



# **Examiners' Report June 2023**

**GCE Economics B 9EB0 03**

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## Introduction

This paper proved to be as accessible as previous series of 9EB03, with some very good responses showing high levels of knowledge, analysis and evaluation. Even so, many answers lacked application and supporting evidence, this is particularly disappointing given that the topic is released well before the exam. Centres should have taken full advantage of this and used the topic of markets in classwork, assignments and wider study; looking at a wide range of case studies and examples. Answers that showed evidence of this were unfortunately rare, many just treated the exam paper as a comprehension exercise and some were wholly generic. It is worth reminding candidates that the higher levels in the mark scheme all require good use of supporting evidence.

The main reasons for some candidates underachieving were the usual ones of not heeding command words and not reading the questions carefully enough. Once again, command words are still being ignored by a sizeable number. Instructions to 'assess' and 'evaluate' were not followed by some candidates.

Often candidates missed out on marks because they did not answer the question that was set. For example, for Q01(b) some candidates concentrated on the car market and its barriers to entry rather than focusing on the impact they have on market structure in general. Too many candidates just relied on copying the text from the case study rather than considering the wider implications of the question, this was particularly prevalent in Q01(c) and Q02(d).

Candidates need to apply proper context and to use examples to reinforce their responses. Generic or stock answers are very unlikely to access the higher levels of the mark scheme. It is worth stressing that the 'use of relevant evidence' is a key part of the level descriptors in the mark scheme, without this, candidates will struggle to reach the higher levels.

## Question 1 (a)

Despite the clear instruction in the question, some candidates did their best to explain the workings of a labour market in rural Cumbria 144 years ago! Those that read the question more carefully were usually able to explain how market forces were able to shape wage rates in a modern labour market. Balance usually took the form of the impact of trade unions and occasionally the influence of a monopsony employer. Given the number of industrial disputes in the news recently it was surprising that very few candidates used them as examples to reinforce their argument.

This Level 3 response scored 8 marks.

- 1 (a) Discuss if wage rates in a modern labour market are always determined by <sup>capital markets</sup> supply and demand.

(8)

Wage rates are the price paid for the supply of labour at a given time. They are usually determined by supply and demand forces. For example, in extract A, a large turnout of people seeking employment resulted in lower wage rates than previously as it was excess of the labour demand. So there was excess supply of labour which causes a rationing function and employers can offer a lower wage rate as competition for jobs are high. This is an example of traditional labour markets.

However, in the modern labour market, wage rates can be determined by <sup>market</sup> forces external to supply and demand. For example, the government sets a national minimum wage in the UK. This is a price floor that guarantees a minimum income. Therefore, it doesn't matter how ~~many~~ much excess supply of labour there is, wage rate cannot fall below a certain point. Trade unions might also intervene and influence wage rate in the modern day. Therefore, modern labour markets are not always determined by supply and demand.



A clear and perceptive response that shows good understanding and knowledge of how market forces may determine wage rates. This is then well balanced by discussion of the minimum wage and trade unions.

## Question 1 (b)

A straightforward but often disappointing question as many candidates seemed more intent on rewriting the evidence and describing the car market rather than addressing the main question. Few seemed able to go beyond the extract and discuss the importance of barriers to entry on market structure in general.

Those that did were able to show how barriers to entry reduced competition and moved market structure along the spectrum toward oligopoly and monopoly. More relaxed barriers led toward varying degrees of imperfect competition. Only a few candidates discussed perfect competition. Balance was usually achieved by pointing out the exceptions or by looking at other factors. Examples from wider reading were thin on the ground with many just repeating the example of Tesla from the extract.

A Level 4 response which scored 9 marks.

(b) Assess how barriers to entry affect market structure.

(10)

Barriers to entry are the factors determining whether a market is contestable or not, this will affect how many firms are in the market and the market structure.

