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Examiners' Report
June 2011

GCE Economics 6EC01 01

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Introduction

The paper appeared accessible to the vast majority of candidates and differentiated effectively between the qualities of responses. The mean score was similar to the previous June series. The standard deviation was also similar.

It was pleasing to note a good standard of responses and there were a significant number of sophisticated answers which scored very high marks. There were very few candidates who could not answer some of the questions on the paper.

Most candidates completed the paper in the time available though some still struggled developing their answers at the end despite a reduction in the number of data response sub-questions from 6 to 5 parts. It is crucial that candidates practise past unit 1 papers under timed conditions to strengthen their skills.

The performance of individual questions is considered in the next section of the report and there are two examples of candidate work for each one. These examples act as a guide as to why a question was well answered and also on how to improve further.

Section A: supported multiple choice questions

Most candidates find this method of testing highly accessible. The mean score for the supported multiple choice questions was slightly lower than in the June 2010 examination. This appears to reflect a more challenging set of questions, particularly Q2 (operation of the price mechanism) and Q5 (division of labour) which recorded the lowest mean scores. However, the quality of answers to the market failure questions (Q7 and Q8) was significantly better than in previous papers.

The key to success involves defining the main concept(s) in the question (awarded 1 or 2 marks) and applying appropriate economic theory and analysis (usually awarded up to 2 marks). Annotation of the diagrams provided in any question is a good strategy, for example, Q4, Q6 and Q7. In addition, Q2 and Q3 offered scope for candidates to introduce diagrammatic analysis as a means of demonstrating their knowledge and understanding of the issues at hand. One should remember that the foundation of this paper is the understanding of the price mechanism model and its limitations. Any opportunity to apply this model should be undertaken.

In order to maximise candidate performance it is possible to achieve the full three explanation marks even when selecting the incorrect option. This tended to occur occasionally but more so in Q3 (income and price elasticity of demand for milk and cheese) and Q4 (change in producer surplus).

Some candidates attempted to gain marks by eliminating incorrect options. Up to three marks are available for successfully eliminating three incorrect options (providing that three separate reasons are offered). There seemed to be an improvement in the rejection technique compared to previous examination series. It requires candidates to explicitly state the option key being rejected and then to offer an appropriate explanation. However, some candidates still fail to identify the incorrect option key and so not alerting the examiner to their rejection.

Several examples of how to successfully eliminate incorrect options are provided in the following candidate responses. A certain skill is required for this and it is important to practise the technique. The mark scheme also offers guidance on how to reject incorrect options.

Note, it is perfectly acceptable to use a combination of techniques for securing the three explanation marks, for example, explaining the correct answer, diagrammatic analysis and eliminating one or more incorrect answers.

Section B: data response questions

The data response questions have a substantial weighting for evaluation marks (16 out of 48 marks). Consequently, it is vital that candidates make evaluative comments when required by the question. A 14 mark question will comprise 6 evaluation marks and a 12 or 10 mark question will comprise 4 evaluation marks.

Attention should also be directed to the quality of written communication (QWC), especially in those questions identified by an asterisk in the question paper. Here, candidates should attempt to develop a coherent argument and take into account grammar and presentation. Although no explicit marks are awarded for QWC, it forms part of the overall impression that examiners take into account when awarding marks.

Both data response questions were accessible to candidates. Q10 (Copper prices) was a marginally more popular choice with 54% of candidates selecting this, compared to 46% choosing Q9 (The National Health Service). The mean scores for these questions suggest the questions are comparable in terms of the demands placed upon candidates and in the marking process. The reason for the slightly higher mean score in Q10 appears to be greater familiarity with external costs (tested in Q10e) compared to private and external benefits (tested in Q9d).

Finally, an attempt has been made to break down and justify how the marks were awarded in the candidate responses used in this report. One should note however, that the answer to each question is really considered in its entirety rather than relying soley upon a mechanical breakdown of individual points. The latter exercise is for the benefit of candidates and teachers reading this report as to how the mark scheme is interpreted in practice. The examiner develops an impression of the quality of each response and uses the mark scheme as a guide to award marks accordingly.

Question 1

Overall, this question was well answered and it provided a gentle introduction to the paper. The majority of candidates selected correct option B and proceeded to define a positive economic statement (as well as a normative economic statement) to secure 1+1 marks.

A further 1+1 marks was available for direct application to the two statements on cigarette taxes. The main reason for not achieving full marks was a failure to make use of at least one of the statements.

Section A: Answer all the questions in this section

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 **Statement 1:** In the March 2010 Budget the Chancellor of the Exchequer announced a tax increase on a packet of cigarettes of 2 per cent above the rate of inflation for each year between 2011 and 2014.

Statement 2: Tax now forms more than 75% of the price of a packet of cigarettes.

Which of the following best describes the two statements above?

(1)

A Statement 1 is positive and statement 2 is normative

B Both statements are positive

C Statement 1 is normative and statement 2 is positive

D Both statements are normative.

Answer [B]

Explanation

(3)

A positive statement is one that is based on fact, and thus can be proved right or wrong. Statement 1 states the tax increase of cigarettes at 2% above the rate of inflation, which is a fact, along with statement 2 stating that tax of cigarettes is 75% of the price. Contrasting this, a normative statement is based on value judgement, thus is seen as an opinion which neither of the statements are.

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Examiner Comments

3 out of 3 explanation marks awarded.
Like many sound answers, the candidate defines the key concepts of positive and normative statements (1+1 marks). A further 1 mark is achieved by applying directly to the two statements on cigarettes taxes.

ResultsPlus
Examiner Tip

It is worth defining both positive and normative economic statements - even when the question just focuses on one of these concepts. Always refer to normative statements as those which include value- judgements (rather than opinions).

Section A: Answer all the questions in this section.

You should spend 35 minutes on this section. Use the data to support your answers where relevant. You may annotate and include diagrams in your answers.

1 **Statement 1:** In the March 2010 Budget the Chancellor of the Exchequer announced a tax increase on a packet of cigarettes of 2 per cent above the rate of inflation for each year between 2011 and 2014.

Statement 2: Tax now forms more than 75% of the price of a packet of cigarettes.

Which of the following best describes the two statements above?

(1)

A Statement 1 is positive and statement 2 is normative

B Both statements are positive

C Statement 1 is normative and statement 2 is positive

D Both statements are normative.

Answer B.

Explanation

(3)

Positive statements are statements that can be proven true or false by refering to facts. Normative statements are value judgements and cannot be conclusively proven to be right or wrong. Based on the statements above, both statements are positive as they can be proven to be right or wrong based on facts.

ResultsPlus

Examiner Comments

2 out of 3 explanation marks awarded.
The candidate achieves 1+1 marks for defining positive and normative economic statements. Unfortunately, no explicit application is made to the two statements in the question.

ResultsPlus

Examiner Tip

Always apply your answer to the information provided in the question. Simple reference to the tax on cigarettes and the 2010 Budget as being checked to see whether they are true or false would have merited full marks.

Question 2

The price mechanism is at the core of the syllabus and so it was surprising to find many candidates select incorrect option D, despite this being used in a previous exam series.

The best way to explain the operation of the price mechanism is through diagrammatic analysis.

2 One function of the price mechanism is to:

(1)

A Encourage businesses to exit a market as price of the goods produced increases

B Eliminate a surplus of a good by allowing the market price to fall

C Encourage government intervention to set production targets

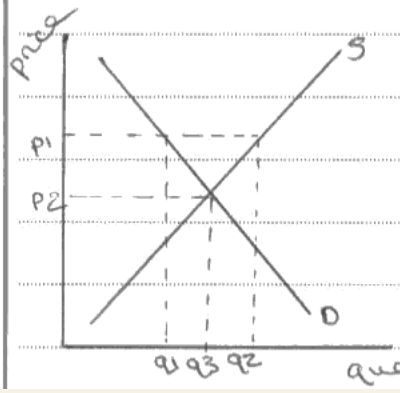
D Maintain price stability.

Answer B.

Explanation

(3)

The price mechanism is the interaction of demand and supply, to find the equilibrium price. It is a rationing device which is used to allocate resources, which are scarce.



At P1 there is a surplus (Q1-Q2), so the price mechanism allows the price to fall to P2, through an extension in demand and contraction in supply, reaching the equilibrium (Q3) and thus eliminating any surplus.

ResultsPlus
Examiner Comments

3 out of 3 explanation marks awarded.
The candidate explains the price mechanism in terms of its role for allocating scarce resources (1 mark) and then eloquently explains how a surplus is eliminated though an extension in demand and contraction in supply. This is reinforced by correct diagrammatic analysis (2 marks).

ResultsPlus
Examiner Tip

Be prepared to offer diagrammatic analysis which directly answers the question - namely depicting how a surplus is eliminated through a fall in price of the good in question.

2 One function of the price mechanism is to:

(1)

A Encourage businesses to exit a market as price of the goods produced increases ✗

B Eliminate a surplus of a good by allowing the market price to fall

C Encourage government intervention to set production targets

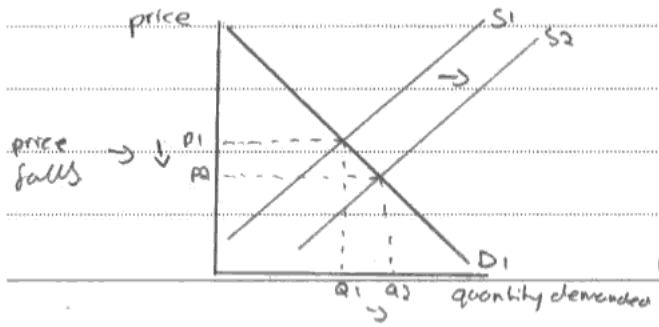
D Maintain price stability.

Answer B

Explanation

(3)

The price mechanism in a market economy gives signals and insentives to indicate price levels as set by the supply and demand for them. The price mechanism is an 'invisible' hand that sets prices. If supply were to increase then the price would fall as the price mechanism acted.



(Total for Question 2 = 4 marks)

ResultsPlus

Examiner Comments

2 out of 3 explanation marks awarded.
The candidate outlines a function of the price mechanism in terms of acting as a signal to indicate changes in supply and demand (1 mark). Reference is then made to a diagram where supply increases which leads to market price falling (1 mark). It is almost full marks but the initial excess supply or surplus must be shown following the increase in supply. Alternately, reference to demand extending as price falls would also have merited a mark here.

ResultsPlus

Examiner Tip

Explain the diagram fully and show the initial excess supply or surplus - so the question can be directly answered.

Question 3

Most candidates achieved high marks by selecting correct option D and then defining price elasticity and income elasticity of demand. Some application to milk and cheese secured the final explanation mark.

3 Estimates of UK income and price elasticity of demand for milk and cheese

Dairy product	Income elasticity of demand	Price elasticity of demand
Milk	0.05 Normal	-0.36 inelastic
Cheese	0.23 Normal	-0.35 inelastic

Source: https://statistics.defra.gov.uk/esg/publications/nfs/2000/Section6.pdf

From the information in the table it can be deduced that milk and cheese:

(1)

A Are inferior goods with a price inelastic demand

B Have a positive cross elasticity of demand X

C Are inferior goods with a price elastic demand

D Are normal goods with a price inelastic demand.

Answer D

Explanation

(3)

PED = %ΔQd / %ΔP YED = %ΔQd / %ΔY

Milk and cheese are both normal goods as they have a positive YED, meaning that as incomes go up, more of the good is demanded. Inferior goods have a negative YED. Milk and cheese also both have price inelastic demand as their PEDs are between 0 and -1, meaning that quantity demanded isn't that responsive to a change in price. Price elastic demand would be a PED between -1 and $-\infty$. B is incorrect as the table doesn't show XED.

(Total for Question 3 = 4 marks)

ResultsPlus
Examiner Comments

3 out of 3 explanation marks awarded.

The correct formulae for price elasticity of demand and income elasticity of demand secured 1+1 marks. This is supported by reference to milk and cheese having a positive income elasticity of demand and so are normal goods (1 mark) as well as being price inelastic demand since their values are between 0 and -1 (1 mark). Note a maximum of 3 explanation marks are available per multiple choice question.

ResultsPlus
Examiner Tip

A definition of an elasticity concept or showing its formula will secure 1 mark - but there is no need to show both for the same concept as this wastes time.

3 Estimates of UK income and price elasticity of demand for milk and cheese

Dairy product	Income elasticity of demand	Price elasticity of demand
Milk	0.05	0.36
Cheese	0.23	-0.35

Source: https://statistics.defra.gov.uk/esg/publications/nfs/2000/Section6.pdf

From the information in the table it can be deduced that milk and cheese:

(1)

A Are inferior goods with a price inelastic demand

B Have a positive cross elasticity of demand

C Are inferior goods with a price elastic demand

D Are normal goods with a price inelastic demand.

