

GCE

Economics

Unit **F581**: Markets in Action

Advanced Subsidiary GCE

Mark Scheme for June 2017

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All examiners are instructed that alternative correct answers and unexpected approaches in candidates' scripts must be given marks that fairly reflect the relevant knowledge and skills demonstrated.
















Mark schemes should be read in conjunction with the published question papers and the report on the examination.

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Annotations

Please annotate **every** response, even if no credit is given.

Annotation	Meaning
	Blank Page – this annotation must be used on all blank pages within an answer booklet (structured or unstructured) and on each page of an additional object where there is no candidate response.
	Tick
	Cross
	Comment
	Benefit of doubt
	Level 1
	Level 2
	Level 3
	Level 4
	Effective evaluation
	Omission
	Not answered question
	Noted but no credit given
	Too vague
	Own figure rule

Highlighting is also available, to highlight any particular points on the script

Question		Answer	Marks	Guidance
1	a	<p>What is meant by the term ‘the economic problem’?</p> <p>Up to two marks for explanation of the economic problem:</p> <p>Scarcity (1) and choice (1); Limited resources (1) and unlimited wants (1) How to allocate scarce resources among alternative uses (2).</p>	2	<p>Wants exceed resources (2) What shall be produced, how and for whom (2)</p> <p>Do not award marks for “unlimited demand”</p>
1	b	<p>With reference to the case study, state two examples of ‘the economic problem’.</p> <p>Consumers have insufficient income to buy more expensive fresh fruit so must use a combination. Shopkeepers have to choose whether to use space to stock healthy or junk food. Authorities must choose when allocating public funds between educating about junk food and other services.</p>	2	<p>Up to one mark for each suitable example (see left)</p>

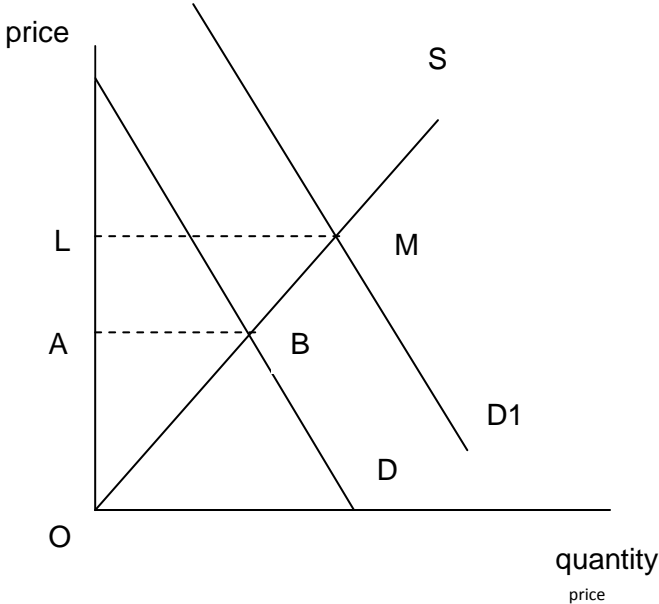
<p>1</p>	<p>c</p>	<p>Draw a diagram to show how the market allocates scarce resources in the case of excess supply.</p> <p>Supply curve (1) Demand Curve (1) Equilibrium shown by coordinates to axes and labelled (1) Arrows along S&D towards equilibrium (1) Excess supply or excess demand shown on axes or between curves (1)</p> <p>Note: If a candidate shifts to right: award S, D marks (2) but not old or new equilibrium</p>	<p>4</p>	
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2		<p>Using a demand and supply diagram, explain how increasing the rate of an indirect tax on “junk food” will affect the market for “junk food”.</p> <p>Up to three marks for diagram Shift of supply curve to left (1) New equilibrium shown on axes (1) Change in p and q shown on axes (1)</p> <p>If no S curve shown, cap diagram marks at 1</p> <p>Up to two marks for explanation of how the higher tax rate impacts on the market/shifts supply curve to the left</p> <ul style="list-style-type: none"> • Effectively increases producer costs • Less is supplied at any given price <p>Up to two marks for explanation linked to diagram</p> <ul style="list-style-type: none"> • Price rises • Quantity demanded and supplied falls (with reference to p and q on axes) 	6	
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3	a	<p>State the formula for price elasticity of demand. Correct formula: $\frac{\% \text{ change in (quantity) demanded}}{\% \text{ change in price}}$ or $\frac{\% \Delta(Q)D}{\% \Delta P}$</p>	2	Award (1) for change in quantity/change in price
	b	<p>Using Fig.1, calculate the percentage change in the demand for healthy food if the removal of the sales tax reduces its price by 5%.</p> <p>+3.0% (2) rises by 3% (2)</p>	2	<p>One mark for correct working -0.6 x-5.0</p> <p>One mark for 3.0% with no indication of rise. No marks for -3.0%</p>