~~One~~ Start up costs are a big barrier to entry that will restrict many firms from entering the market as they cannot access the credit to <sup>set up</sup> ~~compete~~ the infrastructure to do business. This could result in a high concentration of a few firms as new firms can't enter the market so could result in monopolies or oligopolies with few firms dominating and limiting competition. This could also result in natural monopolies where it would be wasteful to replicate such infrastructure as it would be such a big opportunity cost. However, this depends on the type of market and Tesla could ~~still~~ still compete in the market despite masses of industrial resources being needed, ~~so~~ On the other hand it could be argued despite being a new start up firm Elon Musk did have a large amount of wealth to invest in his company so could overcome the start up costs.

Markets with little sunk costs mean many firms can enter so leads to perfect competition

Another barrier to entry is brand recognition many firms invest millions into their advertising and promotional activities in order to maintain brand loyalty and repeat sales. Therefore if new firms enter the market they may not be able to attract consumers despite being price competitors

This could lead to ~~the~~ imperfect competition as few firms with brand loyalty dominate the market

Like Red Bull who have developed a global brand and adopted geocentric ways to attract consumers therefore may be excluding domestic industries however this may be able to be overcome through pricing strategies ~~to~~ like penetration pricing in order to gain consumer loyalty

Another barrier to entry is technology access and economies of scale as new firms may not be able to access technology and improve dynamic efficiency in order to compete with rivals, therefore this will lead to imperfect competition

In conclusion barriers to entry restrict competition and makes markets less contestable therefore creating concentration as a few firms + leads to imperfect competition



This response shows good knowledge and understanding and links the presence and strength of barriers to entry to the resulting market structure. Discussion involves monopolies, oligopolies, perfect and imperfect competition. It also has some balance in the discussion about Tesla.

This is a Level 2 response which scored 4 marks.

(b) Assess how barriers to entry affect market structure.

(10)

Barriers to entry are restrictions or obstacles that make it harder for firms to join a market.

Barriers to entry such as economies of scale would affect market structure because it would make it harder for newer firms to enter a market as existing firms would be benefiting from economies of scale so newer firms would not be able to compete on price, this can lead to existing firms using limit pricing (setting prices below cost of production of newer firms) which could lead to an increase in market share for existing firms, possibly creating a monopoly. However, barriers to entry may not affect market structure, this is because the business objectives of newer firms may be survival or profit satisfying (generating enough profit that to satisfy share holders).

Another barrier to entry may be brand loyalty, this leads to newer firms not being able to gain customers over competitors. Tesla could face barriers to entry as it is a new firm in the electric car market but customers may be brand loyal to BMW who have a market capitalisation of \$51bn. This leads to an increase in costs for advertising for Tesla which would lower profits. However, it may not affect market structure, this is because Tesla is an electric car company, so they may gain customers

But as eco-friendly, this leads to an increase in sales for Tesla as well as brand loyalty which leads to higher profits.

Overall, it would affect the market structure but it depends on factors such as brand loyalty, or eco-friendly customers. This is because if a company such as Tesla was eco-friendly then customers are likely to switch to that brand rather than BMW.



**ResultsPlus**  
Examiner Comments

The candidate clearly understands what barriers to entry are and explains why economies of scale and brand loyalty restrict entry. Unfortunately this is not developed into the effect they may have on market structure. The candidate has not fully answered the question and has focused on the barriers themselves.



**ResultsPlus**  
Examiner Tip

When you have made a point, pause and check whether you are still focused on the question set.

## Question 1 (c)

Global marketing is usually a well understood and popular topic and this proved to be the case here. Nevertheless some candidates just rewrote the evidence without adding much extra. Most responses looked at the product and how, depending upon its nature, marketing strategies needed to be changed or not. Relatively few responses considered other aspects of marketing such as price.

Unsurprisingly, most responses used the examples from the case study to show how some products needed to be adapted to suit different tastes and some that were not. Most thought that some degree of adaptation would benefit a business and balance was usually in the form of the costs and time involved in researching different markets and then modifying the product.

This is a Level 2 response and scored 4 marks.

(c) Assess the benefits for a firm of adapting its marketing strategies for global markets.