Answer A

Explanation

(3)

Price elasticity of demand measures the responsiveness of quantity demanded to a change in its price.
Income elasticity of demand measures the responsiveness of demand to a change in income.
Both milk and cheese are inferior goods because income elasticity of demand is less than 1.
Both milk and cheese have negative price elasticity of demand, showing that it is inelastic demand.

ResultsPlus
Examiner Comments

2 out of 3 explanation marks awarded for definitions of the two key concepts. However, the candidate selects the incorrect key and confuses inferior goods with an elasticity value of less than 1 and confuses a negative price elasticity of demand answer with an inelastic demand.

ResultsPlus
Examiner Tip

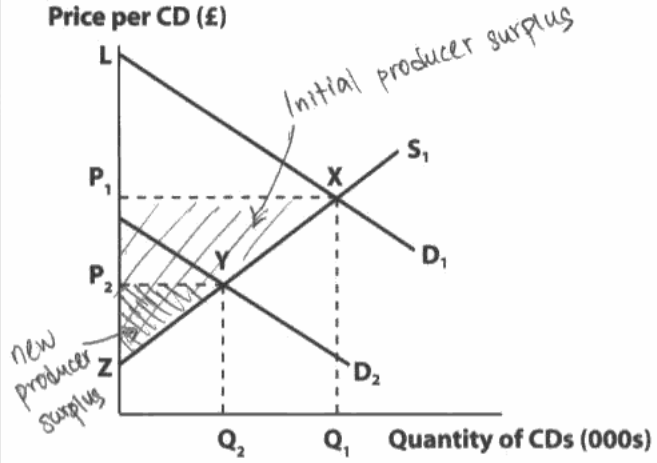
Make sure you learn the elasticity scale as there are always questions on this area in every paper for unit 1.

Question 4

This question was generally well answered and most responses scored highly. However, a significant minority of answers selected incorrect option C, confusing the 'new producer surplus' with the 'loss of producer surplus'.

Another common error was to define producer surplus incorrectly (by omitting 'the difference between' the market price and the price producers are willing to accept to supply a good).

4 Music CD market



The diagram shows the market for music CDs. A decrease in demand from D_1 to D_2 will cause a loss of producer surplus equal to the area:

(1)

A P_1XL

B P_1XZ

C P_2YZ

D P_1XYP_2.

Answer D.

Explanation

(3)

Producer surplus is the difference between the actual price a producer receives for a good and the lower price it will willingly accept. Initial producer surplus is P_1XZ. However, after the demand shifts from D_1 to D_2, the ~~#~~ new producer surplus would be P_2Y2. ~~∴ The # loss~~ Therefore, the loss of producer surplus will equal to the area P_1XYP_2.

ResultsPlus

Examiner Comments

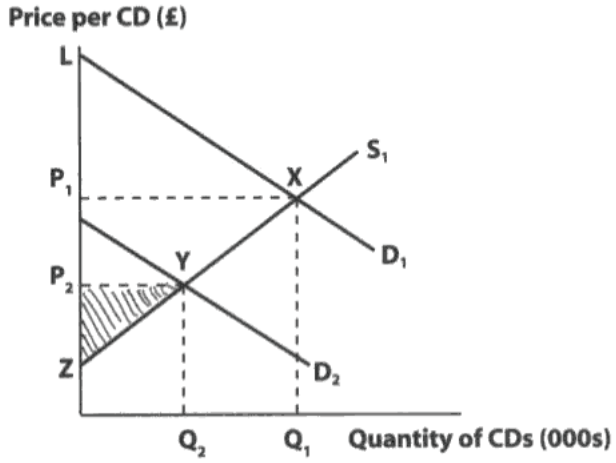
3 out of 3 explanation marks awarded.
Effective annotation of the diagram to show the original and new levels of producer surplus which are clearly labelled (1+1 marks). This is supported by a definition of producer surplus (1 mark).

ResultsPlus

Examiner Tip

Be prepared to annotate diagrams and ensure clear labelling of the areas. This is often a quick way of achieving marks.

4 Music CD market



The diagram shows the market for music CDs. A decrease in demand from D_1 to D_2 will cause a loss of producer surplus equal to the area:

(1)

A P_1XL

B P_1XZ

C P_2YZ

D P_1XYP_2.

Answer C

Explanation

(3)

Producer surplus shows the difference between ~~what~~ the price that the producer is willing to supply for a good to the actual market price. The old producer surplus, whilst demand was still at D_1 was the area P_1XZ. However, following the decrease from D_1 to D_2 of music CDs, the ~~the~~ new producer surplus covers the area P_2YZ.

ResultsPlus
Examiner Comments

3 out of 3 explanation marks awarded. Despite selecting incorrect option C it is still possible to achieve the full 3 explanation marks available. In this instance it is done by defining producer surplus (1 mark) and identifying the original and new level of producer surplus (1+1 marks).

ResultsPlus
Examiner Tip

Read the question carefully - it is the loss of producer surplus which is required, that is, area P1XYP2 for the correct key D. An easy rejection mark can be gained by option A (area P1XL) which shows consumer surplus.

Question 5

A significant minority of candidates selected incorrect option B, that training costs per worker would increase. However, specialisation on a sandwich production line should reduce training cost per worker (although total training costs might increase with a high staff turnover). Instead, the best answer is option C, which focuses on the monotony attached to work on a sandwich production line and the consequent high staff turnover.

5 One disadvantage a sandwich making firm may experience from the division of labour on its production line is an increase in:

(1)

A The range of workers' skills ✗

B Training costs per worker ✗

C Staff turnover

D Productivity.

Answer [C]

Explanation

(3)

The division of labour is a form of specialisation which involves the breaking down of production into smaller processes. Therefore instead of workers Rai producing a whole product individually, instead they focus on an individual aspect of production. For example, in a sandwich making firm, one person may butter the bread whilst another cuts cheese. This can cause high staff turnover as workers suffer from lack of motivation due to repetitive, tedious work, meaning staff may continually leave the firm due to a lack of stimulation.

ResultsPlus
Examiner Comments

3 out of 3 explanation marks awarded.
An explanation of division of labour is offered (1 mark) along with application to a sandwich production line (1 mark). This is reinforced by the 'lack of motivation due to repetitive, tedious work' leading to high staff turnover (1 mark).

ResultsPlus
Examiner Tip

Always apply to the issue at hand; relatively few responses offered examples of the division of labour on a sandwich production line.

5 One disadvantage a sandwich making firm may experience from the division of labour on its production line is an increase in:

(1)

A The range of workers' skills

B Training costs per worker

C Staff turnover

D Productivity.

Answer [B]

Explanation

(3)

The division of labour is the seperation of tasks in the production process, divided between workers so they focus on certain tasks. An example could be making one person always spread the butter on the bread. B is correct as each worker would need to be trained in their task, and others in case of an emergency. (A) is wrong because the range of workers skills may decrease from the repetitive nature of their work. (D) is wrong because this would be an advantage of the division of labour.

(Total for Question 5 = 4 marks)

ResultsPlus
Examiner Comments

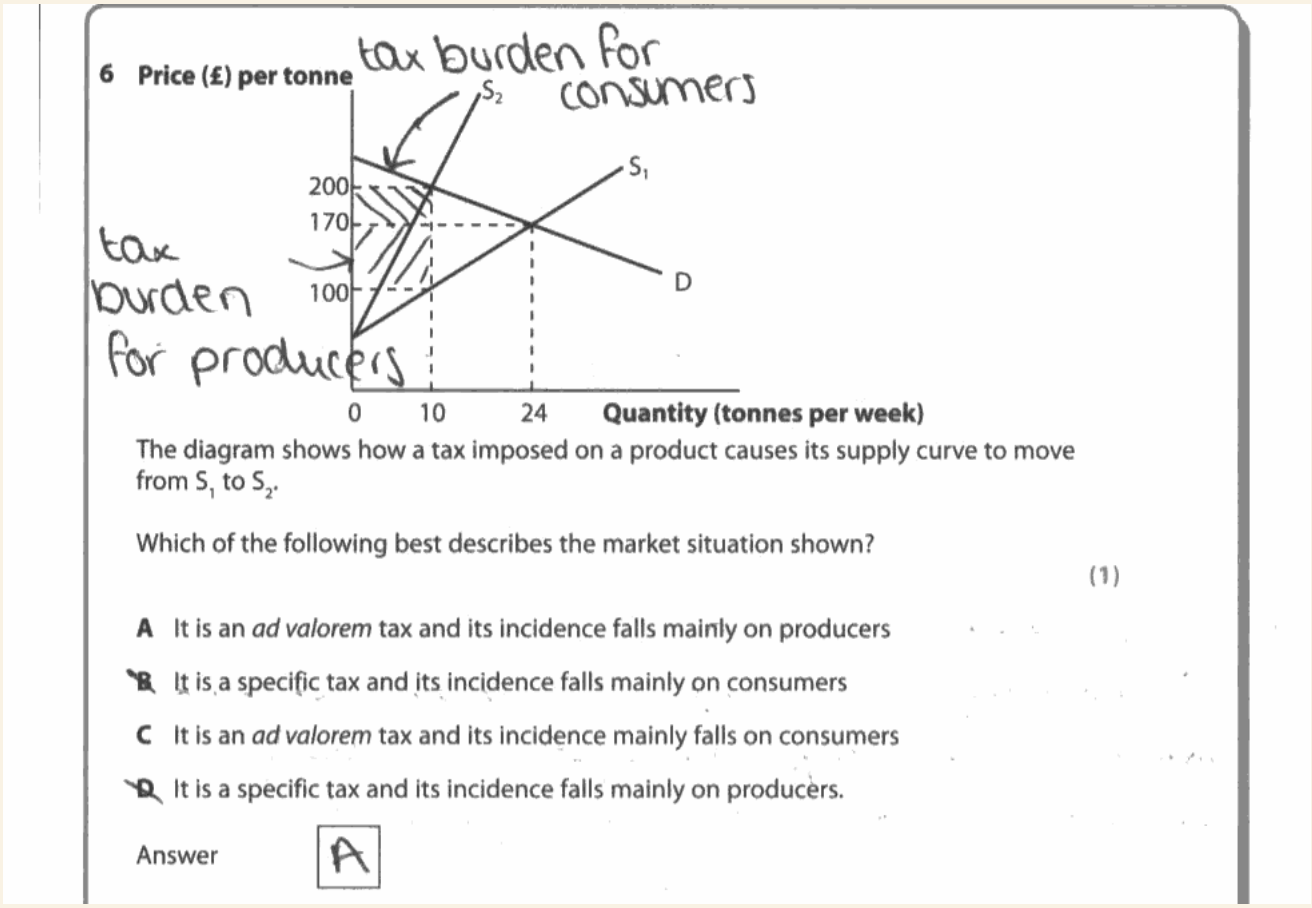
3 out of 3 explanation marks awarded despite selection of incorrect option B.
The candidate explains the division of labour (1 mark) and applies to a sandwich production line (1 mark). This is supported by rejection of incorrect options A and D (1 mark). In particular, option A is effectively rejected by offering an additional comment such as the 'repetitive nature of work' leading to a decrease in the range of worker skills.

ResultsPlus
Examiner Tip

Be prepared to explain why options may be incorrect - but try and add value to your answer rather than just reversing the statement in the key.

Question 6

Most candidates selected correct option A, recognising the tax is ad valorem. High marks were gained by annotating the diagram to show the respective tax areas for producers and consumers.



Explanation

(3)

An ad valorem tax is a tax on a good which is a % of price ~~not~~ A specific tax is pounds per unit, therefore the supply curves coould be parrallel. So reject a and c. Burden of tax to consumers would equal (200 - 170) x 10 = £300 per tonne. Burden of tax to producer = (170 - 100) x 10 = £700 per tonne. Therefore the incidence mostly falls on the producer.

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Examiner Comments

3 out of 3 explanation marks awarded. Definition of an ad valorem tax (1 mark) is supported by calculation of the respective tax paid by producers and consumers (1+1 marks). This is also shown in a diagrammatic format which would be sufficient to achieve 1+1 marks. The candidate also understands what a specific tax is though selects the incorrect options to reject.

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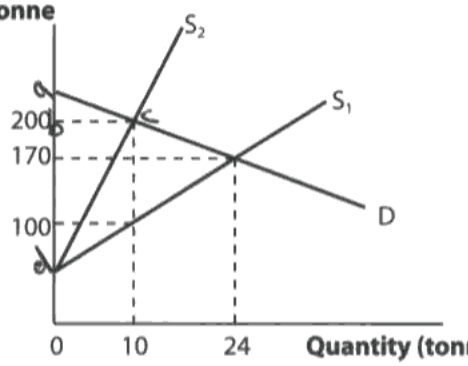
Examiner Tip

Be prepared to calculate the respective tax payments for producers and consumers using the figures provided. Always show your workings.

6 Price (£) per tonne



The diagram shows how a tax imposed on a product causes its supply curve to move from S_1 to S_2.

Which of the following best describes the market situation shown?

