



Oxford Cambridge and RSA

AS Level in Economics

H060/01 Microeconomics

Sample Question Paper

Date – Morning/Afternoon

Time allowed: 1 hour 30 minutes



You may use:

- a calculator



First name											
Last name											
Centre number							Candidate number				

INSTRUCTIONS

- Use black ink. You may use an HB pencil for graphs and diagrams.
- Complete the boxes above with your name, centre number and candidate number.
- Read each question carefully before you start to write your answer.
- Sections A and B: Answer **all** the questions in each of these sections.
- Section C: Answer **one** question in this section.
- Write your answer to each question in the space provided.
- Additional paper may be used if required but you must clearly show your candidate number, centre number and question number(s).
- Do **not** write in the bar codes.

INFORMATION

- The total mark for this paper is **60**.
- The marks for each question are shown in brackets [].
- Quality of extended responses will be assessed in questions marked with an asterisk (*).
- This document consists of **12** pages.

Section A

Answer **all** the questions in this section.

1 Which of the following describes a free good?

- A** A free good is one given away to consumers to promote the sale of other goods
- B** A free good is one provided free of charge to consumers by the government
- C** A free good is one that gives zero satisfaction to consumers
- D** A free good is one that has zero opportunity cost

Your answer

[1]

2 Which of the following is a consequence of using money rather than a barter system?

- A** It decreases specialisation
- B** It decreases the ease of borrowing
- C** It decreases the need for a double coincidence of wants
- D** It decreases trade

Your answer

[1]

3 Which of the following, according to traditional economic theory, is it assumed that a firm will seek to maximise?

- A** Customer satisfaction
- B** Economic welfare
- C** Productive efficiency
- D** Profit

Your answer

[1]

4 Which of the following is a feature of a market economy?

- A** Competition ensures product differentiation
- B** Consumer preferences determine the allocation of resources
- C** Producers aim to maximise positive externalities
- D** Resources are allocated through the planning mechanism

Your answer

[1]

5 An economy is allocatively efficient when:

- A the marginal private benefit of consumption equals the marginal social benefit
- B the output produced maximises total consumer welfare
- C there is neither unemployment nor underemployment of factors of production
- D total consumer surplus is exactly equal to total producer surplus

Your answer

[1]

6 Which of the following is a public good?

- A Defence
- B Electricity supply
- C Health services
- D University education

Your answer

[1]

7 It has been estimated that the price elasticity of supply (PES) of flood defences is 0.25 in the short run and 1.25 in the long run. Which of the following combinations of statements is correct?

	Short run PES of flood defences	Long run PES of flood defences
A	Elastic	Elastic
B	Elastic	Inelastic
C	Inelastic	Elastic
D	Inelastic	Inelastic

Your answer

[1]

8 Which of the following statements is a normative statement?

- A An increase in the indirect tax on cigarettes will increase the price of cigarettes
- B People aged under 21 years old are more likely to smoke than people over 30 years old
- C People should not be allowed to smoke in private cars
- D Smoking can damage your health

Your answer

[1]

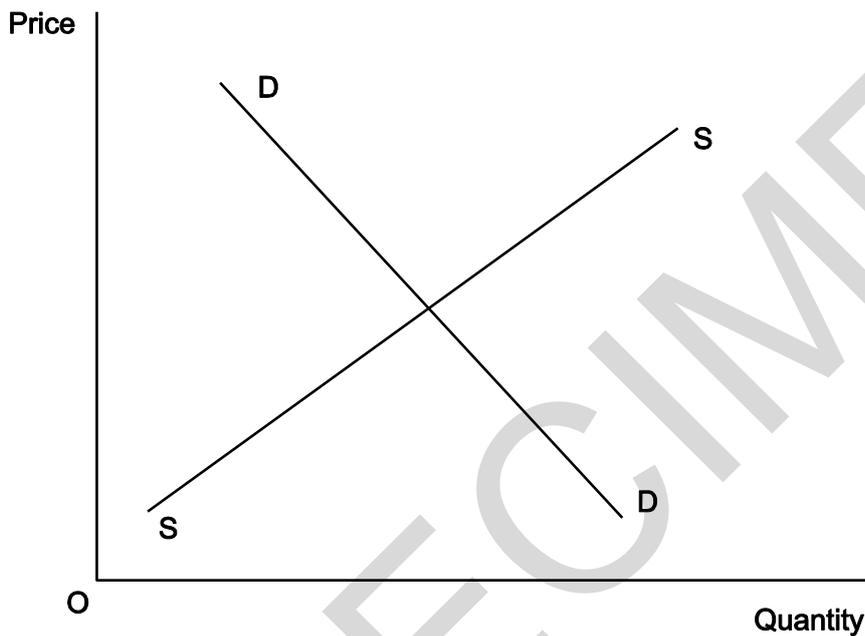
9 Which of the following is an external cost of production?

- A The cost of a public relations campaign in support of a new 'eco-friendly' factory
- B The cost of installing environmentally-friendly equipment in a new factory
- C The cost of traffic congestion resulting from opening a new factory
- D The cost of transporting products from a new factory to international retail outlets

Your answer

[1]

10 The diagram below shows the market for a product. The current demand curve is D and the current supply curve is S. Consumers are under-estimating the benefits arising from the consumption of the product.



Which of the following changes in demand, supply and price would reduce this under-consumption?

	Demand	Supply	Price
A	Extension	Increase	Decrease
B	Increase	Contraction	Increase
C	Decrease	Contraction	Increase
D	Contraction	Increase	Decrease

Your answer

[1]

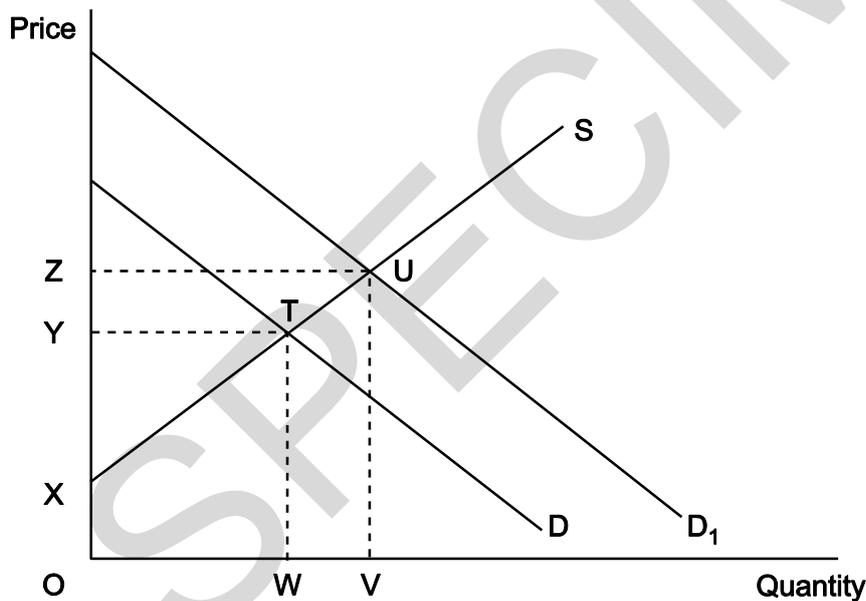
- 11 Which of the following combinations of causes and consequences in the market for good X is correct?