↳ Advertising

(12)

One benefit of a firm adapting its marketing strategies for global markets is that it can dampen the negative effect of cultural differences. Extract C mentions how Dunkin Donuts China serves soy porridge and seaweed donuts. Including this strategy is super beneficial for Dunkin Donuts, as the products sold are appropriate to ~~where~~ where they are selling to. It can make the consumer satisfaction increase and therefore increase profit margins. This can lead to an increase in Dunkin Donut's stores; despite already having 3,200 in 36 countries. This therefore builds brand loyalty and increases exposure, which in theory can see a further increase in sales and therefore profit.

Another benefit to a firm adopting its marketing strategies for global markets is ~~and increasing~~ through advertising. Extract C mentions how Red Bull hosts a range of different massive sport events every year. This is hugely beneficial to Red Bull on a global scale, as it increased their exposure to people watching live sport events. This may also be an example of micro

marketing, as they look to attract people with an interest in the sport they are hosting. Extract C also mentions how the brand ~~symbol~~ distinctive packaging is known globally, which highlights how foreign potential consumers already knew about the product, and may be more encouraged to spend some of their disposable income on the product if they recognise it. They are the leading energy drink providers selling over 7.2 billion cans a year which highlights how their marketing strategies with the slogan, packaging and sponsorship of sports has made them a leading global competitor.



**ResultsPlus**  
Examiner Comments

The candidate has not focused on the question and simply rewrites the evidence to say why Dunkin Donuts and Red Bull are successful. Little is added or developed and the point of the question is not addressed and there are no competing arguments.



**ResultsPlus**  
Examiner Tip

Do read the question carefully. Don't just rewrite the extract.

This is a Level 4 response which gained 10 marks.

(c) Assess the benefits for a firm of adapting its marketing strategies for global markets.

more cultural differences  
depends on industry (12)  
marketing strategy

By adapting its marketing strategies, this is beneficial to firms as it may lead to a greater chance of successful in global market. For example, changing marketing to suit local culture in the host nation ought to increase demand as ads are more personalised to consumers and therefore more effective. For example, in extract C, Durkin Donuts adapt their marketing and goods to cultural differences e.g. grapefruit coolata in Korea. This ought to increase demand as <sup>there is a</sup> products orientation and the firm adapts to best suit the needs of consumers. If they do not adapt they risk a ~~an~~ unsuccessful entrance and high ~~an~~ unrecoverable costs.

However, adapting marketing strategies is costly. For example, intense market research must be done into each country's tastes/customs. This might require employing language or country specialists. This increased sunk costs and the time taken before moving into the market. This might be unaffordable for some firms. But even with market research, marketing may still be unsuccessful if it offends or fails to attract the local consumers. In extract C, Red Bull doesn't adapt its marketing strategies for global markets, instead taking a universal strategy with the same branding, packaging, slogan and ~~marketing~~ strategies. This might be a cheaper alternative, but requires significant brand

recognition to surpass national borders and cultural norms. However, a universal strategy might only be possible for certain industries where global tastes don't differ too much. So this strategy might be unsuccessful for some firms.

Therefore despite the sunk costs of market research and product development, adapting marketing strategies ought to be more beneficial as it reduces the risk of ~~the~~ failing to be established in a market and may keep up a brand reputation. Failing in one country can be damaging and adversely impact sales in established markets.



**ResultsPlus**  
Examiner Comments

This response also uses the examples of Dunkin Donuts and Red Bull but develops them well, the arguments are clear and there is good balance with clear competing arguments.



**ResultsPlus**  
Examiner Tip

Bringing in balance and showing awareness of competing arguments is the key to reaching the higher levels on the mark scheme.

## Question 1 (d)

This was the better answered of the two longer questions and candidates were clearly familiar with the digital economy and often used their own experiences to good effect. To this examiner at least, it was rather dispiriting to see the number of candidates who stated that 'old' people were not able to cope with technology!

As ever, the 20 mark questions are designed to be open ended. There is no ideal answer as such, what we are looking for is the ability to construct a logical argument from any relevant aspects. Most responses to this question however, did follow a similar line, the rise of easily accessible digital platforms leading to greater competitiveness and choice. Balance was mostly about the decline of traditional markets such as 'bricks and mortar' shops. Good use was made by some responses of creative destruction and some very good answers speculated as to where the digital economy might take us in the future.

