monopoly power and the ability of firms to set their own price
- why firms would set $MR=MC$ in order to profit-maximise
- explanation and analysis of why output is likely to be lower and price higher when an industry is dominated by a few large firms than when there is a competitive market structure
- explanation and analysis of how this is likely to reduce consumer surplus for two reasons: lower consumption and higher prices
- explanation and analysis of why producer surplus is likely to increase, as otherwise firms would be unlikely to take this course of action (although they may lose some customers, prices are higher)
- explanation of how the movement towards a market structure that is dominated by a few large firms is likely to reduce the sum of consumer and producer surplus (through the creation of a deadweight loss)
- use of examples.

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

Use the level mark scheme on page 16 to award students marks for this question.

MAXIMUM FOR QUESTION 11: 15 MARKS

1 2*Evaluate the view that price discrimination is damaging for consumers.***[25 marks]****Areas for discussion include:**

- definition of price discrimination
- conditions required for price discrimination, such as monopoly power, ability to segment the market and prevent cross-selling between market segments
- analysis and evaluation of the costs to the consumer of price discrimination
 - many consumers pay a higher price
 - consumer surplus likely to be very low in price discriminating markets
 - potentially unfair, unpredictable or opaque pricing structures
 - administration costs involved in segmenting the market may be passed on to consumers
- analysis and evaluation of the benefits to the consumer of price discrimination
 - price discrimination can lead to higher levels of output than otherwise so greater market access
 - lower prices for some consumers, with those consumers who have the incentive and means to compare suppliers are likely to get the lowest price
 - higher prices for peak demand can help smooth out consumption and avoid congestion, thus providing better quality goods and services
 - firms may use higher profits to invest in improving the supply of goods and services
 - firms may choose to cross-subsidise previously loss-making operations
- analysis and evaluation of the impact of price elasticity of demand on the consumer surplus and how consumers are affected by price discrimination
- evaluation of the impacts on consumers of price discrimination compared to the alternative of non-discriminating monopolist
- analysis and evaluation of the impact of technology, especially the internet, in making more markets susceptible to price discrimination via enhanced gathering of customer data
- discussion of whether regulation is possible or desirable
- use of examples
- market failure arguments
- an overall assessment of the view that price discrimination is damaging for consumers.

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

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

MAXIMUM FOR QUESTION 12: 25 MARKS

Essay 3

Total for this essay: 40 marks

1 3

Explain, using examples, how the existence of economies and diseconomies of scale affect firms' average costs of production.

[15 marks]

Areas for discussion include:

- **definitions** of economies and diseconomies of scale
- the difference between marginal, average and total costs
- reasons for/examples of internal economies of scale
- explanation and analysis of how internal economies of scale can reduce average costs of production
- reasons for/examples of external economies of scale
- explanation and analysis of how external economies of scale can reduce average costs of production
- reasons for diseconomies of scale
- explanation and analysis of how diseconomies of scale can increase average costs of production
- explanation of the relationship between economies of scale, diseconomies of scale and the implications for the shape of the long-run average cost curve
- the concept of the minimum efficient scale of production
- use of examples.

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

Use the level mark scheme on page 16 to award students marks for this question.

MAXIMUM FOR QUESTION 13: 15 MARKS

1 4

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

[25 marks]

Areas for discussion include:

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

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

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

MAXIMUM FOR QUESTION 14: 25 MARKS