	Cause	Consequence
A	A government subsidy is given to firms producing good X	There is a movement down the supply curve for good X
B	The price of good X decreases	The demand curve for good X shifts to the right
C	The price of a substitute for good X increases	The demand curve for good X shifts to the left
D	The wages paid to workers producing good X fall	The supply curve for good X shifts to the right

Your answer

[1]

- 12 In the diagram below demand increases from D to D₁. Which area represents the increase in producer surplus?

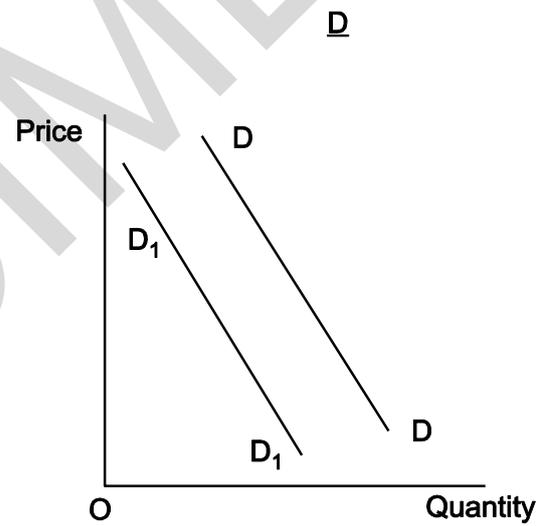
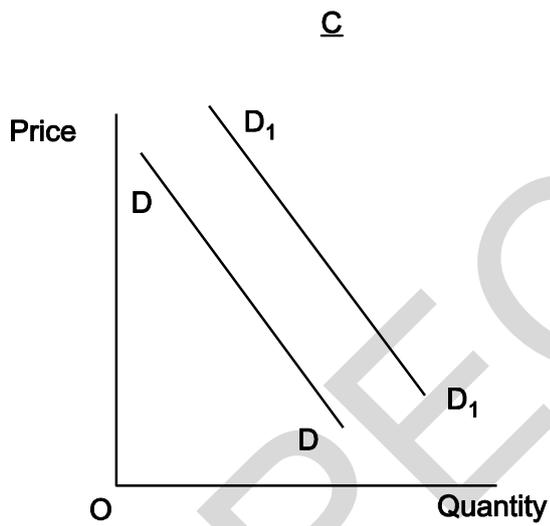
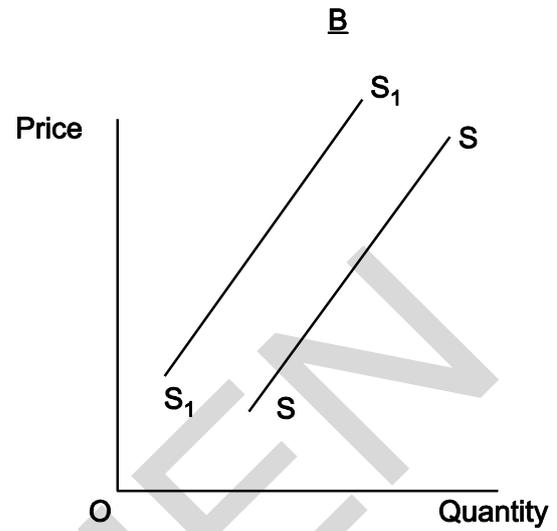
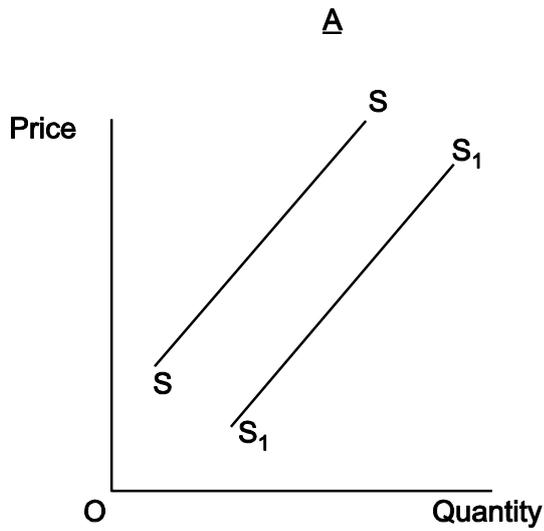


- A** XYT
B XZU
C WTUV
D YZUT

Your answer

[1]

- 13 A company operates bus and tram services in a city. If the board of directors has decided to increase the price of bus fares and leave tram fares unchanged, which of the following diagrams (labelled **A**, **B**, **C** and **D**) would show the effect on the market for tram travel in the city?



A
B
C
D

Your answer

[1]

- 14 The information below shows the total cost of production for a firm at different levels of output.

Total output	0	100	200	300	400	500
Total cost of production	£17 500	£28 700	£37 500	£45 100	£53 800	£59 200

What is the average variable cost when 400 units are produced?

- A £43.75
- B £87.00
- C £90.75
- D £134.50

Your answer

[1]

- 15 If a government decides to provide health care free at the point of delivery, then:

- A the demand for health care will be perfectly elastic
- B health care will become non-rival
- C some form of rationing will have to be used in the allocation of health care
- D there will be no opportunity cost involved in the supply of health care

Your answer

[1]

Section B

Answer **all** the questions in this section.

Food for Thought – Changing Patterns of Food Production and Consumption

Like many economically developed countries, Denmark is facing a growing problem with obesity. A study conducted by the Danish government in 2013 showed that almost half of the Danish population was overweight, with one in seven classified as obese. In spite of this, a tax designed to tackle rising obesity levels lasted little over a year.

5 In 2011 the Danish government introduced a tax on all items with a saturated fat content in excess of 2.3%. This tax was equal to 16 Danish kroner for every kilogram of saturated fat present in the food item. By November 2012, the government had announced an end to this policy and abandoned proposals for an additional tax on sugar. The reason given for this was that a policy designed to improve its citizens' health had increased food prices and reduced employment in the Danish food industry. The tax was reported to have targeted the Danes' perceived love of butter; however, data from Denmark showed that even before the introduction of the tax, the average Dane was consuming little more than a third of the butter they had in 1990. Meanwhile in the United States of America demand for butter had increased by 65% since 2000.