(1)

A It is an *ad valorem* tax and its incidence falls mainly on producers - indirect tax

B It is a specific tax and its incidence falls mainly on consumers ✗

C It is an *ad valorem* tax and its incidence mainly falls on consumers ✗

D It is a specific tax and its incidence falls mainly on producers. ✗

Answer [A]

Explanation

(3)

Ad valorem is an indirect tax meaning it is placed on a good or service rather than an individual or organisation. It is also known as VAT (value added tax) where a percentage of the good currently 20% is added onto the total price as tax. We can see that it's fall mainly on producers as demand is price elastic so consumers are only paying triangle abe (see diagram), why producers are paying bcd (see diagram).

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Examiner Comments

2 out of 3 explanation marks.
The candidate defines an ad valorem tax (1 mark) and explains that producers pay most of it due to demand for the good being price elastic (1 mark). The annotation of tax areas on the diagram is incorrect.

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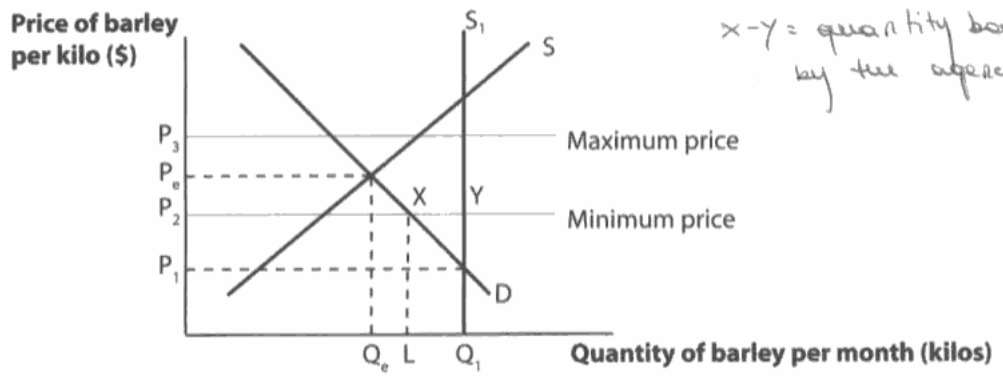
Examiner Tip

Make sure you learn the demand and supply diagrams thoroughly and how indirect taxes affect them. The specification is based on the application of supply and demand diagrams.

Question 7

Most candidates selected correct answer B but many did not make effective use of the diagram to gain the explanation marks. Relatively few answers identified the quantity of barley the government agency has to buy (XY) or the total amount spent on this (XYQ1L). Many responses simply repeated the correct key to outline what must occur but this added little value to their answer.

7 The market for barley



X-Y = quantity bought by the agency.

The diagram shows the operation of a buffer stock scheme in the barley market where a government agency intervenes to ensure the price remains between P_2 and P_3. A harvest of S_1 for a given year will cause:

(1)

A An excess demand for barley

B The government agency to buy barley and add to its stockpile

C Price to increase to P_3

D The government agency to sell barley from its stockpile.

Answer B

Explanation

(3)

A buffer stock scheme is a store of commodities which seeks to stabilize prices ~~if~~ buying up surpluses when the prices are low and release its stocks when prices are high.

The amount that the agency will need to buy is ~~XYQ~~ XYQ1L.

"D" is incorrect because because the agency sell barley when prices are too high, when there is a bad harvest.

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Examiner Comments

3 out of 3 explanation marks awarded.
The candidate explains how a buffer stock scheme operates (1 mark) and then identifies total agency expenditure on buying the surplus stock to ensure price does not fall below 0P1 (1 mark). Rejection of incorrect option D is conducted by referring to the conditions required to sell barley from the stockpile (1 mark).

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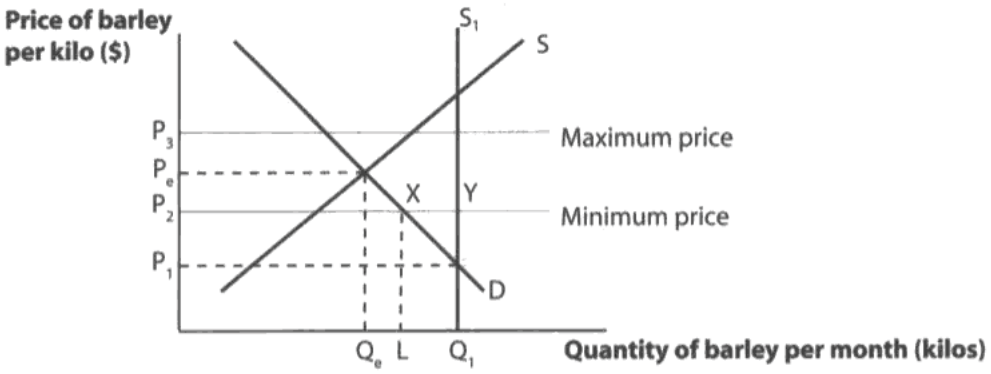
Examiner Tip

Make use of the information in the diagram. Stating the quantity purchased (XY) and the total government agency expenditurre (XYQ1L) would secure 1+1 marks.

7 The market for barley



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(1)

A An excess demand for barley

B The government agency to buy barley and add to its stockpile

C Price to increase to P_3

D The government agency to sell barley from its stockpile.

Answer [B]

Explanation

(3)

A buffer stock scheme is a plan when an organisation or government intervenes in the market by holding stocks to stabilise market prices and producer revenues. The government will have to buy ~~EQ~~ XY stocks of barley to add to its stock pile in order to ~~prevent~~ prevent the price of barley from falling below the minimum price to P_1. The total government expenditure is XYQ1L. Option A is incorrect as there is a excess supply or surplus of barley ~~shown by~~ that is XY. Option C is incorrect as a harvest of S_1 would cause price to decrease to P_1. Option

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Examiner Comments

3 out of 3 explanation marks awarded.
The candidate refers to the quantity purchased by the agency (XY) and its expenditure on this (XYQ1L) (1+1 marks) in order to prevent price falling below the minimum price to 0P1 (1 mark).

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Examiner Tip

Be prepared to reject incorrect options if you are uncertain of how to gain marks when explaining the correct answer. In this instance the candidate would have gained 1+1 marks for rejecting options and A and C.

Question 8

A surprising number of candidates confused occupational mobility of labour with geographical mobility of labour and so ended up selecting incorrect option D.

Another common mistake was to confuse the 'mobility' of labour with 'immobility' of labour when defining either term.

8 Which of the following is most likely to increase the **occupational** mobility of labour?

(1)

A An increase in the provision of public goods

B An increase in the Stamp duty on buying a property

C Training programmes for the unemployed

D Relocation subsidies to workers.

Answer C

Explanation

(3)

occupational mobility of labour is the ability for more ~~jobs~~ from one job to another where different skills are needed.

C is correct because a training programme is designed to give the trainee new skills. Having new skills means the trainee is now employable in more fields meaning he or she may move to a job where different skills are involved.

D is wrong because a relocation subsidy will increase geographical mobility of labour, this is different from occupational mobility of labour. **(Total for Question 8 = 4 marks)**

ResultsPlus
Examiner Comments

3 out of 3 explanation marks.
A typical method that many candidates chose to gain full marks was to define occupational mobility of labour (1 mark) and then refer to how training programmes increase skills to make labour employable in different fields (1 mark) and finally, rejection of option D, as relocation subsidies cause an increase in geographical mobility of labour (1 mark).

ResultsPlus
Examiner Tip

Reject an incorrect option when it appears easy to do so. Both options B and D are easy to reject since the former decreases geographical mobility of labour and the latter increases it. Both options are irrelevant since the question is on occupational mobility of labour.

8 Which of the following is most likely to increase the **occupational** mobility of labour?

(1)

A An increase in the provision of public goods

B An increase in the Stamp duty on buying a property

C Training programmes for the unemployed

D Relocation subsidies to workers.

Answer [C]

Explanation

(3)

Occupational immobility of labour is when workers cannot move easily between jobs as they do not have to correct training, skills or knowledge. Increasing training programmes for the unemployed will increase their human capital making it easier to move between jobs.

ResultsPlus

Examiner Comments

2 out of 3 explanation marks awarded.
This was a typical answer. The candidate explains occupational immobility of labour (cannot move easily between jobs as do not have correct training, skills and knowledge) (1 mark) and then refers to training programmes providing skills or raising human capital levels to make it easier to move between jobs (1 mark). By offering a real world example of the difficulty labour face in changing occupations a further mark would have been achieved.

ResultsPlus

Examiner Tip

Be prepared to offer an example when explaining occupational mobility / immobility of labour. For example, the difficulty a school teacher might face in switching occupations to become an accountant.

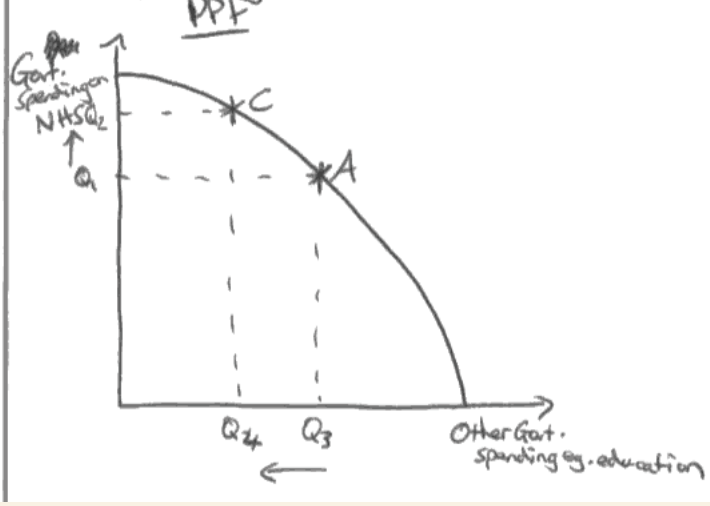
Question 9 (a)

This question tested a fundamental concept in economics, namely, opportunity cost. Most candidates secured high marks by defining and applying the concept, following an increase in government spending on the NHS.

(a) Using examples, explain the significance of opportunity cost to the increase in government spending on the NHS referred to in Extract 1.

(4)

Opportunity cost is the benefits forgone of the next best alternative. The opportunity cost here is the benefits of the potential other use of tax payers money if it was not spent on increasing the NHS budget. As shown in the PPF diagram if spending on NHS increases from £115 billion in 2008 to £127 billion in 2011 (Q_1 to Q_2) then the opportunity cost is the decrease of output of other government spending from Q_3 to Q_4. This other spending could be on education, public transport, defence, road-building or benefits. An increase in spending on NHS causes a decrease in spending in other areas.



ResultsPlus
Examiner Comments

4 out of 4 marks awarded.
The definition of opportunity cost (1 mark) is supported with reference to the size of increase in government spending (1 mark) and examples of alternative uses of government funds such as education, public transport, defence, road-building or benefits (1+1 marks). Thus, full marks are already secured. Marks are also available for a production possibility diagram depicting the opportunity cost from increased government spending on healthcare - as in this case (up to 2 marks).

ResultsPlus
Examiner Tip

Define key concepts accurately and be prepared to use diagrammatic analysis.

(a) Using examples, explain the significance of opportunity cost to the increase in government spending on the NHS referred to in Extract 1.

(4)

Opportunity cost is the next best alternative forgone. For example if the government increases spending on the NHS it will have less money to spend on other services like the police.

ResultsPlus
Examiner Comments

2 out of 4 marks awarded.
A definition of opportunity cost (1 mark) is supported with an alternative use of government funds such as the Police (1 mark). This answer lacks development and is clearly too brief.

ResultsPlus
Examiner Tip

Offer more than one example of opportunity cost from the increase in government spending on the NHS - just as the question instructs one to do.

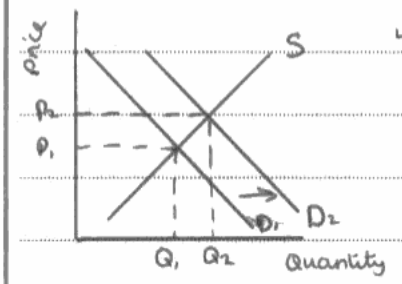
Question 9 (b)

This was a straightforward question in which Extract 1 offered pointers on how to answer it. Most candidates achieved at least 4 marks. The most popular causes of the 'growing demand and cost pressures on the health care budget' were an ageing population, improved medical treatment and higher staff costs. The best answers offered two causes which were then developed.

(b) Explain **two** possible causes of the 'growing demand and cost pressures on the health care budget' *(Extract 1, lines 5–6)*.

(6)

One of the causes is an 'ageing population'. Older people tend to require more medical care, so this represents an increase in demand. As shown on the diagram, a positive shift in demand causes an increase in price, so causing the 'cost pressures'. ~~Older peo~~ The ageing population causes 'growing demand' because older people also tend to stay in hospital for longer, due to the many medical ailments ~~afflictions~~ associated with age such as arthritis or the need for hip replacements. As there are more old people, these ~~requirements~~



will be demanded more and more (an ageing population = a higher proportion of our population are over 60).