	c	<p>Using Fig. 1, comment on the significance for producers of the estimates for price elasticity of demand.</p> <p>Award one mark for knowledge: Revenue = $p \times q$ (1) PED determines changes in revenue (1) PED of -0.6 and -0.7 show price-inelastic demand (1) PED is less inelastic for junk food (1)</p> <p>Award up to two marks for application of knowledge: Quantity demanded is unresponsive (1) Quantity demanded changes less than proportionately in respect of price changes (2) The PED figures are similar (1) If price rises, revenue for both food types will rise; if price falls revenue will also fall.(2)</p> <p>Award up to three marks for comment: As PED is estimated it may be inaccurate (1)/ time-limited (1) Other things may not remain equal (1) e.g. income may change/tax rates may be altered (1) 0.7 is only slightly inelastic so the revenue change may not be significant (2) Producers benefit from junk food being addictive (1)</p>	6	<p>Use <input type="checkbox"/> for comment marks</p> <p>At least one knowledge or application mark must be gained before comment marks may be awarded</p>
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4		<p>Explain the significance of the figure of +3.0 for the cross elasticity of demand for healthy food with respect to the price of “junk food”</p> <p>Award up to two marks for application:</p> <p>The XED is elastic (1) Positive XED indicates a substitute (1) Also award (1) mark for a correct definition</p> <p>Award up to a further two marks for development:</p> <p>The goods concerned are strong substitutes (1) If the price of junk food rises the demand for healthy food will rise (1) greater than proportionately (1) A correct numerical example (1)</p>	4	
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5	a	<p>Explain the meaning of the term ‘producer surplus’.</p> <p>Difference between the market price and the price at which the producer would have been willing to supply (2)</p>	2	<p>Difference is essential for credit. Do not award “the market price and the price...”</p>
	b	<p>Show on a diagram how producer surplus would be affected for a shop selling healthy food after an increase in demand.</p> <p>Award up to four marks</p> 	4	<p>Shift to right of D (1) Old PS ABO(1) New PS LMO (1) Difference in PS LMBA (1) Producer surplus has increased / "additional producer surplus" (1)</p>

quantity

6	a	<p>What is meant by a ‘demerit good’?</p> <p>A good that is overconsumed (1) and does more harm / brings less private benefit than expected (1) as a result of information failure (1). A good whose harm is underestimated by the consumer (2) A good that creates negative externalities (1)</p>	2	
	b	<p>Comment on the extent to which “junk food” is a demerit good leading to market failure.</p> <p>Award one mark for knowledge of market failure: Sub-optimal/allocatively inefficient allocation of resources</p> <p>Award up to two marks for explanation of how the market failure arises: Private costs are under-estimated (1) leading to excess consumption (1) through lack of information (1) Third party costs (1) welfare loss (1) arise from consumption of demerit goods. Do not reward descriptions of negative externalities – analysis is needed.</p> <p>Award up to three marks for comment Consumers are increasingly aware of the true costs of consumption due to information on the internet/TV Difficult to measure the harm caused by junk food Subsequent studies may change the view of the demerit Depends on what proportion of total food consumption junk food constitutes Rising income will have little effect on consumption so will not worsen the situation/YED inelastic Sugary foods are addictive so hard to correct market failure</p>	6	<p>Use <input type="checkbox"/> for comment marks</p> <p>Credit explanations using MPB, MSB</p> <p>One developed comment can receive 3 marks</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
7		<p>Discuss whether information provision is likely to prove the most effective way to correct the market failure arising from the consumption of a product such as “junk food”</p> <p>Level 4 16-18 Marks The stated judgement must address the question - information provision is or is not the most effective way to correct market failure. Do not credit suggestion that a combination of policies is best without a justification as to why.</p> <p>Level 4 13-15 Marks Evaluation of the effectiveness of information provision or comparison with other policies, which may appear in the following forms:</p> <ul style="list-style-type: none"> • Consumers may fail to receive information from an ineffective campaign • Consumers may ignore the information • The effects of overconsumption may have been over estimated. <p>Comparison with</p> <ul style="list-style-type: none"> • The rise in tax on junk food • A cut in indirect tax on substitutes • Subsidisation of healthier alternatives 	18	<p>Use second EE annotation to indicate elaboration.</p> <p>18 marks: More thorough justification or elaboration of the statement. 17 marks: Some justification or elaboration of the statement.</p> <p>Use one EE to show where this statement appears in the answer.</p> <p>16 marks: A statement information provision is or is not the most effective solution based on preceding evaluation.</p> <p>Maximum of three L4 annotations should appear on the script. (Put SEEN alongside further discussion points.)</p> <p>15 marks: Two developed evaluative points or three or more evaluative points with at least one developed</p> <p>14 marks: One developed evaluative point or two or more undeveloped evaluative points</p> <p>13 marks: One evaluative point lacking development</p> <p>Strongly evaluative answers with weak analysis may be awarded 13</p>	<p>Level 4 (13–18) For a discussion of whether information provision is likely to prove the most effective way to correct the market failure arising from the consumption of a product such as “junk food”</p> <p>All answers at this level must be underpinned with appropriate theoretical concepts.</p> <p>16–18 marks – There must be a supported judgment based on the preceding analysis and it should reflect the strength of the analysis and the evaluation. This is likely to consider alternative solutions.</p> <p>13–15 marks – There must be a discussion of points for and against the effectiveness of information provision or information provision will have been compared with other methods of correcting market failure.</p> <p><i>Complex ideas have been expressed clearly and fluently using a style of writing appropriate to complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured using appropriate terminology with few, if any, errors of spelling, punctuation and grammar.</i></p>