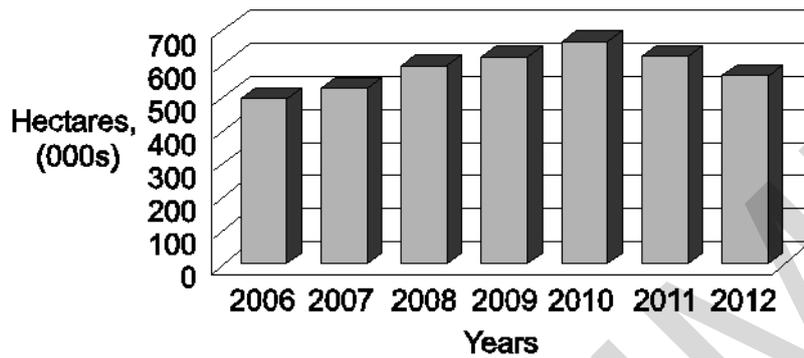
15 It is not only the market for butter that highlights differences between changing patterns of consumption in different countries. While Americans are now demanding less meat per person, in Japan red meat has overtaken fish as the major source of protein in the national diet.

20 Fig.1 shows that sales of organic food fell in the UK between 2008 and 2011. In response, UK farmers have been using less of their land to supply it (see Fig. 2). On the other hand demand continued to rise sharply in European markets. Organic food is produced in a way that is environmentally friendly, with artificial fertilisers being banned and pesticides being heavily restricted. In general, this method has a lower crop yield and is less productively efficient than traditional farming.

Fig. 1 Sales of organic food and average earnings in the UK, 2008 to 2011

Year	2008	2011
U.K. Sales of Organic Food (£m)	1986	1500
Index of Nominal Average Earnings in the U.K. (2008=100)	100	98.0

Fig. 2 Hectares used for organic farming in the UK, 2006 to 2012



- 16 (a)** State **one** factor of production used in the production of organic food.
(Insert 1 x line) [1]
- (b)** Other than changes in the price of butter, explain **two** possible factors which would have caused the demand for butter to increase in the USA (line 13).
(Insert 2x4 x line) [4]
- (c)** Using **Fig. 1**, calculate the income elasticity of demand for organic food in the UK. Give your answer correct to two decimal places.
(Insert 4 x line) [2]
- (d)** State what is meant by the term 'supply'.
(Insert 4 x line) [2]
- (e) (i)** Explain what is meant by the term 'sustainability'.
(Insert 4 x line) [2]
- (e) (ii)** Explain how the change from traditional to organic farming impacts on scarcity.
(Insert 4 x line) [2]
- (f)** Explain **one** reason which could account for the trend between 2006 and 2010 shown in **Fig. 2**.
(Insert 4 x line) [2]
- (g)*** Evaluate using an appropriate diagram(s), the role of price elasticity of demand in determining the impact of an indirect tax such as the Danish 'fat tax' (lines 5-6).
(Insert 40 x line) [10]

Section C

Answer question 17 **or** question 18

- 17*** It is now compulsory for young people in England to remain in some form of education or training until they are 18.

Evaluate, using an appropriate diagram(s), the effectiveness of state provision as a method of correcting education market failure.

[20]

OR

- 18*** The United States of America is a major producer and consumer of wheat.

Evaluate, using an appropriate diagram(s), the effectiveness of a buffer stock system as a method for the United States government to use to maintain stability in the market for wheat.

(Insert 80 x line)

[20]

SPECIMEN

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Fig.2: Data adapted from the Office for National Statistics © Crown Copyright

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...day June 20XX – Morning/Afternoon

AS Level in Economics

H060/01 Microeconomics

SAMPLE MARK SCHEME

Duration: 2 hours

MAXIMUM MARK 60

MARKING INSTRUCTIONS**PREPARATION FOR MARKING
SCORIS**

1. Make sure that you have accessed and completed the relevant training packages for on–screen marking: *scoris assessor Online Training*; *OCR Essential Guide to Marking*.
2. Make sure that you have read and understood the mark scheme and the question paper for this unit. These are posted on the RM Cambridge Assessment Support Portal <http://www.rm.com/support/ca>
3. Log–in to scoris and mark the **required number** of practice responses (“scripts”) and the **required number** of standardisation responses.

YOU MUST MARK 10 PRACTICE AND 10 STANDARDISATION RESPONSES BEFORE YOU CAN BE APPROVED TO MARK LIVE SCRIPTS.

TRADITIONAL

Before the Standardisation meeting you must mark at least 10 scripts from several centres. For this preliminary marking you should use **pencil** and follow the **mark scheme**. Bring these **marked scripts** to the meeting.

MARKING

1. Mark strictly to the mark scheme.
2. Marks awarded must relate directly to the marking criteria.
3. The schedule of dates is very important. It is essential that you meet the scoris 50% and 100% (traditional 50% Batch 1 and 100% Batch 2) deadlines. If you experience problems, you must contact your Team Leader (Supervisor) without delay.
4. If you are in any doubt about applying the mark scheme, consult your Team Leader by telephone, email or via the scoris messaging system.

5. Work crossed out:
- where a candidate crosses out an answer and provides an alternative response, the crossed out response is not marked and gains no marks
 - if a candidate crosses out an answer to a whole question and makes no second attempt, and if the inclusion of the answer does not cause a rubric infringement, the assessor should attempt to mark the crossed out answer and award marks appropriately.
6. Always check the pages (and additional objects if present) at the end of the response in case any answers have been continued there. If the candidate has continued an answer there then add a tick to confirm that the work has been seen.
7. There is a NR (No Response) option. Award NR (No Response)
- if there is nothing written at all in the answer space
 - OR if there is a comment which does not in any way relate to the question (e.g. 'can't do', 'don't know')
 - OR if there is a mark (e.g. a dash, a question mark) which isn't an attempt at the question.
- Note: Award 0 marks – for an attempt that earns no credit (including copying out the question).
8. The scoris **comments box** is used by your Team Leader to explain the marking of the practice responses. Please refer to these comments when checking your practice responses. **Do not use the comments box for any other reason.**
If you have any questions or comments for your Team Leader, use the phone, the scoris messaging system, or e-mail.
9. Assistant Examiners will send a brief report on the performance of candidates to their Team Leader (Supervisor) via email by the end of the marking period. The report should contain notes on particular strengths displayed as well as common errors or weaknesses. Constructive criticism of the question paper/mark scheme is also appreciated.
10. For answers marked by levels of response:
- To determine the level** – start at the highest level and work down until you reach the level that matches the answer
 - To determine the mark within the level**, consider the following:

Descriptor	Award mark
On the borderline of this level and the one below	At bottom of level
Just enough achievement on balance for this level	Above bottom and either below middle or at middle of level (depending on number of marks available)
Meets the criteria but with some slight inconsistency	Above middle and either below top of level or at middle of level (depending on number of marks available)
Consistently meets the criteria for this level	At top of level

11. Annotations

Annotation	Meaning

12. Subject-specific Marking Instructions

INTRODUCTION

Your first task as an Examiner is to become thoroughly familiar with the material on which the examination depends. This material includes:

- the specification, especially the assessment objectives
- the question paper and its rubrics
- the mark scheme.