Another cause of rising cost pressures are the increased staff wage rates, which 'now account for 40% of the staff budget'. The NHS budget is not going to rise as significantly as once thought, yet demand for medical staff is price inelastic – they are a vital requirement in the system. Therefore regardless of their increased wages the labour demand will be the same – more must be paid to them despite the reducing budget – creating cost pressures.

ResultsPlus
Examiner Comments

6 out of 6 marks awarded.
The first cause identified is an 'ageing population' (1 mark) since older people tend to stay in hospital for longer due to medical ailments associated with old age such as arthritis and hip replacements (1+1 marks).
The second cause identified is increased staff wages (1 mark) which now account for 40% of the budget and that demand for them is inelastic - they are a vital requirement to the system of health care (1+1 marks).

ResultsPlus
Examiner Tip

Be prepared to use the information provided and also offer real world examples to support your case (such as increased medical ailments of arthritis and hip replacements associated with old age).

(b) Explain **two** possible causes of the 'growing demand and cost pressures on the health care budget' *(Extract 1, lines 5–6)*.

(6)

The growing demand on the health care budget may be caused by the aging ~~the~~ population. Since the population are elder on average, they demand more medical health care service as they are more likely to have more sickness.

The cost pressures on health care budget ~~rises~~ may be caused by the advance in medical care and rising staff costs. Since the advanced medical care needs more expensive equipment or higher level of technology to support the health care service and the staff salary rise, so the cost pressures rise.

ResultsPlus

Examiner Comments

4 out of 6 marks awarded.
The first cause is an ageing population (1 mark) since older people are more likely to suffer from sickness (1 mark).
The second cause is advances in medical care (1 mark) which require more expensive equipment (1 mark). The candidate also refers to a third factor of rising staff costs but only two points are required here.

ResultsPlus

Examiner Tip

Be prepared to link ideas together. The candidate could have linked rising staff costs to advances in medical care by suggesting they have to go on more training courses to improve their skills to use the equipment - so adding to the costs pressure. They may also have to be paid extra for being more qualified to use the equipment. This link is not explicitly made but would merit a mark.

Question 9 (c)

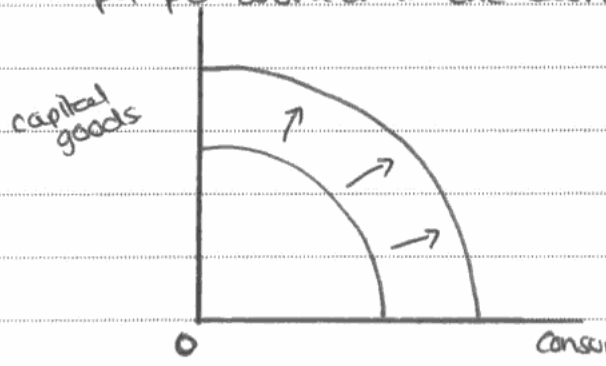
This question required candidates to consider the link between increased government spending on health care and its impact on the production possibility frontier - whether it would contribute to shifting it out or not. However, some responses just focused on the opportunity cost involved and did not consider the possibility of shifting the production possibility frontier.

It was surprising to find some answers incorrectly labelling a production possibility frontier - with price on its vertical axis. Nevertheless, there were some excellent answers which combined correct diagrammatic analysis with evaluation.

(c) Examine the possible impact on the production possibility frontier for the economy of the increase in government spending on the NHS referred to in Extract 1. Illustrate your answer with an appropriate diagram.

(10)

A ~~ppcc~~ production possibility frontier refers to the maximum potential level of output that a nation can achieve when all resources are fully and efficiently employed. An increase in government spending on the NHS as mentioned in Ext. will have big impacts on the PPF of a Nation. It may mean that better healthcare is provided and this may lead to better levels of human capital in the workforce; workers will benefit from greater health and be able to have less days off work, and more workers may also be able to be in work also, as ~~note~~ mentioned in Ext, the NHS is the "largest employer in Europe" and so government spending here may increase levels of human capital in the workforce. It may then mean that ~~also mean more~~ the PPF of a nation is going to shift outward, indicating economic growth, due to more employees and higher level of output per worker in the economy.



One could evaluate on this point however. There may be time lags that come into play when increased spending is felt on the NHS; also, an "ageing population" mentioned in Ext may mean that more older people are making use of the NHS, putting more strain on it and the economy. A rise in government spending on the NHS may involve an opportunity cost of less spending elsewhere, by example on education and infrastructure and developing new resources; this could limit the growth on the PPF shown.

ResultsPlus
Examiner Comments

10 out of 10 marks awarded.
The definition of of a production possibility frontier (1 mark) is supported with a correct diagram (3 marks). Reference is also made to improved human capital and fewer days off work, leading to increased productivity (2 marks).
Evaluation marks are secured by referring to time lags (1 mark), the strain that more health spending on older people might incur (presumably rather than workers) (1 mark) and the opportunity cost of spending in terms of less funds for education and infrastructure, leading to lower growth of the PPF (2 marks).
Although not the most effective of answers, there is enough to award full marks.

ResultsPlus
Examiner Tip

Make sure diagrams are drawn accurately and properly explained. There is just enough integration to the text to award the full 3 marks available for the diagram here.

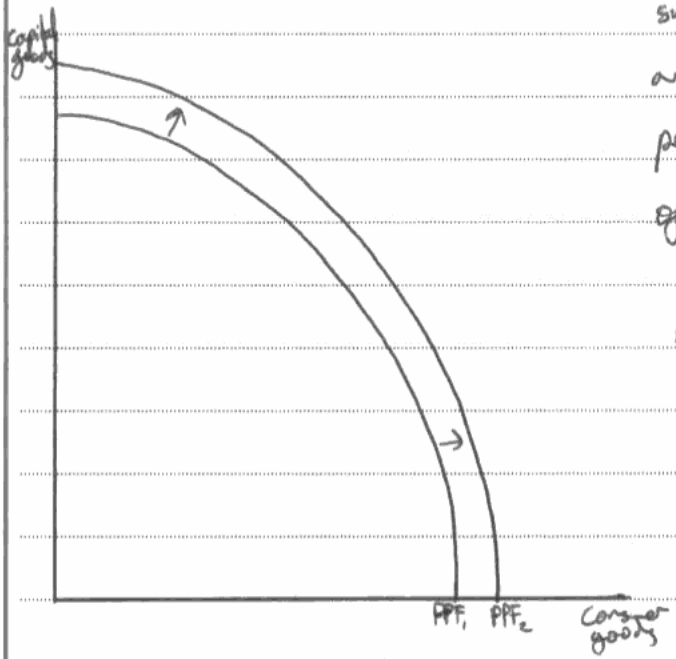
(c) Examine the possible impact on the production possibility frontier for the economy of the increase in government spending on the NHS referred to in Extract 1. Illustrate your answer with an appropriate diagram.

(10)

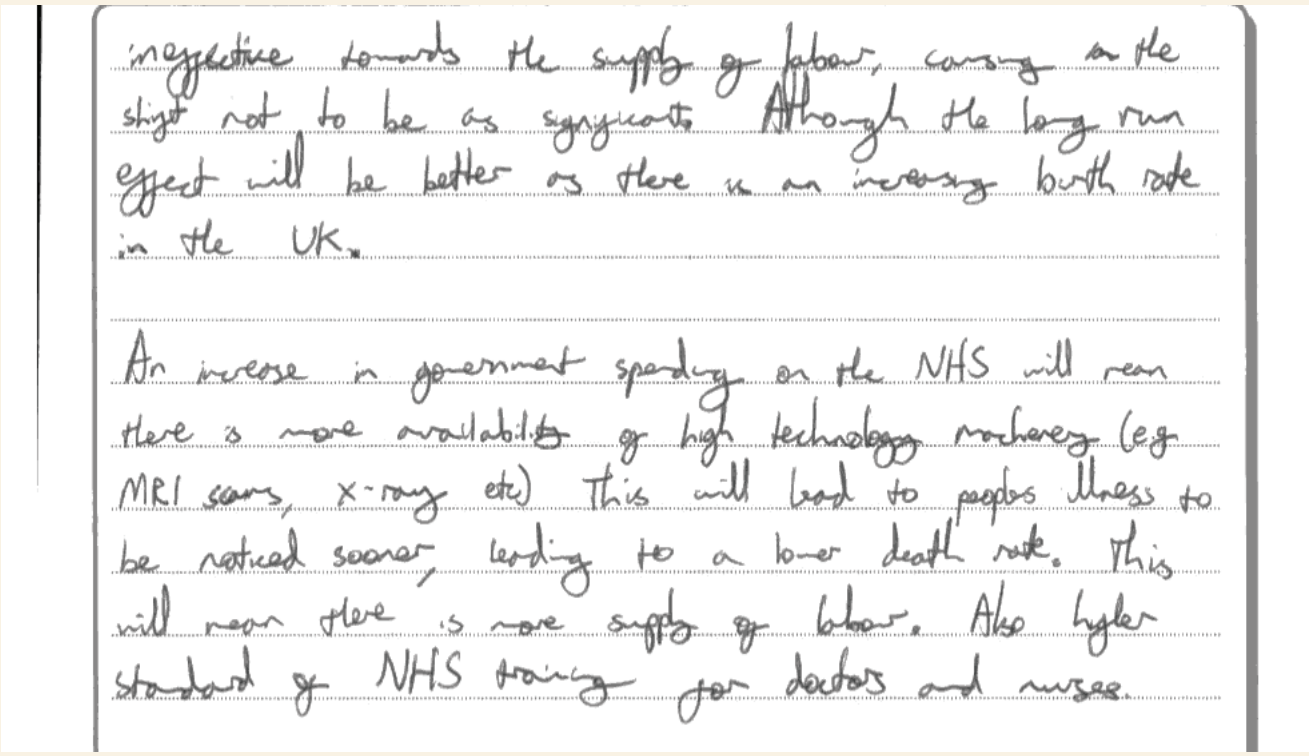
An increase in government spending on the NHS will lead to an increase in

Production possibility frontier is a curve which shows the maximum potential output using all resources efficiently.

The increase on government spending on the NHS will lead to a higher standard of healthcare, which will possibly lead to a further increasing population, this will mean there is a higher supply of labour, a higher supply of labour means there are increased factors of production. More factors of production will lead to a higher potential output when using all resources to maximum efficiency. Causing PPF_1 to shift out to PPF_2



However, this will be to a certain extent. The majority of people being admitted to hospital will be near or over the retirement age, which will be


inegative towards the supply of labour, causing a the shift not to be as significants. Although the long run effect will be better as there is an increasy birth rate in the UK.

An increase in government spending on the NHS will mean there is more availability of high technology machinery (eg MRI scans, X-ray etc) This will lead to people illness to be noticed sooner, leading to a lower death rate. This will mean there is more supply of labour. Also higher standard of NHS training for doctors and nurses.

ResultsPlus
Examiner Comments

8 out of 10 marks awarded.
The definition of a production possibility frontier (1 mark) is supported with a relevant diagram (3 marks). Increased government spending may shift the production possibility frontier out due to increasing the health and supply of labour - a theme re-inforced by the last paragraph (2 marks). Evaluation comes in the form of discussing the increase in health care spending on people over retirement age and whether it will benefit the economy (2 marks).

ResultsPlus
Examiner Tip

Offer two evaluative comments in 10 mark base questions since there are 4 evaluation marks available (2+2 or 3+1).

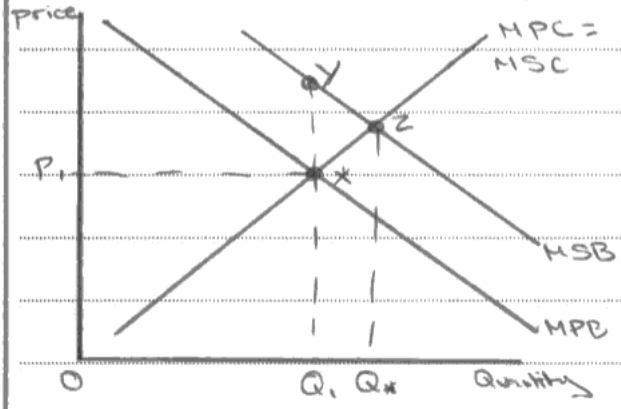
Question 9 (d)

Private and external benefits have been tested on previous exam papers and so should be at the forefront of candidate revision. However, it appears that candidates have greater difficulty in using diagrammatic analysis here when compared to external costs. A significant number of answers offered incorrect diagrams which limited their achievement. Nevertheless, in theory it was easier to achieve the full 8 knowledge, application and analysis marks when compared to Q10e since candidates had the opportunity to discuss both private and external benefits.

*(d) Apart from a shift in the production possibility frontier, assess the private and external benefits arising from the consumption of health care. Illustrate your answer with an appropriate diagram.