This is a Level 2 response and scored 8 marks.

(d) Evaluate the impact of the digital economy on markets and firms.

(20)

The large development in recent decades of digital markets and the technology it uses has had a significant impact on small and large businesses. The development of digital economies has led to an increase in new business strategies such as air bnb where people can book a holiday home etc through an app and has revolutionized holidays. However this has a negative impact on ~~people~~ hotels, small bnb's, holiday parks etc. This means that as newer more digital based companies are flushing out traditional and usually local businesses.

However the use of digital markets has led to significant economic growth as things become easier to book things and spend money. Digital economies bring ease of use and nothing is easier than just pressing buttons on a phone so markets and firms have adapted to that and allows them to grow and develop new strategies.

Firms that don't keep with the digital market don't keep up or make as much money as digitalized versions do. Taxi ranks for example that you must ring or find to get a trip are nowhere near as easy as a lift or uber and it shows in their earnings. It also encourages the firms to make changes not only to the digital side but in general which is almost always for the better and allows more growth as a whole as they move into a new era.

Overall the impact of digital markets is positive and has allowed for economical growth at a higher rate over the last few decades so has been great for the economy and consumers who get the most benefits. The development of new firms has had massive impacts on society as a whole and has brought a new level of ease to standard living.



**ResultsPlus**  
Examiner Comments

There is knowledge and understanding but it relies on the extract and could develop its points to greater effect, some of which rely on generic assertions.

This is a Level 4 response that scored 18 marks.

(d) Evaluate the impact of the digital economy on markets and firms.

→ regulation (20)

The digital economy is an emerging market, with 87% of consumers buying online and it now making up 8% of the UK's GDP. These statistics indicate its micro and macro impact on the economy now and in the future. The rapid growth of these digital platforms have been the cause of ~~massive~~<sup>such</sup> 'disruption in various industries across the globe' encouraging creative destruction and increasing contestability in markets ~~to~~ that were previously dominated by few, long-standing firms. The space-time convergence that the digital economy brings reduces communication times and increases the reach of the geographic market, making marketing more efficient and promoting the expansion of niche markets, which cater to specific customer needs, making the digital economy highly beneficial in increasing efficiency in global & markets, and allowing firms with a technological advantage to lead the market and be highly beneficial to the national economy, as seen in the UK.

However, there are considerable drawbacks, as the staggering rate of growth in the market has made some businesses' existence highly reliant on the existence of ~~them~~<sup>digital platforms</sup> and giving them

a lot of power and those operating them, like Facebook and Mark Zuckerberg, a lot of soft power to promote their alliances and their ~~own personal~~ companies they personally endorse. Also, traditional firms have comparatively <sup>more</sup> ~~less~~ employees than digital firms, with Disney having 164,000 mere employees, while having <sup>than Facebook</sup> considerably less market capitalisation, despite being ~~that~~ established for 81 more years, illustrating how a company's legacy and dynamic efficiency isn't enough to compete with the digital advantage firms established in the 2000s have. This is indicative of the power of the digital economy having disproportionate benefits for start up companies and are harder to implement and benefit <sup>(traditional)</sup> companies with set values, threatening their existence.

Also, the relative youth of the industry compared to more established sectors means the negative externalities haven't been fully researched or internalised, with little regulation, which may have severe long term consequences on the stability of firms as well as the prosperity of the whole economy. The disproportionate effect the industry has on developed countries with companies that

have access to the infrastructure and resources needed to fully benefit from digital platforms gives them a large competitive advantage to traditional sectors and methods of production and distribution in lower income countries, with most tech companies originating from the silicon valley. Without the governments of developing countries subsidising the use of tech, they will be left behind in terms of productivity and efficiency, decreasing their global competitiveness.

Overall, it is integral that the digital economy is regulated so that <sup>an ~~etc~~ people</sup> firms aren't negatively impacted by its unchecked growth.



**ResultsPlus**  
Examiner Comments

An excellent response that is coherent, well written and balanced throughout. It shows real insight and makes some very perceptive comments, perhaps the only area that can be improved on is the conclusion which is rather perfunctory.

