Marking activity

Example 1: Assess

Reference materials: AS Sample Assessment Materials:

- Pages 14-16 for extracts
- Page 18 for question (6b)
- Pages 31-32 for mark scheme

Question

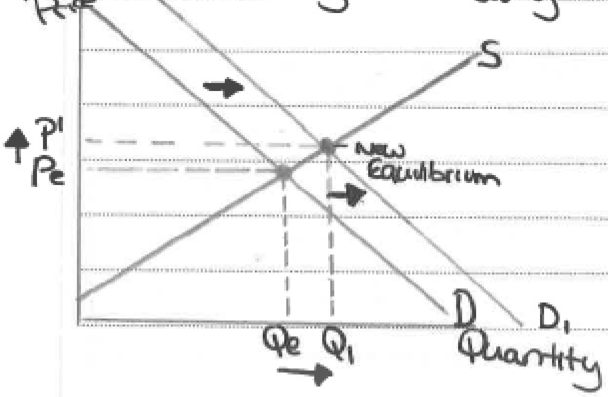
Assess the likely impact of a 3% increase in the price of UK beef on the market for lamb. (10 marks)

Response 1

(b) Assess the likely impact of a 3% increase in the price of UK beef on the market for lamb.

Cross Elasticity of Demand - Measures the responsiveness of the quantity demanded of one Product, to a change in Price of another. $\frac{\%\Delta \text{ in QD Product Y}}{\%\Delta \text{ in Po Product X}}$

One likely impact of a 3% increase in the Price of UK beef on the market for lamb will be that it may cause an increase in quantity demanded for lamb, because due to there being a "3% increase in the Price of UK beef", Consumers' may Substitute to lamb, and therefore, this will cause a decrease in quantity demanded for beef, whilst an increase in quantity demanded for Lamb. The Impact of the 3% Increase of the market for lamb is shown diagramatically below:



Response 2

(b) Assess the likely impact of a 3% increase in the price of UK beef on the market for lamb.

Cross price elasticity of demand measures the responsiveness of quantity demanded of lamb to a change in price of beef. Beef and lamb are substitutes. The XED for these products would be positive, because as the price of beef increases, people will substitute to buying lamb instead. The increase in the price of UK beef would lead to more revenue for lamb producers as more people would substitute to purchasing lamb rather than beef. However, it does depend on the magnitude of the increase in price of UK beef. 3% is not a large percentage change so it is unlikely to have much impact. People will not be affected by such a small increase to the point where they will be willing to substitute to lamb products instead. Also, the ~~XED~~ demand would be inelastic in the short run as it would take time for people to realise that it is better to substitute to lamb, which shows that the 3% increase in the price of UK beef would have no or very little impact on the market for lamb in the short run.

Example 2: Evaluation

Reference materials: AS Sample Assessment Materials:

- Pages 14-16 for extracts
- Page 22 for questions (6f and 6g)
- Pages 36-38 for 6f mark scheme
- Pages 39-41 for 6g mark scheme

Question

Using the concept of external costs, evaluate the possible economic effects of increased beef production. Use an appropriate diagram in your answer.

(20 marks)

Evaluate the impact of a guaranteed minimum price in the beef market on consumers and producers. Use an appropriate diagram in your answer.

(20 marks)

Response 1 (6f)

External costs are costs in excess of private costs that affect 3rd parties who are not a part of the transaction. It is said that the greenhouse gases produced by cows are equivalent to 22 million cars. Fertilisers and toxic contaminants are used in the production of beef which are released into soil and the water system. This means that local residents who drink the water or eat food that grows in the soil will be eating contaminated food and will therefore be affected by the production of beef. 1800 gallons of water are required to make beef which means that this water will not be available for others to use. This will also cause problems in the areas where the water is scarce as it would lead people into further poverty as the water is being used in the production of beef. This shows how the production of beef has external costs to individuals who are not part of the process but are affected by the production of beef.

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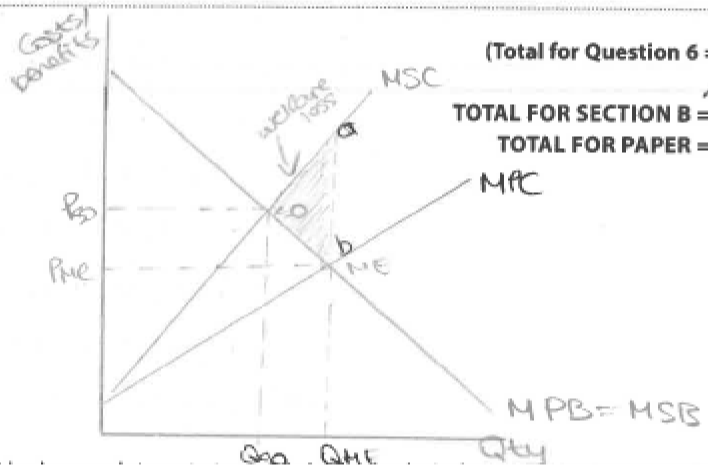
In the diagram shown below, ab is the size of the external cost and the welfare loss triangle is from over consumption of beef.

One of the benefits of increased beef production is that it is a merit good and it's consumption is beneficial as it is a source of protein. Furthermore, it's increased production will increase the tax revenue for the government as firms will be producing more meaning they have to pay more tax to the government.

It is also difficult to measure the size of the external cost which makes it difficult to judge how much external costs are caused by an increase in the production of beef.



(Total for Question 6 = 60 marks)

TOTAL FOR SECTION B = 60 MARKS

TOTAL FOR PAPER = 80 MARKS

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Response 2 (6g)

Guaranteed Minimum price - is the lowest price firms can sell for, and therefore, they cannot sell below that price.

One impact of guranteed minimum price on producers' will be that it will encourage producers' to invest more, because they will have more income security, because the guaranteed minimum price ensures that producers' get paid a certain amount for their products, and therefore, it will secure producers' income, which will therefore make producers' more confident on investing and therefore, this will be beneficial because investment is a component of aggregate demand, and therefore, increase in investment means increase in aggregate demand which benefits the economy as a whole.

Furthermore, another impact is that guaranteed minimum ~~wage~~ price will have is growth and employment in the sector because due to their being price and income

Stabity in the sector than ~~ensom~~ it and there more likely to be Investment it means that there will be growth in the sector, and therefore, the sector could provide employment.

However, the problem with having a guaranteed minimum Price ~~wage~~ is that consumers' will have to pay more the Guaranteed minimum price will increase the ~~consu.~~ price of goods', and thereby make it more costly for consumers' to make a purchase.

~~Fort~~ In addition another problem may be that the Guaranteed minimum wage may encourage smuggling because if beef is expensive here in the UK, then people might start to smuggle from other countries where it may be cheaper.

(Total for Question 6 = 60 marks)