

Mark Scheme (Results)

January 2007

GCE

GCE Economics 6352 (Unit 2)

Question 1 Television Broadcasting

- (a) (i) Using examples from Extract 1 explain the term 'public goods'. (*Extract 1, line 2*) (4 marks)
- Non-rivalry in consumption (non-diminishable) - consumption by one individual does not reduce the amount available for other individuals to consume (1)
 - Non-exclusion in consumption (non-rejectable) - all consume the good whether people want to or not (1).
Application to the public goods in Extract 1 (1+1)

- (a) (ii) Explain why public goods are unlikely to be supplied in a free market. (4 marks)
- Free rider problem - once it is supplied by one individual / firm, it is impossible to prevent others from consuming it free of charge (2)
 - Application to a public good e.g. non-payment of BBC licence fee (2).

Also award for discussion on the difficulty of estimating the amount each individual might consume of a public good and hence the billing for such an individual (2).

- (b) With reference to Extract 1 and Figure 1, discuss the effectiveness of the television licence fee as a means of financing the BBC. (8 marks)

Award up to 6 marks for development of three or more factors (2+2+2):

Effective since:

- Figure 1 shows over £3 billion raised in 2006 which exceeds income from its commercial sources of £2.5 billion.
- The licence fee income exceeds the income gained by ITV and Channel 4 & 5.
- Trend indicates significant increase in BBC licence fee from 1993 to 2006.
- The public are prepared to pay for the licence fee. 17 million households out of 23 million place a greater value on the BBC services than the license fee.
- Simplicity of payment system via internet post offices and in instalments.
- Licence fee is compulsory and so a guaranteed income to BBC.

Not so effective since:

- BBC licence fee income is less than BSkyB income.
- 1.15 million Households evade paying licence fee (*line 14*).
- People over 75 years receive free TV licence .
- Cost of collecting licence fee is high.

Evaluation (Up to 2 marks for any one point)

- Not so effective as £2 billion of consumer surplus remains untapped (*line 14*).
- Evaluative comment on whether advantages exceed disadvantages of licence fee.
- Licence fee likely to be more important in future due the increasing competition from various commercial television broadcasting companies.
- Reliance on the Government to permit increases in the licence fee.
- Discussion of the alternative to a licence fee - advertising.

NOTE: Candidates are required to consider both sides of the argument to achieve maximum marks. Otherwise, award a maximum of 6 marks.

(c) (i) What is meant by the phrase 'monopoly power over television broadcasting' (*Extract 2, line 1*)? (2marks)

- Definition of monopoly as sole supplier of a good or service or legal definition of monopoly where firm has 25% or more market share. Also accept use of terms 'dominant firm' or 'having market power' (1).
- Application to BBC e.g. two terrestrial channels competing against ITV channels (1).

(c) (ii) Explain two possible barriers to the entry of new firms to television broadcasting. (6 marks)

Identification of two entry barriers (1+1) and their application to television broadcasting (2+2).

- Technological barriers
- Broadcasting licence requirements
- High start up costs
- Customer loyalty to established TV channels
- Economies of scale
- Limit pricing of existing broadcasters

(c) (iii) Why might a monopoly in television broadcasting be against the interest of consumers? Justify your answer. (6 marks)

Various points could be raised such as: (1+1+1+1) or their development (2+2).

- Less consumer choice
- Absence of competition may lead to poorer quality programmes
- Less innovation in television programmes & technology
- Inefficient use of funds from television license (economic inefficiency)
- Creation of barriers to entry
- Higher (price) fees for television viewers
- Bias in TV programmes
- Issue of excess profits

Evaluation (2)

- Prioritise disadvantages of a monopoly in television broadcasting.
- Time factor: problems for consumers may worsen over time as monopoly tries to strengthen entry barriers.
- Exclusion of low income groups from viewing programmes due to high cost - this is already a problem with sports.
- A monopoly broadcaster may not produce programmes for mass audiences but rather produce for the elite and other minority markets. Alternately, it might only focus on producing popular mass audience programmes - reducing consumer choice.
- Absence of market discipline. E.g. lack of consumer sovereignty.

- (d) Evaluate the likely implications for the BBC of increased private sector competition in television broadcasting. (10 marks)

Three implications for BBC: (2+2+2)

- Falling audiences / market share / falling revenues and profits
- Efficiency savings - employment, programme budgets, relocation.
- Focus on producing more profitable programmes for mainstream audiences.
- Joint ventures with other broadcasting companies e.g. BskyB on sports programmes.
- Put pressure on government for a significant increase in licence fee
- The BBC might seek the right to sell 'advertising time' as with commercial TV.