## Question 2 (a)

This question was generally answered well with many candidates being able to explain the advantages of operating in a niche market. Most used the example from the extract to illustrate their argument. Balance tended to be more generic, with the danger of changing tastes and threat of competition the popular options. Despite being a 'discuss' question a large number of answers were one sided. Balance does not need to be extensive for the 8 mark question but it does need to be there if a candidate is to access the higher levels.

This is a Level 3 response which scored 7 marks.

2 (a) Discuss the benefits for a firm of operating in a niche market.

(8)

A niche market focuses on a sub section of a market, that is often defined by shared characteristics, such as income. It can benefit a firm as it allows a firm, such as Indian Oil, to specialise its service to the desires and demands of a niche group. This is seen with their "unique bike cafes" which "cater to the needs of motorcycles". Through research and development (R+D) Indian Oil differentiated this cafe with unique features, such as a "parking area for motorcycles". This is a benefit of a niche market as it allowed Indian Oil to develop a heterogeneous service, that differentiates them from other oil competitors. Overall, this led to a "17.22%" increase in sales which leads to higher profits. However, developing such a niche product can be expensive, due to R+D costs, meaning a firm has to have significant finance to cover costs. Yet, if the product is successful in ~~the~~ a niche market it can become price inelastic, due to its unique features, allowing Indian Oil to increase prices without a more than proportional drop in demand, leading to higher profit margins.



A clear explanation of a niche market that makes good use of the extract without just repeating it. There is balance and an awareness of competing arguments.

## Question 2 (b)

Most candidates were able to show some awareness of the impact of the proposed takeover on the market for fuel in Slovenia, usually by discussing the negative impact on motorists in terms of reduced price and competition leading to higher prices. There was a danger for some candidates of moving away from the question which asked for the impact on the market. Good responses looked at how the takeover might create greater barriers to entry and deter future entrants, thus moving the market further towards monopoly end of the spectrum.

Balance was often shown by pointing out the possible gains in efficiency from the takeover and how that might affect the market. Some made good use of the evidence, arguing that the increased size of the new firm would be more able to compete with the market power of the current largest fuel supplier. Others looked at the possibility of intervention by the European Commission and what possible restrictions or conditions might be imposed if the takeover was allowed and how that in turn, would affect the market.

This response reached Level 4 and 9 marks.

(b) Assess the likely impact of the proposed takeover of *OMV Slovenia* by *MOL* on the market for fuel in Slovenia.

(10)

A takeover refers to one company (*MOL*) ~~acquiring~~ acquiring another (*OMV*), e.g. through the purchase of a majority stake (51%+).

Extract 6 details that currently, *OMV* and *MOL* are the second and third largest, respectively, in the Slovenian fuel market. This is likely to have an impact on the market as together, the companies are likely to have vast resources, allowing them to exploit economies of scale, and to create high barriers to entry. Moreover, the size of these firms potentially means that a takeover could lead to a monopoly in the market, which could have an impact on buyers, through potential higher fuel prices. Concern can be seen already, through the EU ~~commission~~ commission investigation, with concern that the takeover could 'reduce competition'.

However, the Extract also details that both companies are below 'Petrol' in the fuel market, with Petrol being partially state owned. Therefore, ~~the~~ a takeover between *OMV* and *MOL* could increase the ability for both firms to compete more closely with Petrol, and so could positively impact the market, through Petrol being forced to lower prices, etc. \*

Overall, it can clearly be seen that this proposed takeover will certainly have a large impact on the market, potentially reducing competition and therefore choice for consumers. However, this impact depends on the size of 'Petrol'. Being partially state owned, it is likely that Petrol have vast levels of funds available, and so a takeover may tend to benefit competition.

\* The takeover could also allow the Slovenian fuel market to be more internationally competitive, since MOL has a network of over 2,000 stations in 9 countries.



**ResultsPlus**  
Examiner Comments

A very good answer, clear and perceptive with good chains of reasoning and some thoughtful balance.



**ResultsPlus**  
Examiner Tip

You don't have to write a lengthy answer to gain high marks!

This is a Level 3 response that scored 5 marks.