Question	Answer	Marks	Guidance	
			Content	Levels of response
	<ul style="list-style-type: none"> • Use of regulation on junk food <p>Level 3 Band 2 (11-12 marks)</p> <ul style="list-style-type: none"> • the market becomes more allocatively efficient • this solves/reduces overconsumption • connecting shift leftwards of demand with consumer response to information and accurate assessment of private cost – how this works <p>Level 3 Band 1 (9-10 marks)</p> <ul style="list-style-type: none"> • demand curve shifts to the left • quantity falls from Q to Q1 • price falls from P to P1 		<p>marks</p> <p>Max. of two L3 annotations</p> <p>Place second L3 annotation where L3 B2 is awarded.</p> <p>Band 2 points:</p> <p>12 marks: two Band 2 points or one developed Band 2 point</p> <p>11 marks: one Band 2 point</p> <p>Place one L3 annotation where L3 B1 is awarded.</p> <p>10 marks: more than one Band 1 point made.</p> <p>9 marks: one Band 1 point made.</p>	<p>Level 3 (9–12 marks) For an analysis of the use of information provision to reduce negative externalities</p> <p>This must refer to an analysis of the focus of the actual question. It must also incorporate, towards the top end of Level 3 mark range, width and/or depth of analysis illustrating how information provision affects the market.</p> <p>11–12 marks – there are likely to be a number of undeveloped analytical points or a couple of analytical points which are well developed. This should include analysis of how information provision will lead to reduced demand through greater awareness of the harm of consuming the product. A diagram is likely but not required.</p> <p>9–10 marks – there are likely to be only one/two undeveloped analytical points, or one analytical point which is somewhat developed. Such as an explanation of information provision leading to a fall in demand – the impact upon the market is unclear.</p>

Question		Answer	Marks	Guidance	
				Content	Levels of response
		<p>For Level 2 marks to be awarded candidate must show application of information provision to example of demerit goods.</p> <p>Level 2 responses may offer an unexplained diagram or raise, but not analyse, some of the following:</p> <ul style="list-style-type: none"> • information provision will decrease demand • statement that information provision will shift demand to the left • an unexplained diagram • advantages or disadvantages of information provision applied to a market failing due to overconsumption of a demerit good where L3 B2 has not been attained 		<p>Place one L2 annotation per applied point and a further L2 annotation for each development of the same point.</p> <p>Max. of 4 L2 annotations</p> <p>8 marks: one fully developed applied point and at least one other applied point</p> <p>7 marks: one fully developed applied point or three applied points</p> <p>6 marks: one developed applied point or two applied points</p> <p>5 marks: unexplained diagram (shifting demand to left) or one point on information provision or on the impact of information failure</p>	<p><i>Relatively straightforward ideas have been expressed with clarity and fluency. Arguments are generally relevant, though may stray from the point of the question. There will be some errors of spelling, punctuation and grammar, but these are unlikely to be intrusive or obscure meaning.</i></p> <p>Level 2 (5–8 marks) For an application of knowledge and understanding of information provision</p> <p>This sort of response will include unsupported/unsubstantiated statements as to how information can/cannot be used to solve market failure.</p> <p><i>Some simple ideas have been expressed in an appropriate context. There are likely to be some errors of spelling, punctuation and grammar of which some may be noticeable and intrusive.</i></p>

Question			Answer	Marks	Guidance	
					Content	Levels of response
			<p>Level 1 1-4 marks</p> <ul style="list-style-type: none"> • Example(s) of information provision, e.g. leaflets, newspaper articles • Market failure is where the free market fails to achieve allocative efficiency • Non-applied market failure diagram • Definition of demerit good/market failure/information provision 		<p>Place one L1 annotation per correct statement, up to a maximum of four (or until a higher level is awarded)</p>	<p>Level 1 (1–4 marks) For knowledge only of information provision and/or the concept of market failure</p> <p><i>Some simple ideas have been expressed. There will be some errors of spelling, punctuation and grammar that will be noticeable and intrusive. Writing may also lack legibility.</i></p>

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