NOTE: Award a maximum of 4 marks if no application to TV broadcasting.

Evaluation (2+2)

- The extent of efficiency savings required may depend upon the quality and amount of competition faced by BBC.
- The impact on the BBC will depend upon its ability to protect and increase its licence fee.
- Prioritise factors
- Increasing competition is part of a long term trend - the BBC has coped so far.
- Reduce or abolish TV licence fee since no longer a public good.

Question 2 Health care provision in the UK

(a) (i) What is meant by the term external benefits? (2 marks)

Accept any of the following:

- Benefits which are external to an exchange (1) and have positive third party / spillover effects / positive externalities.(1)
- Benefits from production or consumption which the price mechanism fails to take into account (2).
- The difference between social benefits and private benefits (1).

(a) (ii) Analyse the 'external benefits from health care provision'. (*Extract 1, line 1*). Illustrate your answer with an appropriate diagram. (6 marks)

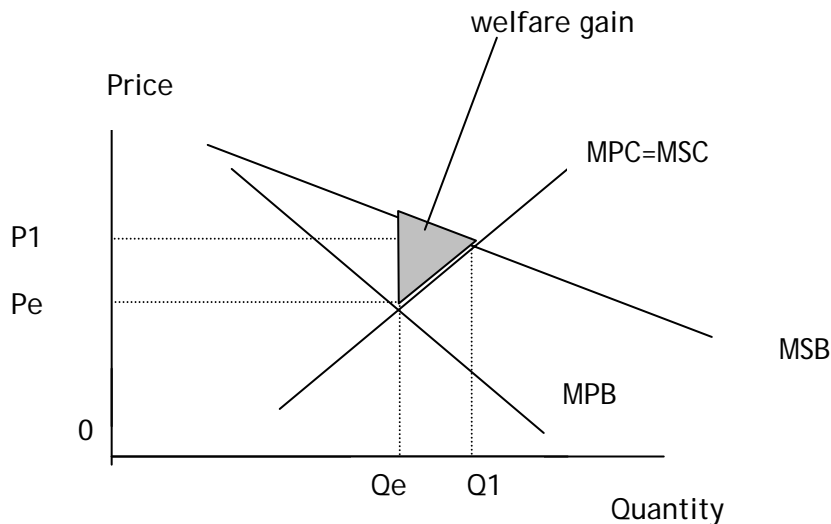


Diagram and explanation (up to 3 marks).

Correct diagram drawn and labelled (1)

Identify free market equilibrium and social equilibrium (1)

Identify external benefits as area in between private and social benefits (1).

Also award

Illustration of welfare gain triangle (1).

Analysis of external benefits applied to healthcare (2+1) or (1+1+1):

- Healthier workforce so less absenteeism / greater productivity.
- Greater earnings potential for labour.
- Greater revenues & profits for businesses.
- Greater tax revenue from workforce.
- Less spread of diseases since more comprehensive treatment and immunisations.
- Increased life expectancy and quality of life.

(b) (i) With reference to Extract 1, explain the causes of 'increasing demand and cost pressures on the health care budget.' (*Extract 1, lines 11- 12*)

(8 marks)

Demand Pressures include:

- Ageing population - as people are living longer they are more likely to suffer from health problems and make more demands on the NHS. Also accept an increase in population.
- Increased public expectations of the quality of healthcare - so government under pressure to increase spending.
- New diseases have emerged or spread of existing ones e.g. HIV/Aids, MRSA, TB, Meningitis - so government has to allocate more funds for them.
- Serious under-funding of NHS in previous years e.g. government spending on NHS below that of France and Germany.

Cost Pressures include:

- Increased capacity e.g. 100 more hospitals built and more doctors & nurses employed.
- Staff wages & medicine bills have increased.
- Medical advances which lead to new treatments being available.

Four factors required (2+2+2+2 marks) including explicit reference to at least one demand and one cost factor. Otherwise award a maximum of 6 marks.

(b) (ii) Examine one economic implication of these pressures.

(4 marks)

Economic implication might include (1 mark for identifying an implication & 1 mark for its analysis):

- Funding implications: Continuous upward pressure on government spending and so taxes or borrowing may have to increase or, government spending on other areas may have to be reduced. Charges might be introduced for some treatments.
- Resource & quality implications: There may be staff shortages e.g. doctors & nurses. Role of migrant labour. It may be impossible to continue improving the quality of health care or maintain existing quality.