(b) Assess the likely impact of the proposed takeover of OMV Slovenia by MOL on the market for fuel in Slovenia.

The takeover between OMV and MOL is an example of a horizontal integration as it is two firms coming together within the same industry of fuel at the same level of production. (10)

Due to them both being the second and third largest fuel suppliers in Slovenia they can form into a monopoly and charge high prices to their consumers as fuel is price inelastic. This will cause the fuel market in Slovenia to become extremely competitive as they will be the biggest supplier of fuel, causing other fuel companies to leave the market ~~as the~~ and causing the barriers to entry to be extremely high for other fuel companies to enter.

MOL and OMV taking over each other will also lead to supernormal profits to be earned.

Both MOL and OMV have a huge customer base as OMV has 114 fuel stations and MOL has 2,000 operating in 9 different countries.

Overall this takeover would lead to the fuel market to be extremely competitive and prices would increase in Slovenia. This is a disadvantage to customers as they have less consumer surplus and higher prices to pay. But benefits MOL as they will gain supernormal profits and takeover OMV's other 119 fuel stations.



**ResultsPlus**  
Examiner Comments

A one-sided response that is perhaps a little forceful but shows reasonable knowledge and understanding.



**ResultsPlus**  
Examiner Tip

Don't forget to include some competing arguments.

## Question 2 (c)

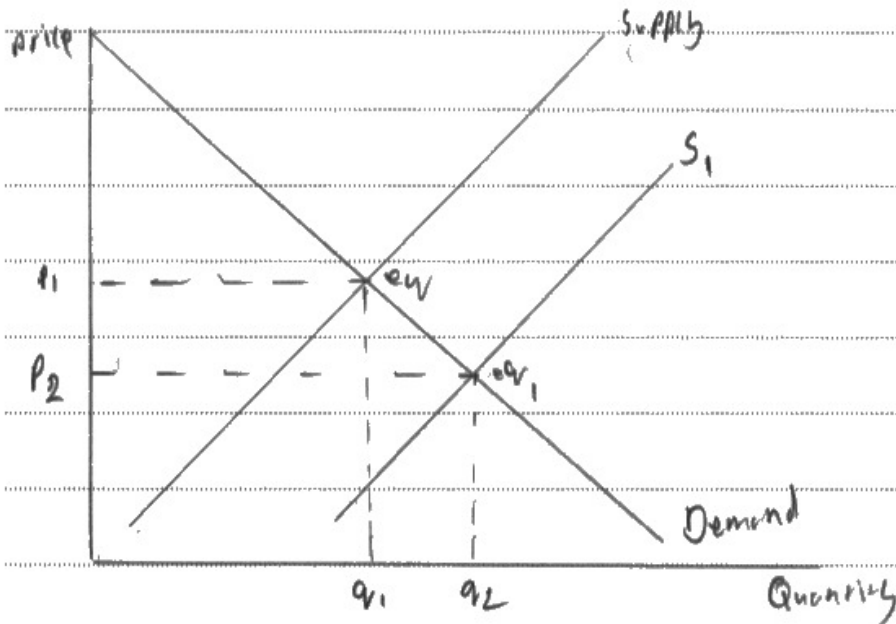
Generally, this question was not well answered. The obvious choice of diagram was a subsidy diagram and while many candidates did include this, a significant number missed out a diagram altogether, whilst others made mistakes with the diagram itself. It is worth pointing out to centres that there is no penalty for missing a diagram despite being asked to include one, neither is there capping at a certain level. However, the diagram is seen as 'relevant evidence' which is part of the level descriptors in the mark scheme, therefore a response without a diagram is probably unlikely to reach the higher levels. Candidates should always include a diagram when asked to do so.

Good responses looked at the short term impact on consumers in terms of price and their remaining disposable income. Balance often looked at the longer term impacts of funding the subsidy on the state, the impact on investment and efficiency within the firm and the possible negative externalities of excess consumption.

This response just reached Level 3 and scored 6 marks.

(c) Using a suitable diagram, assess the benefits of a subsidy in a market such as the French energy market.