You should ensure that you have copies of these materials.

You should ensure also that you are familiar with the administrative procedures related to the marking process. These are set out in the OCR booklet **Instructions for Examiners**. If you are examining for the first time, please read carefully **Appendix 5 Introduction to Script Marking: Notes for New Examiners**.

Please ask for help or guidance whenever you need it. Your first point of contact is your Team Leader.

Rubric Infringement

Candidates may infringe the rubric in the following way:

- answering two questions from Section C.

If a candidate has written two answers for Section C, mark both answers and award the highest mark achieved.

USING THE MARK SCHEME

Please study this Mark Scheme carefully. The Mark Scheme is an integral part of the process that begins with the setting of the question paper and ends with the awarding of grades. Question papers and Mark Schemes are developed in association with each other so that issues of differentiation and positive achievement can be addressed from the very start.

This Mark Scheme is a working document; it is not exhaustive; it does not provide 'correct' answers. The Mark Scheme can only provide 'best guesses' about how the question will work out, and it is subject to revision after we have looked at a wide range of scripts.

The Examiners' Standardisation Meeting will ensure that the Mark Scheme covers the range of candidates' responses to the questions, and that all Examiners understand and apply the Mark Scheme in the same way. The Mark Scheme will be discussed and amended at the meeting, and administrative procedures will be confirmed. Co-ordination scripts will be issued at the meeting to exemplify aspects of candidates' responses and achievements; the co-ordination scripts then become part of this Mark Scheme.

Before the Standardisation Meeting, you should read and mark in pencil a number of scripts, in order to gain an impression of the range of responses and achievement that may be expected.

In your marking, you will encounter valid responses which are not covered by the Mark Scheme: these responses must be credited. You will encounter answers which fall outside the 'target range' of Bands for the paper which you are marking. Please mark these answers according to the marking criteria.

Please read carefully all the scripts in your allocation and make every effort to look positively for achievement throughout the ability range. Always be prepared to use the full range of marks.

INSTRUCTIONS TO EXAMINERS:**A INDIVIDUAL ANSWERS**

- 1 The indicative content indicates the expected parameters for candidates' answers, but be prepared to recognise and credit unexpected approaches where they show relevance.
- 2 Using 'best-fit', decide first which set of BAND DESCRIPTORS best describes the overall quality of the answer. Once the band is located, adjust the mark concentrating on features of the answer which make it stronger or weaker following the guidelines for refinement.
 - **Highest mark:** If clear evidence of all the qualities in the band descriptors is shown, the HIGHEST Mark should be awarded.
 - **Lowest mark:** If the answer shows the candidate to be borderline (i.e. they have achieved all the qualities of the bands below and show limited evidence of meeting the criteria of the band in question) the LOWEST mark should be awarded.
 - **Middle mark:** This mark should be used for candidates who are secure in the band. They are not 'borderline' but they have only achieved some of the qualities in the band descriptors.
- 3 Be prepared to use the full range of marks. Do not reserve (e.g.) high Band 6 marks 'in case' something turns up of a quality you have not yet seen. If an answer gives clear evidence of the qualities described in the band descriptors, reward appropriately.

B TOTAL MARKS

- 1 Transfer the mark awarded to the front of the script.
- 2 The maximum mark for the paper is **60**.
- 3 The quality of the extended response is assessed on this parts of the question paper which are identified with the use of an asterisk (*). The assessment of this skill is embedded within each of the levels of response and it must be considered when determining the mark to be awarded within the appropriate level.

SPECIMEN

Levels of response – Level descriptors

	Knowledge and understanding/ Application	Analysis	Evaluation
Strong		An explanation of causes and consequences, fully developing the links in the chain of argument.	A conclusion is drawn weighing up both sides, and reaches a supported judgement.
Good	Precision in the use of the terms in the question and applied in a focused way to the context of the question.	An explanation of causes and consequences, developing most of the links in the chain of argument.	A conclusion is drawn weighing up both sides, but without reaching a supported judgement.
Reasonable	Awareness of the meaning of the terms in the question and applied to the context of the question.	An explanation of causes and consequences, which omit some key links in the chain of argument.	Some attempt to come to a conclusion, which shows some recognition of the influencing factors.
Limited	Awareness of the meaning of the terms in the question.	Simple statement(s) of cause and consequence.	An unsupported assertion.

Q	Key	Rationale	AO	Quantitative skills
1	D	<p>Rationale</p> <p>A Subsidised by retailer/producer.</p> <p>B Subsidised by government.</p> <p>C Zero marginal utility.</p> <p>D Correct: Definition.</p>	AO1	
2	C	<p>Rationale</p> <p>A It will increase specialisation because money is easier to exchange for an economic good.</p> <p>B It will increase the ease of borrowing because money is easier to exchange for an economic good.</p> <p>C Correct: It will decrease the need for a double coincidence of wants because there is no longer the need to find two persons whose disposable possessions mutually match each other's wants.</p> <p>D It will increase trade because money is easier to exchange for an economic good.</p>	AO1	
3	D	<p>Rationale</p> <p>A The consideration of stakeholders and their needs is relatively new; it is not traditional economic theory.</p> <p>B This is a result of government taxation policies rather than an objective.</p> <p>C This isn't an objective.</p> <p>D Correct: Firms have a profit motive, they'll produce where $MR=MC$.</p>	AO1	
4	B	<p>Rationale</p> <p>A Competition ensures that firms strive to minimise their average costs and achieve productive efficiency.</p> <p>B Correct: Changes in demand patterns by consumers lead to changes in the allocation of resources.</p> <p>C Consumers aim to maximise their individual welfare.</p> <p>D Resources are allocated through the price mechanism.</p>	AO1	
5	B	<p>Rationale</p> <p>A Incorrect (ignores production).</p> <p>B Correct: This is a statement which reflects what is meant by allocative efficiency.</p> <p>C Incorrect refers to technical productive efficiency.</p> <p>D Incorrect, simply untrue.</p>	AO1	