(14)

Private benefits are those internal to exchange which the price mechanism takes into account. Examples include insurance, maintenance and ~~*~~ in this case Someones health. External benefits are not taken into account by the price mechanism and are external to exchange. They can also be referred to as positive externalities as they are positive effects on the third party. The size of the external benefit can be calculated as the difference between marginal social cost and marginal private. In this case, triangle XYZ illustrates the external benefits. A type of external benefit in healthcare could be that of a vaccination. By one person gaining the private benefit of getting the vaccination, they are creating an effect on the third party as the incidence of passing on the disease that they would have got if it ~~were~~ were not for the vaccination, is reduced for the third party. Thus it is a positive externality.



However, the size of the external benefit does indicate market failure. In the private manner, Q, is being consumed ~~produced~~

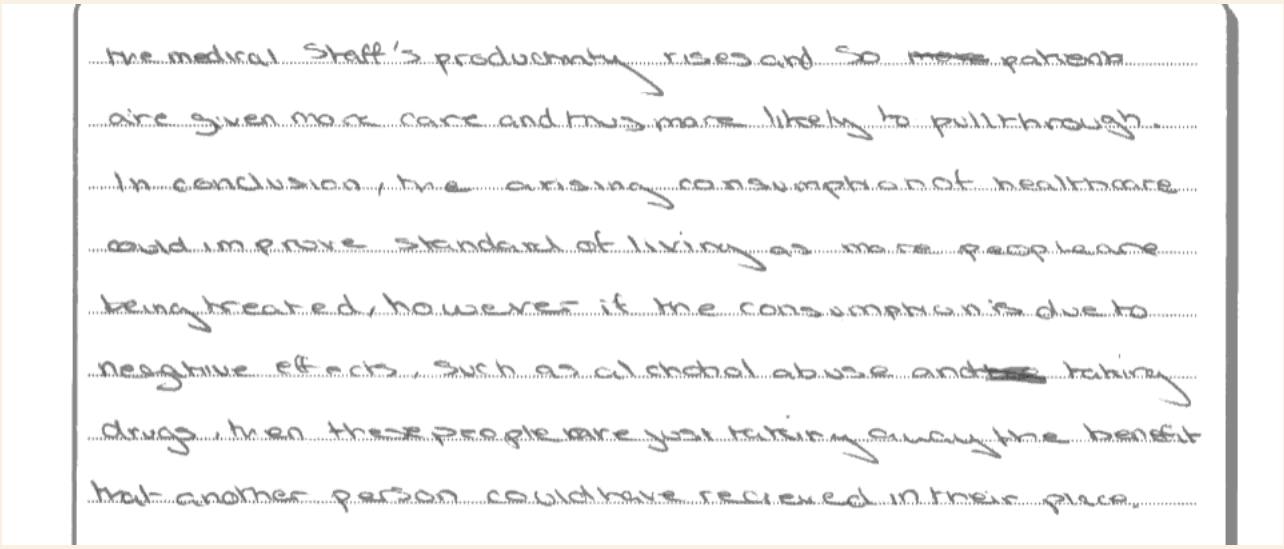
in healthcare, however the market has the potential to be producing Q*. Therefore the distance between Q1 and Q* indicates the size of the market failure.

Ways to overcome this market failure may be through government intervention. This means that the government could provide subsidies to offer the medical care, such as a vaccination, and offer more in compulsory in schools or universities, in order to reach Q*. However, this spending can take a lot of time and money and may result in an opportunity cost.

In addition, the time taken for treatment to recover, which depends on the seriousness of their illness, will quantify the size of the private benefit.

Similarly, when discussing positive externalities, it is difficult to quantify how much an externality is worth. Many aspects of healthcare are difficult to put a monetary value on. Is the benefit of a vaccination greater than that of a transplant? Who is to judge the value of the externality. Whilst it may seem small to one person, it may mean the world to another.

In addition, consuming another factor arising from the higher consumption of healthcare is that medical staff will receive more income. If they are working harder to provide for consumption, then they will demand higher incomes. This may result in further spending for the government, however in the long run it could be worth it if


the medical staff's productivity rises and so more patients are given more care and thus more likely to pull through. In conclusion, the arising consumption of healthcare would improve standard of living as more people become being treated, however if the consumption is due to negative effects, such as alchohol abuse and taking drugs, then these people are just taking away the benefit that another person could have recieved in their place.

ResultsPlus
Examiner Comments

14 out of 14 marks awarded.
The full 8 knowledge, application and analysis marks are secured on the first page alone. This includes definitions of private benefits (1+1 marks) and external benefits (1+1 marks), a well explained diagram (4 marks) and examples of private benefits such as insurance (1 mark) external benefits such as vaccinations (1 mark). Note a maximum of 8 marks in this section. Evaluation comes in the form of discussion on the cost of eliminating the market failure (1 mark), measurement problems (2 marks) and consideration of who deserves treatment (3 marks).

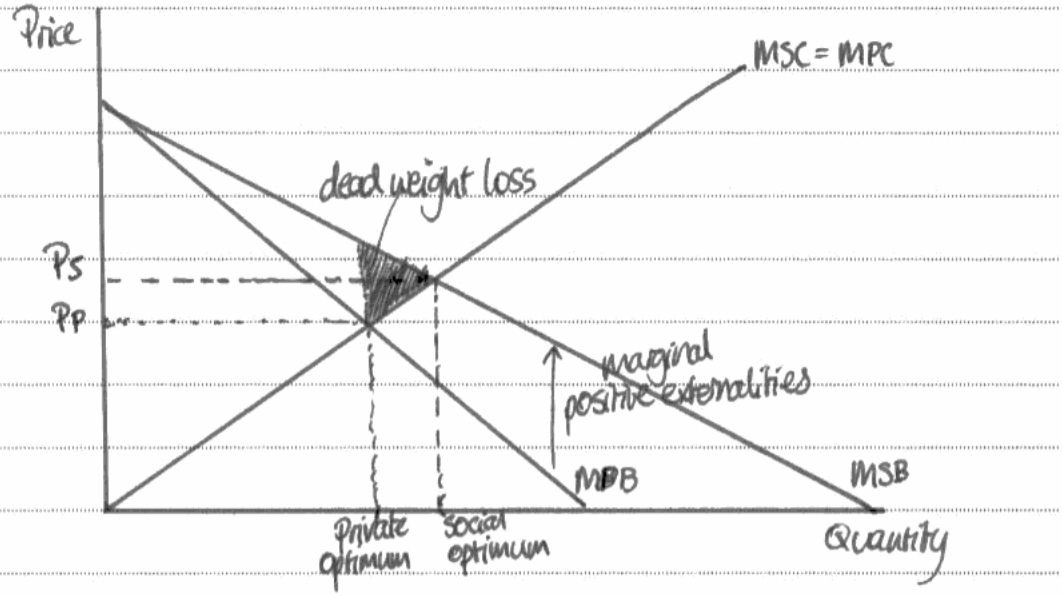
ResultsPlus
Examiner Tip

Consider putting in the basics first of all to achieve the knowledge, application and analysis marks. In this case it includes definitions, a diagram and examples of private and external benefits. Once this has been done, you can move on to the trickier issue of evaluation.

*(d) Apart from a shift in the production possibility frontier, assess the private and external benefits arising from the consumption of health care. Illustrate your answer with an appropriate diagram.

(14)

External benefits, otherwise known as positive externalities are the difference between private benefit and social benefit.



The diagram above shows positive externalities and the dead weight loss incurred by the market equilibrium, representing a market failure. It shows the social optimum further to the right than the private optimum showing that the quantity of this good should be increased.

The private benefits of healthcare are ones included in the market transaction they include better health and so the ability to get a job and make money to support yourself and family, as well as a longer life, which will doubtless increase happiness.

There are also positive externalities to be considered. Injections and treatment of disease not only represent a private benefit ~~to the~~ as they improve the health of an individual but also a benefit to others as they are now less likely to catch the disease. Better health also leads to improved productivity at work, which could improve profits for the firm.

To evaluate, whilst many benefits of health care are immediate, there are many which experience a time lag. Some may have no effect until later on in life, when the individual is retired. There is also the chance that increased longevity might mean that more money needs to be spent on healthcare when the individual is old or infirm. The individual might not even have wanted to live so long if he is disabled or in permanent pain.

Moreover, there is an opportunity cost arising from health care. Could the money have been spent on education or, for a more contented population, parks, gyms and entertainment. If the aim of health care is to provide a better workforce to help the country's economy, maybe spending on technological advances would have been better.

Overall, possibly the most important point is opportunity cost?

ResultsPlus
Examiner Comments

12 out of 14 marks awarded.
The full 8 knowledge, application and analysis marks are gained by: defining external benefit (1 mark); offering a well explained diagram (4 marks); examples of private and external benefits (2+1 marks). Evaluation is offered by discussion of a time lag and implications of getting old (2 marks) and finally, the issue of opportunity cost (2 marks). Both points seem sufficiently developed to warrant 2 marks each.

ResultsPlus
Examiner Tip

Usually, 1+1 marks are available for defining private benefit and a further 1+1 marks available for defining external benefit.
Make sure you offer two comments in your definition of both concepts.

Question 9 (e)

This question offered much scope to gain high marks by analysing and evaluating the information provided. The best answers offered both a case for and against government failure, together with data use to support the argument.

*(e) To what extent does the information provided suggest evidence of government failure?

(14)

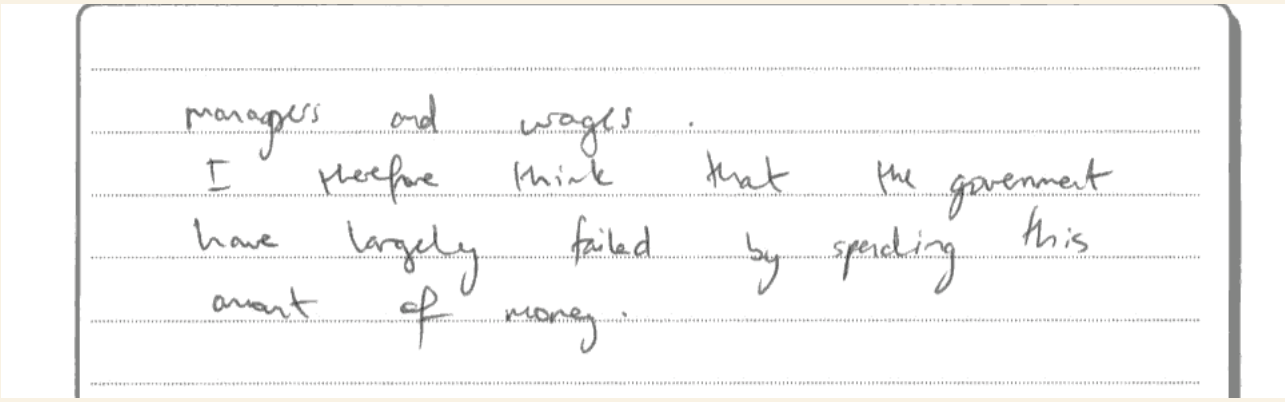
Although, on the surface, the extra sperding of the goverment on the NHS is said to have been a sucess (extrat 1, figure 2), some of the other provided information contradicts this.

Extract 2 tells of the growth of managment in the NHS, as opposed to a growth in trained nurses. The number of NHS managers in England rose by nearly 12% in 2009, which is more than 5 times the rate at which qualified nurses were recruited. These figures caused concern, because money was being diverted from direct patient care to paying for expensive managers. A Chairman of the Medical Association's Consultants Committee claimed that there was 'little or no evidence of benefit to patients' from the additional managerial staff - which is that the money should be being put towards.

figure 3 also suggests evidence of goverment failure due to the fact that from 1997 to 2007, labour productivity has decreased. Labour productivity shows the output of workes per year and, from this information we can infer that the work being produced now does not hold as much weight as it did when it was higher.

Although it is not to say that the goverment have failed completely by the increase of spending on the NHS, the negatives of the spending make it hard to see the overshadowed positives. The positives include the likes of the average lengths of inpatient stay decresing and a decrease in the waiting times of being helped.

Despite this, however, along with the negatives of the spending, Extract 1 states that 40% of the NHS budget is for staff wages, so it seems that a lot of money has not been used for direct patient care, but been diverted to


managers and wages.
I therefore think that the government have largely failed by spending this amount of money.

ResultsPlus
Examiner Comments

10 out of 14 marks awarded.
The candidate suggests government failure may have occurred due to the rapid growth of managers compared to trained nurses and refers to figures (2 marks); this is reinforced by the views of the Chairman of the Medical Association's consultants committee and discussion of where the money should have been put towards (2 marks). Then there is a discussion on falling labour productivity (2 marks). A final critical point is made on staff wages making up 40% of the NHS budget with a suggestion that this is not the best use of funds for patient care (2 marks). The counter argument is very brief with a pointer to increased efficiency since there is a fall in the average length of inpatient stay and a decrease in hospital waiting times (1+1 marks). Overall, it just about achieves 10 marks.