(12)



Subsidies are grants given out by the government to help people in need or to help the economy. The diagram shows a positive shift in supply as it is the investment by the government which will be more supply of the product. It will also make it more affordable for the consumer and less people will struggle to purchase electricity. However there is a trade off as the money spent for subsidies could be used elsewhere in the economy - for example health care.

Regulation is when a government or regulator has laws different rules to control a market. The government could regulate the energy market and put a cost cap on the price of electricity. The average annual bill is forecast to rise above \$4,000, which is how much more than what they were paying just 12 months ago. This will rise the cost of living. Hence if there was a price cap then businesses may struggle to make a profit.

In conclusion subsidies will help people afford energy and they could have more disposable income to spend elsewhere. Hence there may be other alternatives like regulation which could help.



**ResultsPlus**  
Examiner Comments

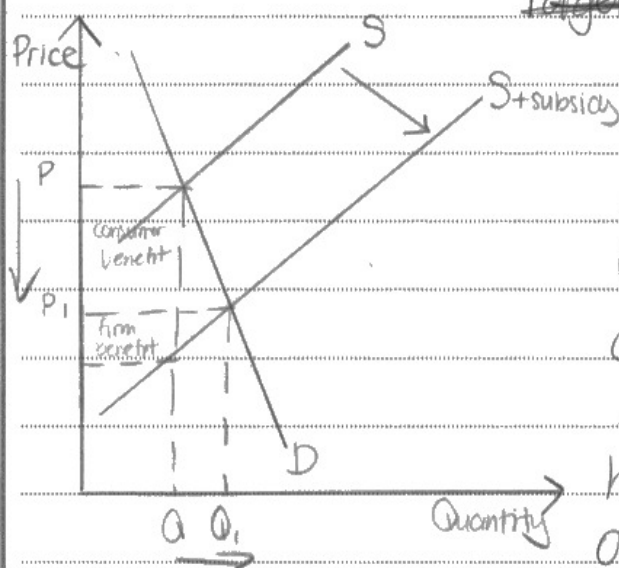
A reasonable response that has the basics but it could have developed its arguments more. It offers balance by looking at regulation but this rather misses the point of the question. It would have been better if the candidate had looked in more detail at the benefits or otherwise of subsidies.

A Level 4 response which scored 10 marks.

(c) Using a suitable diagram, assess the benefits of a subsidy in a market such as the French energy market.

reliable  
efficient  
subsidised  
(12)

A subsidy lowers the costs of producing a good/service for a firm. This shifts supply downwards and rightwards as a



~~Larger quantity is supplied at a lower~~

~~price~~ lower prices lower prices increases quantity demanded and hence supplied. This is

beneficial as a lower price is charged to consumers. As in

extract 11, French households have barely seen a price increase on energy. This helps in a context of

living crisis and social welfare improves. Energy is a necessity

so demand is price inelastic. Therefore a subsidy is mostly gained by consumers. This is equitable and means it is net

~~not~~ profitable for firms that benefit and subsidies help the right people.

However, subsidies might not be good as there is no incentive for efficiency. For example, firms don't feel the need to cut costs

and lower prices as the gov. will subsidise costs. This is a kind of moral hazard reduces dynamic efficiency and

creates market failure as unintended consequences. Firms might

now be reliant upon the subsidies and unable to operate

efficiently without it. As in extract 11, it prevents future

Investment in energy efficiency and costs to tax payers billions as subsidies must be funded by tax rises or a budget deficit. There is an opportunity cost to subsidising energy too and gov. spending may not be necessary in other areas. There is also a risk of gov. failure if there are information gaps or price distortion occurs. So a subsidy might not be beneficial as it is a large public expense, might ~~reduce~~ be unsustainable. ~~It may invest in~~ in the long-run, prevent investment. However, in the short-run it ought to ease the burden on household bills which could otherwise be 3x higher like in UK in ~~extract~~. So only a short-term solution, and other measures, must be taken alongside it to incentivise investment.



**ResultsPlus**  
Examiner Comments

A good response with a clear diagram which also makes good use of the concept of price inelasticity. Chains of reasoning are clear and logical with a balanced assessment.