Evaluation (Up to 2 marks for any one point)

Funding

- Some treatments might be too expensive to be offered by NHS trusts e.g. the Herceptin drug for breast cancer; Discussion could focus on whether charges might be introduced for NHS treatment.
- It may be very difficult for the government to make spending cuts in other areas e.g. education, transport, defence.
- Higher taxes might prove unpopular - should they be on income tax, national insurance contributions or expenditure?
- Increased government borrowing passes burden on to future generations and add to debt interest payments.
- Healthcare spending will never be enough to satisfy consumer needs - some form of rationing has to occur.

Resources

- Suitability of migrant labour to meet growing demand for doctors & nurses. Impact on health care provision in other countries which lose skilled healthcare workers.
- Time taken to train more nurses & doctors & build new hospitals might mean no significant improvements to healthcare recorded in short run.
- Will hospitals have to increase real wages to attract skilled labour?
- Expanded role for private health care sector in UK.

- (c) With reference to the information provided, discuss the impact on health care provision of the increase in NHS funding. (10 marks)

Evidence from the extract indicates significant improvements in quality since 1997.

- Positive report from King's Fund on 'significant improvements' (Extract 1, *line 8*).
- Increased number of hospitals, doctors and nurses imply improvements to availability of treatment. (Extract 1, *lines 15-17*).
- Figure 1 indicates a fall in inpatient waiting times.

However, the increased funding may not be so significant as first thought since:

- Figure 2 indicates an overall fall in the number of hospital beds.
- Figure 3 indicates an increase in the number of hospital managers.
- Figure 4 indicates falling labour productivity from 1997.

Three factors required (2+2+2) including some development of each point, for example, the increased funding may mean development of cures for diseases or better treatment for consumers.

Evaluation (2+2)

- Labour productivity has fallen but could be due to the better quality of health care offered to each patient.
- Labour productivity has fallen but could reflect that doctors & nurses were over worked before the increased funding.
- Hospital managers increased but this could lead to better allocation of health care resources especially as state funding is so huge.
- Number of hospital beds fallen but better care might be offered for each bed.
- Impact on private healthcare provision - the NHS may make greater use of private healthcare services or alternately, private healthcare may experience falling customers.
- Increase in NHS funding may reduce inequality in healthcare provision.
- Magnitude: improvements would be expected since a 70% real increase in state funding - but not all might have been well spent.
- Short run & long run factors: In the short run there may have been little noticeable improvements but over time these are likely to be more recognised e.g. time taken to train staff & build hospitals.
- An overall evaluative comment weighing up the evidence.

- (d) (i) Outline the meaning of the phrase 'local monopoly power of hospitals'. (*Extract 2, line 2*). (2 marks)

Reference to monopoly as a single seller / legal definition of monopoly as firm with 25% or more market share (1).

Application to hospitals - tendency for one hospital to provide services for a town or area and customers unlikely to go elsewhere (1).

- (d) (ii) With reference to Extract 2, examine the case for increasing the role of market forces within the NHS. (8 marks)

Case for increasing role of market forces: Two or three factors required with further development from the extract (3+3 or 2+2+2 marks).

- Increase productivity of NHS staff and so may achieve target of maximum waiting time of 4½ months.
- Increase patient choice.
- Competition may improve quality of healthcare / lead to a reduction in prices.
- The provision of services will reflect the price set for them.
- NHS could sub-contract work to private hospitals to reduce waiting lists.
- Increase in efficiency (allocative and productive efficiency).

Evaluation (2)

Problems may arise which lead to market failure:

- Productivity might increase at the expense of quality of medical treatment.
- Asymmetric information - despite increased patient choice they might lack knowledge on the best treatment and by whom.
- Will competition lead to closure of some hospitals / departments?
- Hospitals may focus on most profitable areas and cut back on less profitable ones such as Accident & Emergency services.
- The price set for each healthcare service is set by the government rather than the market.
- An increase in market forces may lead to 'charges' for patients.

Assessment Objectives Grid

Question	Knowledge	Application	Analysis	Evaluation
Question 1				
Q1 (ai)	2	2		
Q1 (aii)	2		2	
Q1 (b)	2	2	2	2
Q1 (ci)	1	1		
Q1 (cii)	2	4		
Q1 (ciii)	1	1	2	2
Q1 (d)	2	2	2	4
Marks	12	12	8	8
Q2 (a) (i)	2			
Q2 (a) (ii)		3	3	
Q2 (b)	4	4		
Q2 (bii)	1		1	2
Q2 (c)	2	2	2	4
Q2 (d) (i)	1	1		
Q2 (d) (ii)	2	2	2	2
Marks	12	12	8	8