ResultsPlus
Examiner Tip

Make explicit reference to the figures in the charts and offer a comment on their trends and implications for government failure.

*(e) To what extent does the information provided suggest evidence of government failure?

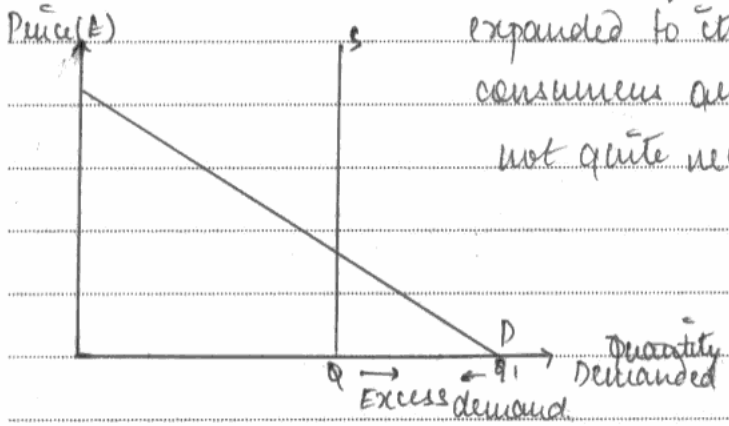
(14)

Government failure occurs when government intervention into the free market, in order to correct a market failure, leads to a mis allocation of resources. There have been various situations of government failure in the NHS.

i) Administrative costs have increased significantly. England has 5 times more of administrators than professional nurses. This reflects how their resources are being misallocated as most of their funds are being directed towards running of the entity, rather than providing healthcare. Their costs are more than the returns from their services, reflecting a government failure.

ii) Labour productivity has been falling significantly over the years. It has fallen from 100 to 1997 to an all time low of 94 in 2005 and 96 in 2007. Workers are mainly aiming towards just providing the service rather than providing it efficiently. This is mainly due to the fact that healthcare has been receiving so much support from the government that it reduces the incentive of workers to strive to perform the best, leading to a fall in productivity.

iii) The no. of beds available are also falling significantly, from 200 000 in 1997 to 175000 in 2005. It shows that services are now being allocated according to the no. of beds available rather than the need or price paid for it. This is because of the excess demand due to free healthcare. Because healthcare is free, demand has expanded to its maximum and consumers are asking for treatment not quite necessary.

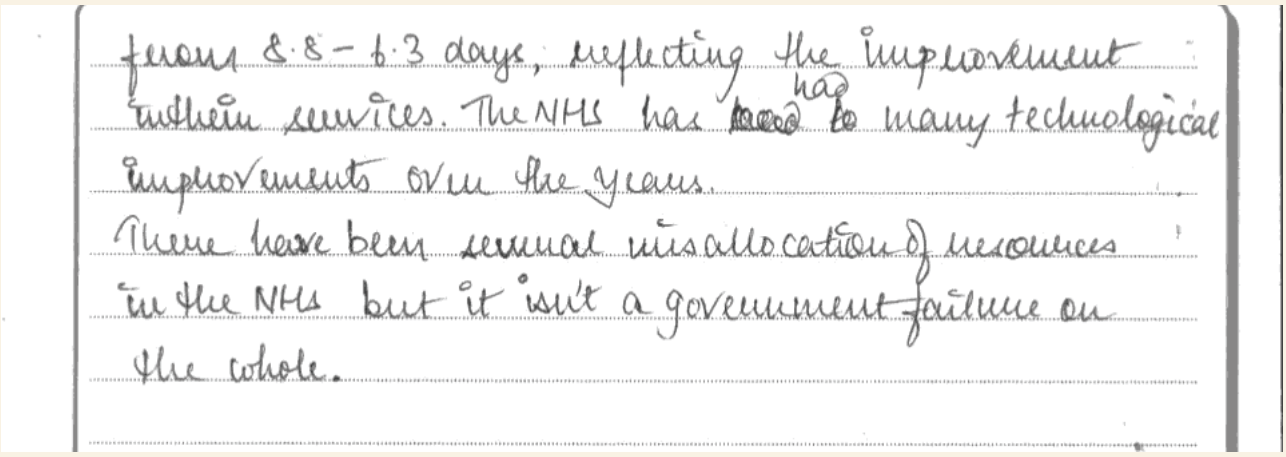


However, there hasn't been great government failure in healthcare

i) Treatment of patients has risen to over 1 million patients every 36 hours. This shows the equity now existing in society as so many are being treated, which wouldn't have been possible if healthcare was privatized.

ii) The no. of patients in waiting lists has dropped significantly over the years, from 700 000 to 50 000 in 2009, showing the increasing efficiency of the NHS services. They have been allocating many resources efficiently.

iii) The average stay of of an inpatient has fallen


from 8.8 – 6.3 days, reflecting the improvement within services. The NHS has had to many technological improvements over the years.
There have been annual misallocation of resources in the NHS but it isn't a government failure on the whole.

ResultsPlus
Examiner Comments

14 out of 14 marks awarded.
The candidate defines government failure (1 mark) and proceeds to offer an explanation such as directing resources into administration rather than patient care (1 mark); falling labour productivity with reference to figures (2 marks); falling number of hospital beds with reference to figures (2 marks). A perceptive comment is made on the excessive use of health care since it is free and the implications of unecessary use (2 marks). Evaluation comes in the form of a counter-argument. These include the principle of providing free health care for all and the sheer magnitude of the treatment undertaken (1+1 marks); the fall in hospital waiting lists with reference to figures, suggesting increased efficiency (2 marks); the fall in average stay for inpatients with reference to figures, suggesting improved technology in treatment (2 marks).

ResultsPlus
Examiner Tip

One way to evaluate is to consider the case for and against an issue. In this case, it is the case for and against government failure in health care provision.

Question 10 (a)

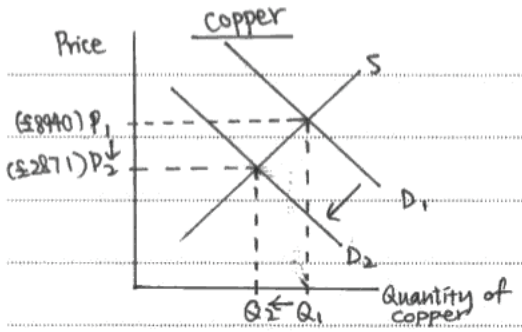
This is a typical data response question. Candidates are tested on their comprehension and analytical skills of the information provided and are then required to use demand and supply to explain changes in price.

Many candidates scored highly by bringing together a series of techniques, namely: making explicit use of the data; constructing a demand and supply diagram; explaining the causes of the fall in price due to the decrease in demand for copper.

Most candidates achieved the full 4 marks available.

(a) With reference to the first paragraph of Extract 1, explain the cause of the decrease in copper prices between April and December 2008. Illustrate your answer with a supply and demand diagram.

(4)



From the first paragraph of Extract 1, the price fall from £8940 in April 2008 to £2871 in December 2008. The quantity demand of copper also fall from Q1 to Q2. This is due to the lower global economic growth. ~~The use~~ There is a decrease in demand for the industries that use vast amount of metal, like motor vehicle and construction sector.

ResultsPlus
Examiner Comments

4 out of 4 marks awarded.
The diagram secures 3 marks for showing an inward shift of the demand curve and the new lower equilibrium price. Note the careful labelling and use of price data in the diagram. Indeed, a further 1 mark is secured for explicit use of the copper price data. Finally, 1 mark is secured for explaining the cause of the decrease in demand due to the global recession and decline of motor vehicle and construction sectors which use copper. Overall, a maximum of 4 marks is available.

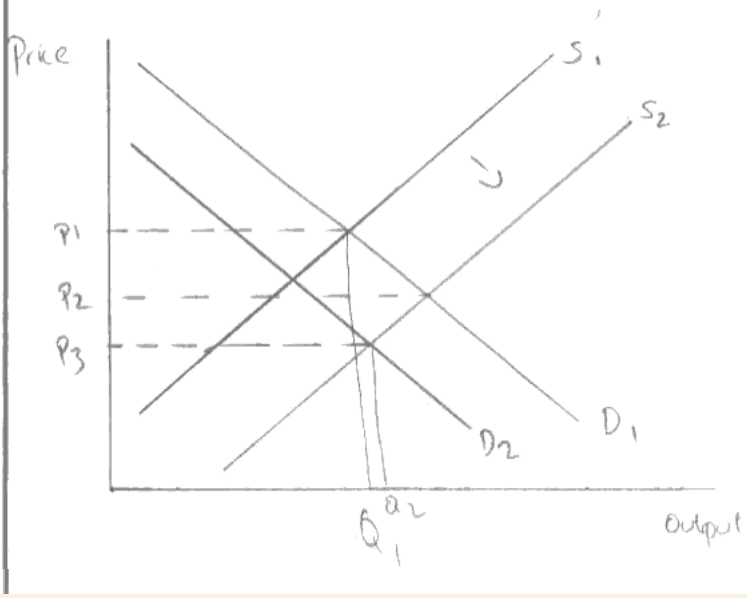
ResultsPlus
Examiner Tip

Always label diagrams thoroughly (which include the axes, the curves and equilibrium price and quantity positions).

(a) With reference to the first paragraph of Extract 1, explain the cause of the decrease in copper prices between April and December 2008. Illustrate your answer with a supply and demand diagram.

(4)

Their was a decrease in demand for cooper due to the reccesion. This decrease in demand lead to a decrease in the price of cooper between April and december.



ResultsPlus
Examiner Comments

3 out of 4 marks awarded.
The candidate gains 1 mark for showing the original equilibrium price with a demand and supply curve, and, 1 mark for showing the decrease in demand from D1 to D2. A final 1 mark is secured for identifying the cause of the decrease in demand for copper as the recession. unfortunately, the final equilibrium price is incorrect since the candidate shifts the supply curve.

ResultsPlus
Examiner Tip

Only shift a curve in your diagram if there is a logical reason for it - otherwise you may end up with incorrect analysis. In this case the candidate does not offer any reason for shifting the supply curve.

Question 10 (b)

This question offered an opportunity for candidates to explain whether copper is a normal good or inferior good. Extract 1 could be used to develop either case. The first paragraph refers to lower global economic growth leading to a decrease in demand for copper. This implies that global incomes are still rising but at a lower rate and so a decrease in demand for copper would make it an inferior good. This was a valid answer and awarded up to 2 application marks.

The second paragraph refers to the global economic recovery leading to an increase in demand for copper. This makes it a normal good and awarded up to 2 application marks. The vast majority of answers took this approach, assuming copper to be a normal good.

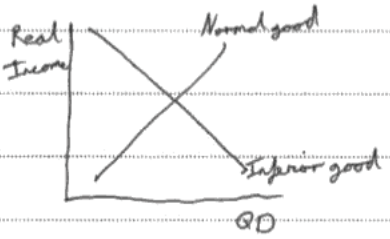
(b) With reference to Extract 1, explain whether you think copper is a normal or an inferior good.

(6)

The global economy has recovered from the recession and Extract 1 says that China is expected to have a growth rate of 9.5% in 2010. This lead to copper prices recovering to almost $7500 per tonne. A normal good is a good with a positive YED, as real income increases, the quantity demanded increases.

$$YED = \frac{\% \Delta QD}{\% \Delta \text{real income}}$$

As real incomes rose after the recovery from the recession, the quantity demanded of copper rose. Therefore copper is a normal good. An inferior good has a negative YED.



ResultsPlus
Examiner Comments

6 out of 6 marks awarded.
2 application marks are achieved by explicitly referring to the information from the extract (copper is a normal good as demand increases after the economic recovery). The other 4 marks are gained by the formula for income elasticity of demand, explanation of a normal good, explanation of an inferior good and the diagram depicting either of them.

ResultsPlus
Examiner Tip

Be prepared to define and explain both concepts identified in the question, namely, a normal good and an inferior good. Marks are available for both of them.

(b) With reference to Extract 1, explain whether you think copper is a normal or an inferior good.

(6)

A normal good is a good that when incomes fall, demand for that good falls.
An inferior good is a good that when incomes rise, demand for that good falls.

Copper is a normal good. This is because the low global economic growth has caused a reduction in incomes, and therefore businesses such as motor vehicle and construction sectors have not been able to afford the metals, and therefore this has caused a reduction in demand for copper because it has become too expensive.

~~However~~ Furthermore, the global economy recovered from the recession, and demanded more metals such as copper because incomes had risen.

ResultsPlus
Examiner Comments

4 out of 6 marks awarded.
The candidate gains 1 mark for explaining a normal good and 1 mark for explaining an inferior good at the start of the answer. Another 2 marks is gained from the application to the extract information - in this case the candidate suggests copper is a normal good. This is typical of the answers examiners came across.

ResultsPlus
Examiner Tip

Be prepared to develop your explanations of economic concepts further. For example, normal goods have a positive income elasticity and inferior goods have a negative income elasticity of demand (1+1 marks).