Q	Key	Rationale	AO	Quantitative skills
6	A	Rationale A Correct: non excludable and non-rival. B Excludable and rival. C Excludable and rival. D Excludable and rival.	AO1	
7	C	Rationale A In the short run price elasticity of supply is inelastic. B Over time price elasticity of supply becomes more elastic. C Correct: In the short run price elasticity of supply is inelastic and in the long run it becomes elastic. D In the long run price elasticity of supply is elastic.	AO2	✓
8	C	Rationale A Positive statement – testable hypothesis. B Positive statement – testable hypothesis. C Correct: value judgement. D Positive statement – testable hypothesis.	AO2	

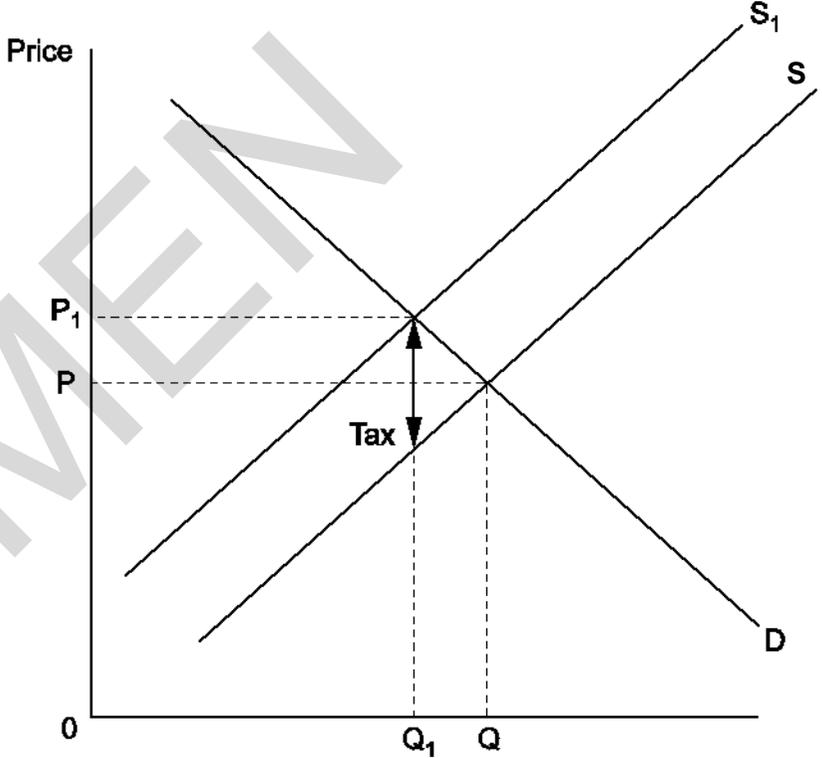
Q	Key	Rationale	AO	Quantitative skills
9	C	<p>Rationale</p> <p>A If students incorrectly link an internal cost which concerns 'eco-friendliness' to an external cost.</p> <p>B If students incorrectly link a cost which applies to environmentally-friendly equipment to an external cost.</p> <p>C Correct: Students correctly identify congestion costs as falling on a third party – the community.</p> <p>D If students incorrectly link a cost which applies to moving products outside the factory to an external cost in an economic sense.</p>	AO2	
10	A	<p>Rationale</p> <p>A Correct: An increase in supply, reduction in price and extension in supply would result in a greater quantity being consumed.</p> <p>B An increase in demand would increase price but supply would have to extend and not contract to result in a reduction in under-consumption.</p> <p>C A decrease in demand would cause price to fall rather than increase and will increase the problem of under-consumption.</p> <p>D An increase in supply would cause a decrease in price but an extension in demand rather than a contraction and an extension in demand would be needed to reduce under-consumption.</p>	AO3	✓
11	D	<p>Rationale</p> <p>A A government subsidy lowers the costs of production and causes the supply curve to shift to the right. A contraction of the curve is caused by an increase in the price of good X.</p> <p>B A change in price of the product causes a movement along the demand curve, not a shift.</p> <p>C If the price of a substitute good increases there will be less demand for the substitute and more demand for good X, the demand curve will shift to the right.</p> <p>D Correct: Wages are a cost of production. As costs of production fall a firm is able to produce more units of product X to the market. The number of units supplied increases and the supply curve shifts to the right.</p>	AO2	
12	D	<p>Rationale</p> <p>A The original producer surplus.</p> <p>B The new producer surplus.</p> <p>C Not part of producer surplus.</p> <p>D Correct: XZU - XYT.</p>	AO2	✓

Q	Key	Rationale	AO	Quantitative skills
13	C	<p>Rationale</p> <p>A An increase in supply.</p> <p>B A decrease in supply.</p> <p>C Correct: Bus and tram travel are substitutes. A rise in bus fares would encourage some travellers to switch to tram travel, causing demand to increase.</p> <p>D A decrease in demand.</p>	AO2	✓
14	C	<p>Rationale</p> <p>A AFC</p> <p>B MC</p> <p>C Correct: AVC</p> <p>D ATC</p>	AO3	✓
15	C	<p>Rationale</p> <p>A The demand for health care would still fall should a higher price be charged.</p> <p>B Health care will still be rival.</p> <p>C Correct: Demand will exceed supply, so some method will have to be used to decide who will be treated.</p> <p>D There will be an opportunity cost as the resources which will be used could be utilised in producing other goods and services.</p>	AO1	

Question		Answer	Marks	Guidance
16	(a)	Accept any of the following: Land [1] Labour [1] Capital [1] Enterprise [1]	1 (AO1 x 1)	For one mark: Accept only a first answer. Any factor is acceptable.
16	(b)	Relevant answers may include: an increase in the price of substitutes, a fall in the price of complements, a change in tastes and preferences in favour of butter or rising incomes. e.g. An increase in the price of a substitute [1], for example margarine [1].	4 (AO1 x 2 AO2 x 2)	Up to four marks: One mark each for a relevant factor (to a maximum of two), plus one mark for each relevant elaboration in the context of butter (again to a maximum of two). Elaboration must be in the context of butter to achieve a mark and can only be awarded where the first mark for identification/knowledge has been given. Do not credit “change” in the price of complements or substitutes where the direction of the change is not clear. Accept a fall in incomes if it is asserted that butter is an inferior good.
16	(c)	Award 1 mark for incorrect rounding or incorrect percentage change correctly applied.	2 (AO2 x 2)	Up to two marks: Income Elasticity of Demand = $\frac{-24.47}{-2} = +12.24$, accept 12.25 $\% \Delta \text{ in QD} = \frac{-24.47}{-2} \times 100 = -24.47\%$ (2dp)
16	(d)	The willingness [1] and ability to sell a product [1].	2 (AO1 x 2)	Up to two marks:
16	(e)	i Sustainability means using resources so as not to compromise future generations’ standard or quality of life.	2 (AO1 x 2)	Up two marks: Award two marks for a clear explanation of sustainability, one mark for an explanation which is less precise but which shows