## Question 2 (d)

This open question gave candidates a chance to discuss a wide range of policies that could be used to deal with market failure caused by emissions by comparing and contrasting their various merits. Some candidates confined themselves to just one or two policies, which was fine but they often lacked development and suitable depth and so failed to reach the higher levels.

Better responses looked at a variety of policies including taxation to cut emissions, subsidies to create more efficient methods, tradeable permit systems, regulation and legislation, funding for R&D and promoting public understanding. Balance was mostly looking at the potential drawbacks in these policies such as timescale and cost/opportunity cost. Disappointingly, given that the environment is such a current topic, there was not much reference to examples from wider reading.

A Level 4 response which scored 18 marks.

(d) Evaluate government policies that can be used to deal with market failure in an economy caused by emissions.

(20)

Market failure refers to the inefficient allocation of resources in an economy. The government could adopt a policy such as tradable pollution permits in order to curb the effects of emissions. These permits allow firms to pollute to a certain level and are paid for by them. This means that they can be traded between firms in exchange for money. Sustainable fashion is a significant cause of the negative externality of pollution, thus tradable permits should deter these factories from over-polluting, leading to further pollution-related illnesses and a strain on the health service. The costs to taxpayers and the government which would go towards funding the health service may be reduced through these permits as the government receive the money from them. However, they may be ineffective with dealing with market failure as firms may have sufficient power to avoid paying for permits or the country itself. e.g. India may not be able to fully enforce the correct use of the permits.

As India has set an annual economic growth rate of 8.5% between 2012 and 2017, enforcing laws and regulation may be difficult, depending on the integrity and ethics of the Indian government. Despite the argument of the Stern Review in 2006 that regulations could reduce emissions, this may be ineffective in an economy. Thus, there may be a trade off between the 8.5% growth and doing so in a sustainable manner. The implementation of laws and regulation by the government may be avoided by firms whose main objective is profit maximisation. In addition, the government may only be concerned with achieving their macroeconomic growth objective by 2017, which could mean that laws and regulation worsen market failure due to emissions as firms may be more likely to illegally produce goods, e.g. India's ban on alcohol led to an increased consumption of illegally-produced alcohol and poorer health. Thus, government failure may occur due to the asymmetry of information the government have due to false reports by firms. Nevertheless, it is difficult to dispute the law, thus, this method of dealing with market failure from emissions could be enforced.

A policy of energy efficiency may be able to correct market failure caused by emissions. The government's injection e.g. subsidising sustainable energy could lead to a multiplier effect in the environment, thus helping to reverse market failure. Subsidising electric cars where consumers had created market failure through <sup>fuel</sup> gas emissions, in the long run, should lead to sustainable economic growth, as consumers can travel to work sustainably, also reducing geographical immobility which can contribute to market failure. However, energy-efficient ~~can~~ infrastructure e.g. cars and public transport could worsen market failure e.g. in India as it is an emerging economy so not all people will afford more cars, yet sustainable methods of transport.

Overall, government policies to deal with market failure caused by emissions may lead to government failure, especially if they do not have all the information. The negative externalities caused by manufacturing could be reduced by taxing polluting firms or using renewable energy in the production process through solar panels. However, ~~may reduce~~ government policies have a time lag and emissions may not be reduced in the short run. The policies also require cooperation from the country as some <sup>forms of</sup> regulation can lead to lobbying. The most effective policy may be subsidies in sustainable firms to lower prices for consumers, thus reducing emissions in the long run by increasing the accessibility of sustainable goods and services.

(Total for Question 2 = 50 marks)



A thoughtful and well written answer. A range of policies are discussed with balance and well-developed chains of reasoning are effectively used leading to a strong conclusion.

## Paper Summary

Based on their performance on this paper, candidates are offered the following advice:

- Do read the question carefully and answer the question that is set.
- Do watch out for command words such as **assess** or **evaluate**.
- Do use examples to illustrate your argument.
- Do use the language of the subject and avoid generalities.
- Do watch your timing and do not spend too long on one question.
- Do write concisely (and neatly please!).
- Do add a relevant conclusion to the longer questions.

## **Grade boundaries**

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