Question 10 (c)

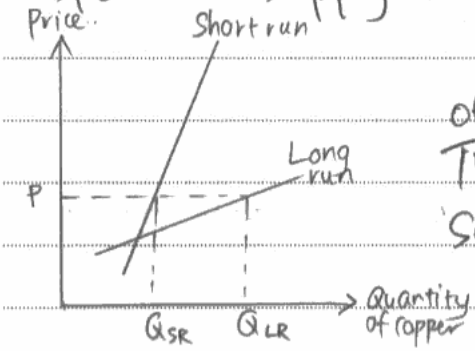
Price elasticity of supply is a concept that has been frequently been tested on past exam papers, particularly in the data response section. It was therefore surprising that a significant minority of candidates confused determinants of price elasticity of supply with price elasticity of demand and so misdirected their answers. Unfortunately these responses gained zero marks.

It is vital that candidates carefully read the questions before embarking on their answers. It was noticeable that some candidates recognised their mistake during the exam and then had to cross out work to start the answer all over again. This wasted precious time.

(c) With reference to the information provided and your own knowledge, assess whether the supply of copper is likely to be price elastic or price inelastic.

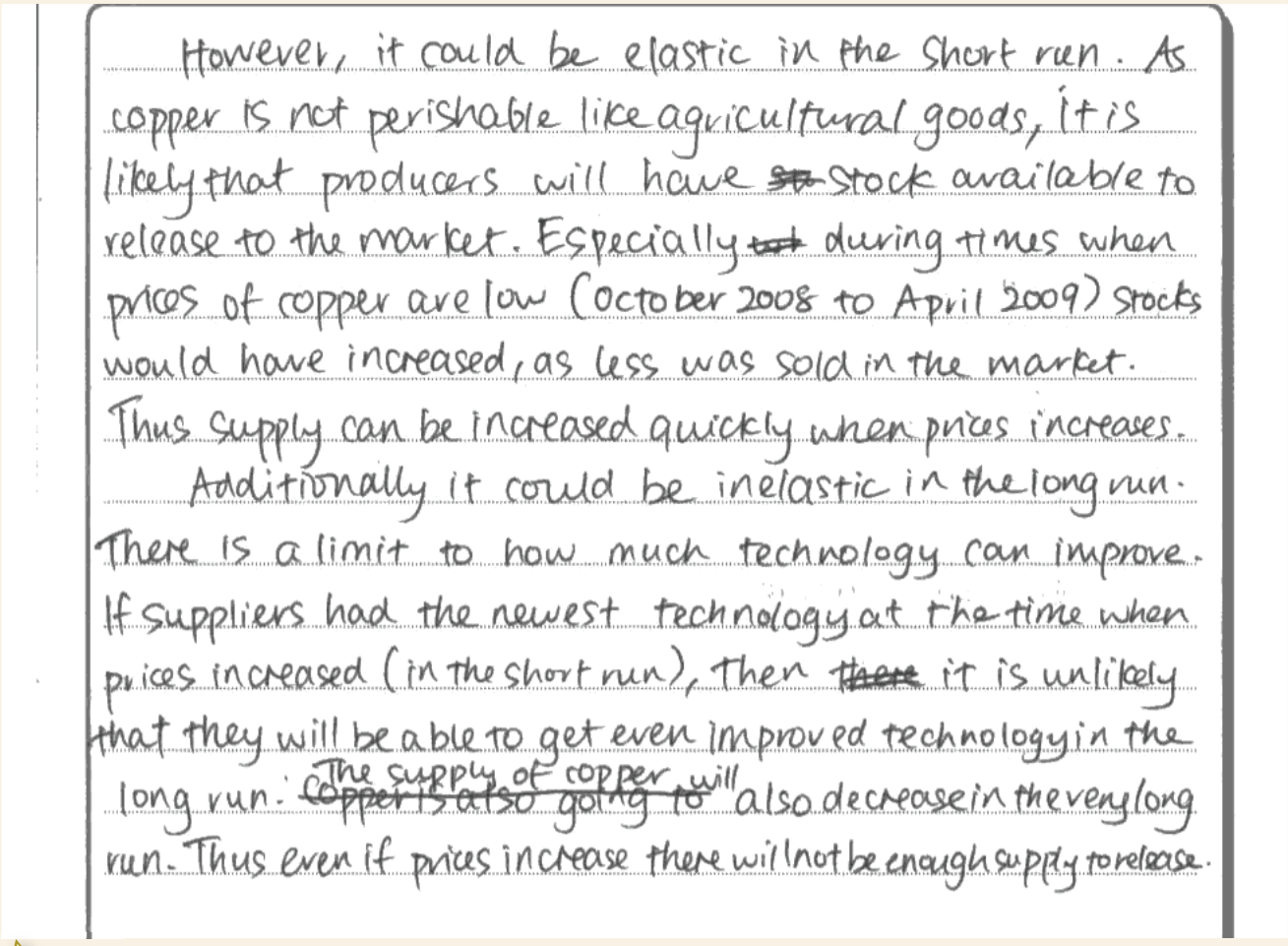
(10)

The price elasticity of supply measures how responsive supply is due to a change in price.



In the short run, the supply of copper is likely to be inelastic. Time is needed to find new sources of copper, and to develop it so that copper can actually be extracted. For example, the opening of Pebble Mill in Alaska could take many months, or years, to develop, because a dam is needed to get rid of toxic waste as well as making the site so that copper can be extracted. Producers could also be working at full capacity, making it difficult to increase supply even if prices increase.

In the long run, supply is likely to be elastic. This is because producers have now had enough time to increase sources of the raw material to extract, meaning that supply can be increased quickly when prices rise. Producers have also had time to invest in improved technology for the extraction of copper, increasing productivity so copper can be extracted quickly. Also, stock can have increased during the time, so this could be released into the market when prices increase in order to increase supply.



However, it could be elastic in the short run. As copper is not perishable like agricultural goods, it is likely that producers will have ~~st~~ stock available to release to the market. Especially ~~not~~ during times when prices of copper are low (October 2008 to April 2009) stocks would have increased, as less was sold in the market. Thus supply can be increased quickly when prices increases.

Additionally it could be inelastic in the long run. There is a limit to how much technology can improve. If suppliers had the newest technology at the time when prices increased (in the short run), Then ~~there~~ it is unlikely that they will be able to get even improved technology in the long run. ~~Copper is also going to~~ The supply of copper will also decrease in the very long run. Thus even if prices increase there will not be enough supply to release.

ResultsPlus
Examiner Comments

10 out of 10 marks awarded.
A good starting point is to define key terms such as price elasticity of supply (1 mark) and then show how it might change over time by diagram (1 mark). Reference to the idea that supply is likely to be inelastic due to the time required to find new sources of copper and develop new technology also warranted marks (1+1 marks). Good application is made to the time required to develop the copper mine at Pebble Mill since a huge dam is required to be be built as well as the mine itself (1 mark). The theme of inelastic supply continues with the idea that firms could be working at full capacity (1 mark). The candidate then switches to the long run and discusses how supply might be elastic due to new sources of copper and new technology being developed (1+1 marks). Evaluation comes in the form of discussing the possibility of stocks available and the non-perishability of the metal making it elastic in the short run (2 marks). This is reinforced by using the data to suggest that when copper prices were low, firms would build up their stocks and so could quickly sell in the market as prices rose (2 marks). The ideas just keep coming as there is also reference to the possibility of copper being highly inelastic in the very long run (1 mark) presumably due to its finite nature.

ResultsPlus
Examiner Tip

Be prepared to offer diagrammatic analysis when it comes to elasticity questions as marks are usually available for this.

(c) With reference to the information provided and your own knowledge, assess whether the supply of copper is likely to be price elastic or price inelastic.

(10)

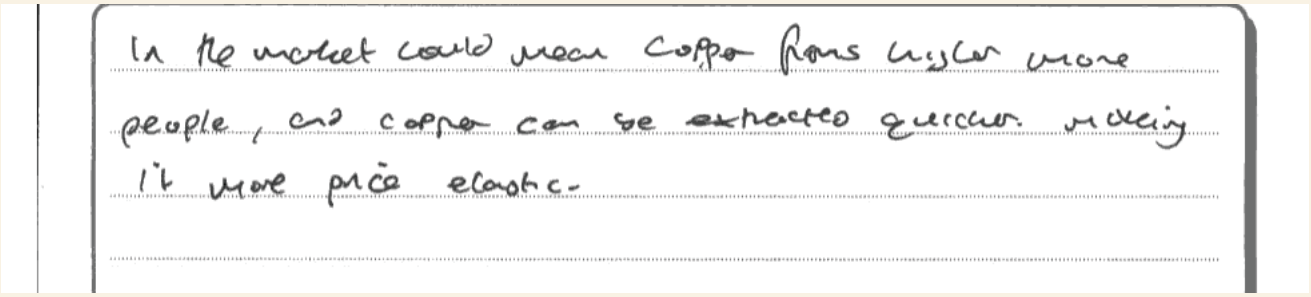
Price elasticity of demand is the responsiveness of demand due to a change in price.

The price elasticity of supply is the responsiveness of supply due to a change in price.

The supply of copper is likely to be price inelastic due to the time period required to find and mine copper out of the ground. This is shown by the fluctuating prices, from $8,960 to $2,871 to $7,500 per tonne. This shows supply cannot keep up with demand, so prices rise rapidly.

However copper is a non-perishable good, so it can be stockpiled. Due to the low prices between October 2008 and January 2009, producers may have stockpiled copper, to sell when prices rise again. Therefore this would make copper more price elastic.

Also due to the economic downturn, there would potentially be alot of unused resources, such as labour. Therefore when prices rise again, the spare capacity


In the market could mean Copper firms higher more people, and copper can be extracted quicker. making it more price elastic.

ResultsPlus
Examiner Comments

6 out of 10 marks awarded.
A good starting point is to define elasticity of supply (1 mark) and suggest it is highly inelastic due to supply barely responding to the soaring price of copper (1 mark). The candidate then evaluates by discussing the possibility of stockpiles and spare capacity in the industry from the recession affecting elasticity of supply (2+2 marks). Overall, it is quite a promising answer.

ResultsPlus
Examiner Tip

Consider ways to increase the knowledge, application and analysis marks. For example, other factors which determine elasticity of supply include the time period and degree of entry or exit barriers to the industry. Similarly, a diagram and explicit explanation of 'inelastic' or 'elastic' supply would merit marks.

Question 10 (d)

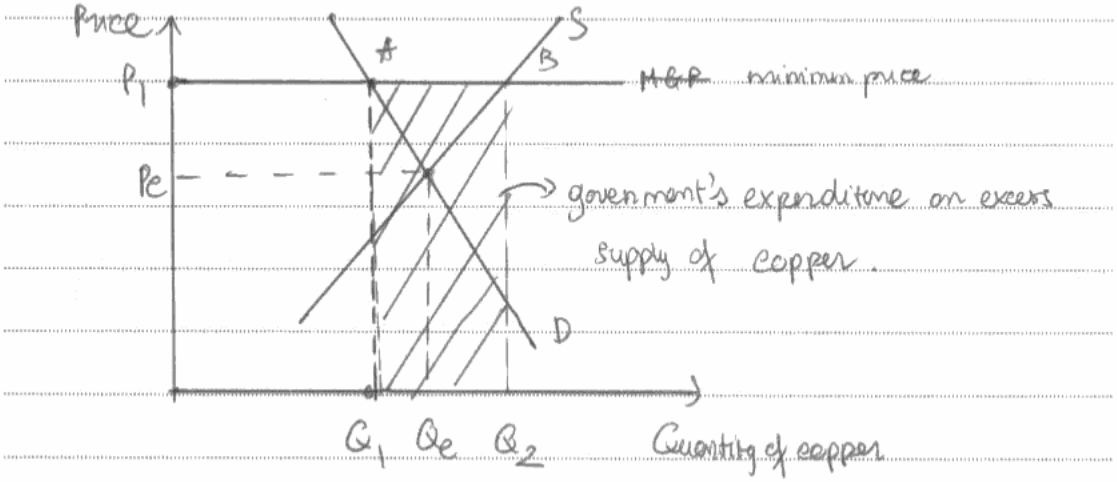
The topic of guaranteed minimum prices has been tested in previous exam papers and so it was surprising that many candidates could barely develop their diagrams. Up to 4 marks were available for the diagram but very often candidates achieved just 2 them (original equilibrium price and the minimum price line). Identification of the excess supply and the area of government expenditure was often omitted.

Some candidates confused a guaranteed minimum price scheme with a buffer stocks scheme. Consequently, their answers tended to be misdirected into considering both a maximum and minimum price for copper and their implications.

It is important to consider how the large mark base questions are marked, namely, they are split into knowledge, application and analysis on the one hand, and evaluation on the other.

*(d) Evaluate the likely economic effects of a guaranteed minimum price scheme to reduce fluctuations in the price of copper. Illustrate your answer with a supply and demand diagram.