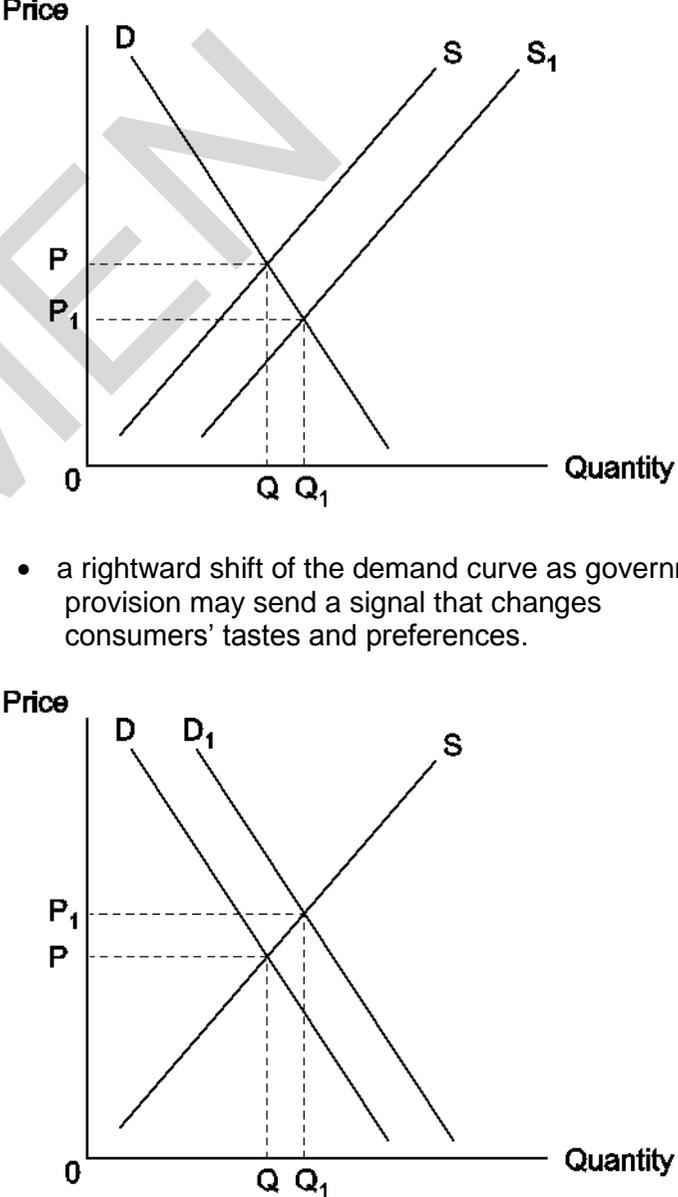
Question		Answer	Marks	Guidance
		<p>e.g. Sustainability means minimising negative externalities on future generations, e.g. by using more environmentally friendly forms of farming such as organic farming. [2]</p> <p>Sustainability means being more environmentally friendly. [1]</p>		<p>some understanding of the term.</p>
16	(e) ii	<p>e.g. By using more land for organic farming, this will produce less food than conventional methods, meaning supply falls and food becomes scarcer. [2]</p> <p>or Organic farming will reduce the amount of food produced. [1]</p>	<p>2</p> <p>(AO1 x 2)</p>	<p>Up to two marks: Two marks are awarded for a clear understanding of the fact that organic farming is less productive than traditional farming and therefore reduces the amount of food produced and makes food scarcer.</p> <p>An alternative but equally acceptable response may be that as organic farming is more sustainable, this may reduce scarcity in the long-run compared with unsustainable agriculture.</p> <p>Candidates may respond in terms of opportunity cost which may include a diagram and this is equally valid if correctly explained.</p> <p>The fact that land is scarce is of no pertinence as the question asks for the effect of organic farming upon scarcity, not the impact of scarcity upon organic farming.</p>
16	(f)	<p>Acceptable reasons would include anything that might lead to an increase in the supply of organic food such as:</p> <p>an increase in the price of organic food a fall in the price of other foods (or of the goods and services that could have been produced if the land had</p>	<p>2</p> <p>(AO1 x 1 AO2 x 1)</p>	<p>Up to two marks: Fig. 2 shows an increase in the amount of land devoted to the production of organic foods.</p> <p>One mark for the identification of a relevant reason. One further mark for an explanation of how that would increase the amount of</p>

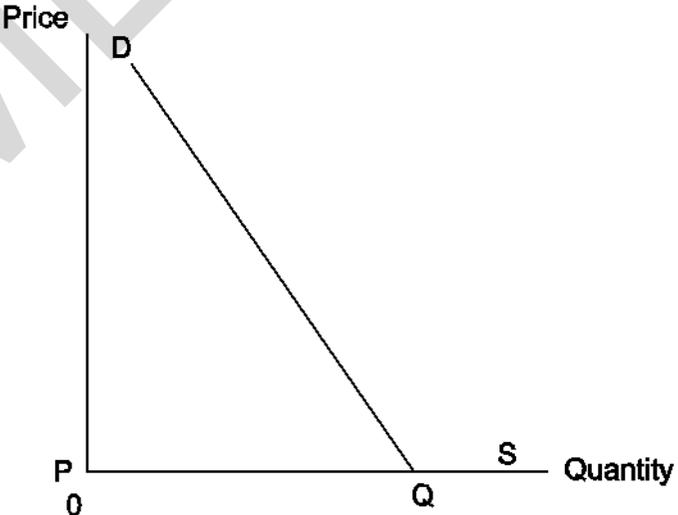
Question	Answer	Marks	Guidance
	<p>been put to an alternative use).</p> <p>It is also acceptable to argue that a decline in the productivity or efficiency of production could require the use of more land in order to meet existing demand.</p> <p>e.g. An increase in the price of organic food [1] would mean farmers could make more profit from organic food and therefore use more of their land for organic food. [1]</p>		<p>land under cultivation for organic food.</p> <p>Do not accept an increase in the demand for organic food without reference to price; it is the change in price that signals to producers, not the change in demand.</p> <p>Candidates may answer in terms of an increase in food production in general, as there is nothing in Fig. 2 to suggest that this increase has been at the expense of traditional farming.</p>

Question	Answer	Marks	Guidance
<p>16 (g) *</p>	<p>Level 3 (7- 10 marks) Good knowledge and understanding of a price elasticity of demand in the context of an indirect tax such as the Danish ‘fat tax’.</p> <p>Strong analysis of the role of price elasticity of demand in determining the impact of an indirect tax such as the Danish ‘fat tax’. A relevant and accurately labelled diagram is provided and is linked to the analysis.</p> <p>Good to Strong evaluation of the role of price elasticity of demand in determining the impact of an indirect tax such as the Danish ‘fat tax’. Good evaluation would be awarded in the lower portion of the band and strong evaluation in the upper portion of the band.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 2 (4-6 marks) Good knowledge and understanding of a price elasticity of demand in the context of an indirect tax such as the Danish ‘fat tax’.</p> <p>Good analysis of the role of price elasticity of demand in determining the impact of an indirect tax such as the Danish ‘fat tax’. A relevant and accurately labelled diagram is provided and is linked to the analysis.</p> <p>Reasonable evaluation of the role of price elasticity of demand in determining the impact of an indirect tax such as the Danish ‘fat tax’.</p>	<p>10</p> <p>(AO2 x 1 AO3 x 4 AO4 x 5)</p>	 <p>e.g. In the diagram above the imposition of a tax reduces the amount of profit available to a firm at any given price, reducing their incentive to supply and shifting the supply curve to the left (or alternatively meaning that they need to increase prices to maintain the same level of profit for a given level of output, shifting the supply curve upwards). This increases the price to P_1 and causes a contraction of demand. If demand is relatively price elastic the fall in demand will be more than proportionate to the increase in price, while the contraction would be much smaller when demand is price inelastic. However, there are other factors which will influence the effect of the tax. The size of the tax will determine how far the supply curve shifts and</p>

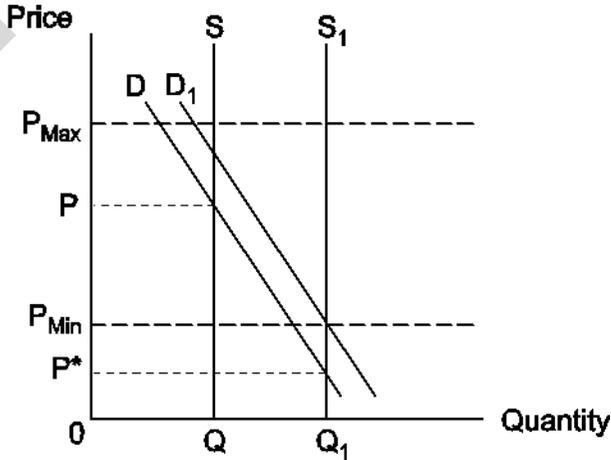
Question	Answer	Marks	Guidance
	<p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 1 (1-3 marks) Reasonable knowledge and understanding of a price elasticity of demand in the context of an indirect tax such as the Danish 'fat tax'.</p> <p>Limited or no analysis of the role of price elasticity of demand in determining the impact of an indirect tax such as the Danish 'fat tax'.</p> <p>Limited or no evaluation</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p>0 marks – no response or no response worthy of credit.</p>		<p>therefore the size of the increase in price, which in turn will determine the size of the contraction in demand.</p> <p>This may be expressed in terms of the incidence of the tax and may be shown via two diagrams with different PEDs. Alternatively, this could be demonstrated using numerical examples, with a tax of the same size imposed on two goods with different PED values and showing different effects on quantity demanded, although this must make the same link between PED and the effectiveness of a tax.</p> <p>Evaluation may refer to other factors such as the effectiveness of monitoring and the size of sanctions, which will determine the extent to which suppliers comply with the new tax.</p>

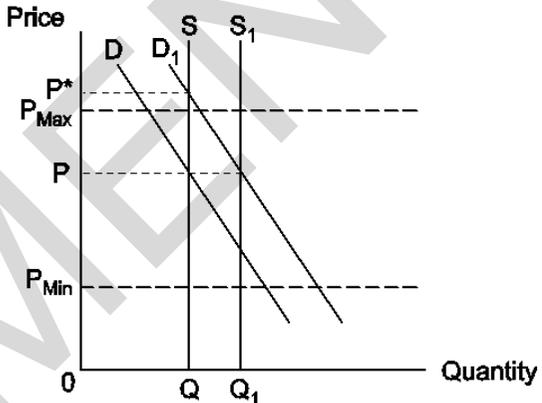
Question	Answer	Marks	Guidance
17 *	<p>Level 4 (16-20 marks) Good knowledge and understanding of state provision of education as a solution to education market failure.</p> <p>Strong analysis of state provision as a method of correcting education market failure. A relevant and accurately labelled diagram is provided and is linked to the analysis.</p> <p>Strong evaluation of the effectiveness of state provision as a method of correcting education market failure.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 3 (11-15 mark) Good knowledge and understanding of state provision of education as a solution to education market failure.</p> <p>Good analysis of state provision as a method of correcting education market failure. A relevant diagram is provided and is linked to the analysis.</p> <p>Good evaluation of the effectiveness of state provision as a method of correcting education market failure.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p> <p>Level 2 (6-10 marks) Reasonable knowledge and understanding of state provision of education as a solution to education market failure.</p>	<p>20</p> <p>(AO1 x 3 AO2 x 4 AO3 x 6 AO4 x 7)</p>	<p>At Level 4 candidates may offer a nuanced conclusion, perhaps including “ifs” and “buts” in their conclusion. For example, that state provision will correct the market failure associated with education, but only if the policy makes education compulsory (this may be based on a reference to free state education being free at the point of consumption, but with an opportunity cost to learners who delay their entry to the labour force).</p> <p>It is possible, although not necessary, for candidates to consider an alternative policy. This could qualify as analysis or evaluation as appropriate provided that the alternative (e.g. regulation without state provision, subsidising education) is assessed relative to state provision.</p> <p>Arguments against state provision include that it is difficult to calculate the social benefit of education and it is therefore difficult to know exactly how much to provide. If the amount provided is too great or too small then government failure will replace market failure. Increasing the number of people in education will reduce the size of the workforce and with an opportunity cost in terms of the country’s productive potential. There is also an opportunity cost to the government who could have used the money (or other resources) used for education in other ways e.g. healthcare.</p> <p>Candidates can clearly illustrate on a diagram the effect of state provision. This is a difficult concept to illustrate graphically and a range of diagrams would be acceptable. This could be:</p> <ul style="list-style-type: none"> • a rightward shift of the supply curve

Question	Answer	Marks	Guidance
	<p>Reasonable analysis of state provision as a method of correcting education market failure. A relevant diagram is provided, which is less than perfect.</p> <p>Reasonable evaluation of the effectiveness of state provision as a method of correcting education market failure, but without a judgement being made.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p>Level 1 (1-5 marks) Limited knowledge and understanding of state provision or market failure.</p> <p>Limited or no analysis of state provision as a method of correcting education market failure.</p> <p>Limited or no evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p>0 marks – no response or no response worthy of credit.</p>		 <p>Price</p> <p>Quantity</p> <p>0</p> <p>P</p> <p>P_1</p> <p>Q Q_1</p> <p>D S S_1</p> <ul style="list-style-type: none"> a rightward shift of the demand curve as government provision may send a signal that changes consumers' tastes and preferences. <p>Price</p> <p>Quantity</p> <p>0</p> <p>P_1</p> <p>P</p> <p>Q Q_1</p> <p>D D_1 S</p>