(14)



~~The minimum guaranteed~~ The minimum price is the the minimum price ceiling that can be legally paid to the producers of commodity in the market.

The minimum pricing scheme of the government will increase the price of copper for the copper producers. This gives them incentives to improve their output. As a result, there is excess supply of copper which is $Q_1 Q_2$. The government will buy up the ~~excess~~ excess supply and store the excess supply of the market. This helps to improve the ~~pr~~ income of the copper producers and improve their profits. The scheme also makes them less vulnable to the sudden fall in prices of copper and encourage new producers to enter the market. The profit of the producers can be guaranteed and this creates an ~~incentive~~ incentive for firms to invest to the industry.

In evaluation, the scheme can lead to an excess supply of

copper and the amount of excess supply depends on the price elasticity of supply for copper and the price elasticity ~~for~~ demand ~~of~~ for copper. If the PES of copper is inelastic and the PED of copper is also inelastic (due to there is no substitutes for copper in some constructions) hence the amount of the ~~expen~~ excess supply should be small and the expenditure of the government on the excess supply will not be ~~significant~~ significant.

However, the expenditure of the government on the excess supply also depends on ~~the~~ how high the minimum price is above the market price. If the minimum price is too high then the expenditure of the goverment may be enormous due to huge excess supply of copper. This also suggests the ~~high~~ ~~+~~ great spending of the government may cause opportunity costs to the government. The government may have to cut ~~tax~~ spending elsewhere such as education, health care.

The extent to which the minimum pricing scheme benefits the market of copper depends on the position of the minimum price. If the market price goes up too high and exceed the minimum price then there is no effect on the producers of copper in the market.

However, the scheme may only benefits the large producers of copper as the large producers of copper may increase their export more rapidly than the small producers. As a result, this leads to an unfair distribution of income to the large producers and the small producers may lose out.

ResultsPlus

Examiner Comments

14 out of 14 marks awarded.
The candidate defines minimum price (1 mark) and shows a relevant diagram (4 marks). This is supported by its implications such as greater incentives to produce, higher profits, more investment and new firms entering the industry (1+1+1+1 marks). Evaluation takes the form of discussing elasticity (2 marks) and the magnitude of the minimum price (2 marks). Finally, there is discussion of who benefits most - large or small copper producers which rounds off a complete answer (2 marks).

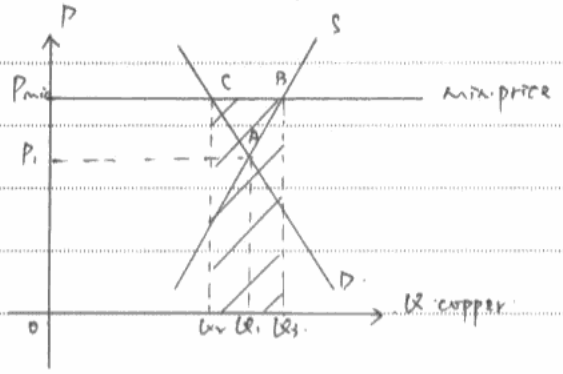
ResultsPlus

Examiner Tip

Always explain the diagrams that you draw as demonstrated in this case.

*(d) Evaluate the likely economic effects of a guaranteed minimum price scheme to reduce fluctuations in the price of copper. Illustrate your answer with a supply and demand diagram.

(14)



A minimum price is a price floor set by the government that prevent prices falling below a certain level. A reduction of copper price ~~floor~~ function makes it easier for ~~producers~~ firms to budget spending as they are able estimate of their cost of production to allocate on copper. The price is increase to P_{min}, supply expand to point B (Q_2) while demand contract to point C (Q_1). There is greater certainty in the market, producers income are increased and stabilized, leading to greater investment in the industries. More better technology and machinery are invested. Besides that, an increase in the price may prevent redundancies among workes which maintain the employment in the industry. This may increase the living standards and improve inequalities among workers. However, since the price of copper is set above the equilibrium level, the price will increase. This may increase the cost of production for firms that use copper as a raw material. They may not afford the increase in variable cost and lead to bankrupcy. Copper producers are guranteed an income which might cause them to become less efficient. There is little incentive for them ~~for them~~

to improve the quality of copper and keep cost of production down. Government spending on the scheme purchasing excess supply ($Q_2 - Q_1$) involves an opportunity cost - It may have to raise taxes and cut spending on other programmes, such as merit goods, education. The financial cost often falls on general taxpayers who don't derive direct benefit from the scheme.

ResultsPlus

Examiner Comments

12 out of 14 marks awarded.
All the knowledge, application and analysis marks are secured through: definition of minimum price (1 mark), relevant diagram (4 marks), effects on producer incentives, investment, employment and consumers (up to 5 marks). Note a maximum of 8 available here. Two good evaluation points are raised concerning the impact of the minimum price on the efficiency of copper producers (2 marks) and the opportunity cost for the government (2 marks).

ResultsPlus

Examiner Tip

Consider offering up to three evaluation points for the 14 mark base questions since awarding is usually 2+2+2 marks or 3+3 marks.

Question 10 (e)

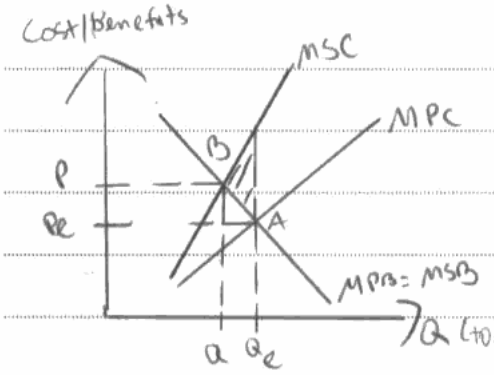
External costs is a very popular topic in the specification and so candidates have plenty of past papers, mark schemes and examiners' reports to go through to get an idea over how to answer questions on them. Overall, most candidates were able to draw an accurate diagram and offer some application to the proposed copper mine development at Pebble Mill. Consequently, many achieved the full 8 knowledge, application and analysis marks available.

Some good evaluation techniques were used, the most popular being to consider possible benefits of the mining project and also problems involved with measuring externalities.

However, there was evidence of time allocation problems for some candidates and also confusion between external costs and social costs.

*(e) Using the concept of external costs, assess the possible economic effects of building the Pebble Mill copper mine in Alaska, referred to in Extract 2. Use an appropriate diagram in your answer.

(14)



welfare loss from negative externalities

A: the free market equilibrium.

B: socially optimal point · equilibrium

Q-Qe: ~~under~~ over production - over consumption of copper.

External cost is the cost to the third party who is not directly involved in the transaction(~~External~~ External cost = Social cost - private cost)

Bristol Bay is the home of the most productive wild salmon fishery

The first external cost is the pollution from the mine will destroy the $400 million a year fishing and canning industries Since the chemicals from the mines can get into the sea and so kill the ~~fish~~ fish. The third party who has to suffer is the fishermen and canning producers

Another external cost is the pollution from the mine will have a negative impact on the view of that area and the third party is tourist company as tourists will no longer want to go on a polluted area so they experience loss in revenue & profits

Another cost is the pollutions can affect the views and create diseases to the local communities who are the third party.

flawed, as external cost and ~~external~~ the welfare loss are intangible, they cannot be quantified and identified. For example, we cannot measure the revenue loss ~~for~~ of tourist company due to the pollution since there are also other factor such as the quality of the service and the pollution emitted cannot be measured as it's intangible, it's hard to assess the true external costs created.

Moreover, there are also external benefits & private benefits ~~to~~, the external benefit is the export earning created by the mines and trigger economic growth the private benefit is the revenue created by the mine which can compensate the loss to fishing and canning industries and the local commodities. So there are is not only costs involved

Moreover, the external cost may not easily felt in the short run as the impact on the fish due to the pollution emitted may not be immediately and construction is short run. Some of the external costs can only be felt in the long run ~~so external~~

ResultsPlus
Examiner Comments

14 out of 14 marks awarded.
A good start is made by defining external costs (1+1 marks) and showing the relevant diagram (4 marks). This is supported by application of external costs to the fishing and tourism industries in Alaska (1+1 marks). Evaluation comes in the form of problems in measuring external costs and loss of income (2 marks); the possible benefits from the mining project such as increased export earnings, economic growth and compensation for local communities (3 marks); short run verses long run impact - not well developed (1 mark).

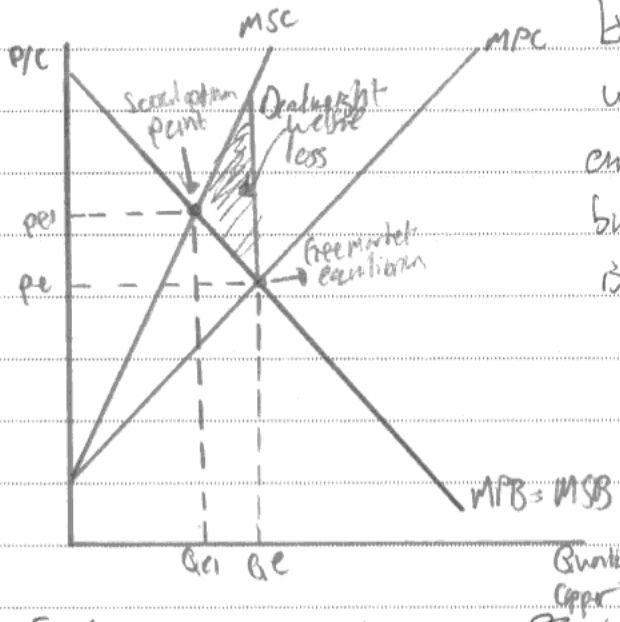
ResultsPlus
Examiner Tip

Always explain your diagram - this candidate does enough to secure the 4 marks available.

*(e) Using the concept of external costs, assess the possible economic effects of building the Pebble Mill copper mine in Alaska, referred to in Extract 2. Use an appropriate diagram in your answer.

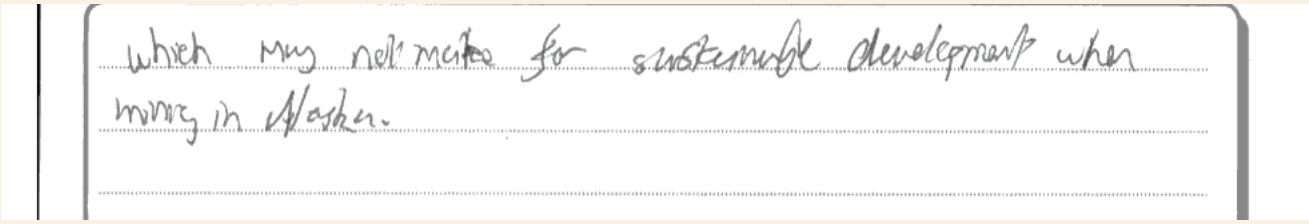
(14)

External costs = Social Costs - Private Costs.



External costs are those who are affected outside of a transaction between buyer and seller. An example is the water pollution created from toxic waste on salmon and fishing industries.

By Fishy ~~as~~ ~~the~~ building the ~~Pebble~~ Pebble Mill in Alaska is likely to create ~~an~~ water pollution as there ~~are~~ to are chances of toxic waste ~~of~~ held back by the dam affecting wildlife in the water such as wild salmon which would affect the fishing market and the incomes who depend on fishing. ~~Fished~~ which would lead to a loss $400 million from the fishing and canning industries. It may also affect the tourism industry via visual pollution as the dam would be 220 m of concrete which may deter tourists from visiting Alaska. It may also affect locals who live near as they will have to suffer noise pollution from machinery while mining or building the dam. Private cost may also occur as it takes ~~a~~ 1000 tonnes of copper ore to make just 1 copper ~~ton~~ tonne.



ResultsPlus
Examiner Comments

8 out of 14 marks awarded.
This is a classic example where the candidate achieves all the 8 knowledge, application and analysis marks available but offers no evaluative comments and so misses out on another possible 6 marks. Definition of external costs (1+1 marks) and a relevant diagram (4 marks). This is supported by good application to fishing and tourism industries (1+1 marks).

ResultsPlus
Examiner Tip

The large mark base questions are marked in two parts; firstly for knowledge, application and analysis (8 marks); secondly for evaluation (6 marks). Make sure you offer both types of comments.

Paper Summary

Offers an ideal opportunity for candidates to demonstrate their knowledge and understanding of competitive markets and market failure. It also provides the building blocks for candidates to develop and apply their economic knowledge across the whole syllabus.

The key to success in answering supported multiple choice questions is to learn definitions of economic concepts and apply demand and supply analysis to the issues at hand. This includes using the information provided and diagrammatic analysis.

The key to success in answering data response questions is to make use of the information provided and apply demand and supply analysis. It also requires a thorough understanding of market failure and an ability to evaluate when instructed by the question. Answering the question set is crucial rather than simply re-gurgitating notes on what one might have wanted the question to be. The feedback offered in the report should help candidates achieve their full potential in GCE A Level Economics.

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