Question	Answer	Marks	Guidance
			<ul style="list-style-type: none"> A more interesting (if improbable) diagram may try to incorporate an appreciation of state education being free. This could be shown as a perfectly price elastic supply curve at a price of 0, with an equilibrium output equal to the socially optimal level of consumption. An analysis of such a diagram may include an explanation of why the demand for education at a price of 0 might be less than socially-optimal.  <p>Candidates are able to explain clearly why the market for education fails and why under-consumption occurs. They are able to describe the (misperceived) private benefits of education, such as an increase in income in the future or the external benefits, which may include a more productive workforce, greater tax revenue or an increase in innovation.</p> <p>Candidates recognise that the free market outcome is one of under-consumption. They are able to identify education as a merit good and/or one with positive externalities.</p>

Question	Answer	Marks	Guidance
18 *	<p>Level 4 (15-20 marks) Good knowledge and understanding of the operation of buffer stocks in an agricultural market.</p> <p>Strong analysis of a buffer stock system as a method for the United States government to use to maintain stability in the market for wheat. A relevant and accurately labelled diagram is provided and is linked to the analysis.</p> <p>Strong evaluation of the effectiveness of a buffer stock system as a method for the United States government to use to maintain stability in the market for wheat.</p> <p><i>There is a well-developed line of reasoning which is clear and logically structured. The information presented is relevant and substantiated.</i></p> <p>Level 3 (11-15 marks) Good knowledge and understanding of the operation of buffer stocks in an agricultural market.</p> <p>Good analysis of a buffer stock system as a method for the United States government to use to maintain stability in the market for wheat. A relevant diagram is provided and is linked to the analysis.</p> <p>Good evaluation of the effectiveness of a buffer stock system as a method for the United States government to use to maintain stability in the market for wheat.</p> <p><i>There is a line of reasoning presented with some structure. The information presented is in the most-part relevant and supported by some evidence.</i></p>	<p>20</p> <p>(AO1 x 3 AO2 x 4 AO3 x 6 AO4 x 7)</p>	<p>At Level 4 candidates may offer a nuanced conclusion, perhaps including “ifs” and “buts” in their conclusion. For example, that buffer stocks will work very well, provided that the government rotates its buffer stock in order to prevent the wheat from perishing. It may be argued that the use of a buffer stock is in fact revenue-generating, since the wheat should be bought when prices are at their lowest and sold when they are at their highest.</p> <p>It is possible, although not necessary, for candidates to consider an alternative policy. This could qualify as analysis or evaluation as appropriate, provided that the alternative (e.g. legally enforced minimum and maximum prices) is assessed relative to buffer stocks.</p> <p>There may be a clear illustration of the mechanics of buffer stocks in both increasing and reducing the price of wheat (as appropriate). Arguments in favour are clearly analysed and may include the ability to maintain “fair” prices for consumers and farmers and perhaps price stability in a macroeconomic sense, guaranteeing continuity of food supplies etc.</p> <p>Arguments against include the opportunity cost to government, the risk of the crop perishing and the money being irretrievable, the possibility that this will encourage inefficiency from farmers (particularly allocative inefficiency as the government will guarantee them a price) and the difficulty in establishing what the upper and lower bounds of a fair price are.</p> <p>There may be a recognition that the supply of wheat is perfectly (or almost perfectly – depending on the presence of stocks) price inelastic in the short-run. There is a clear explanation of the triggers for governments buying up and selling off buffer stocks based on established minimum/floor</p>

Question	Answer	Marks	Guidance
	<p>Level 2 (5-10 marks) Reasonable knowledge and understanding of the operation of buffer stocks in an agricultural market.</p> <p>Reasonable analysis of a buffer stock system as a method for the United States government to use to maintain stability in the market for wheat. A relevant diagram is provided, which is less than perfect.</p> <p>Reasonable evaluation of the effectiveness of a buffer stock system as a method for the United States government to use to maintain stability in the market for wheat, but without a judgement being made.</p> <p><i>The information has some relevance and is presented with limited structure. The information is supported by limited evidence.</i></p> <p>Level 1 (1-5 marks) Limited knowledge and understanding of a government's ability to influence demand and supply through buying and selling.</p> <p>Limited or no analysis of a buffer stock system as a method for the United States government to use to maintain stability in the market for wheat.</p> <p>Limited or no evaluation.</p> <p><i>The information is basic and communicated in an unstructured way. The information is supported by limited evidence and the relationship to the evidence may not be clear.</i></p> <p>0 marks – no response or no response worthy of credit.</p>		<p>and maximum/ceiling prices.</p> <p>At least one diagram shows the government acting to restore the market to an acceptable equilibrium.</p> <p>A diagram showing the need for and effect of government purchasing of wheat might be expected to look like the one below (the supply curve for wheat need not be perfectly inelastic). From an initial equilibrium at price P and quantity Q, there is an increase in supply which shifts the supply curve to the right from S to S_1. This reduces price to P^* below the minimum acceptable price (decreed by government). Government then buys more wheat, which shifts the demand curve to the right from D to D_1, increasing price within the acceptable range to P_{Min}.</p>  <p>A diagram showing the need for and effect of government sale of wheat (release of a buffer stock) might be expected to look like the one below (again the supply curve for wheat need not be perfectly inelastic). From an initial equilibrium at price P and quantity Q, there is an increase in demand which shifts the demand curve to the right from D to D_1. This increases price to P^* above the government's maximum</p>

Question	Answer	Marks	Guidance
			<p>acceptable price. Government then sells wheat, which shifts the supply curve to the right from S to S₁, reducing price within the acceptable range to P.</p>  <p>Relevant knowledge may include: a recognition that there is a need to maintain low prices for consumers and/or sufficiently high prices to maintain supply. Candidates understand that a buffer stock involves the purchase of an excess supply of wheat in order to increase the price and/or release a supply of wheat in times of shortage. Candidates can describe the problems of volatility in agricultural markets.</p> <p>An identification that buffer stocks involve governments purchasing and/or selling stocks of a product to eliminate shortages or surpluses</p>

Assessment Objectives Grid					
Question	AO1	AO2	AO3	AO4	TOTAL
1 to 15	7	6	2		15 (5)
16 (a)	1				1
(b)	2	2			4
(c)		2 (2)			2 (2)
(d)	2				2
(e) (i)	2				2
(e) (ii)		2			2
(f)	1	1			2
(g)		1	4 (2)	5 (2)	10 (4)
17 or 18	3	4 (2)	6 (3)	7 (3)	20 (8)
TOTAL	18	18	12	12	60 (19)