AS Economics Units 2 Markets - why they fail 03 June mark scheme

Q1 (a)(i) What is meant by the statement that the NHS has an `almost complete monopoly in healthcare provision'?
The NHS is virtually the sole supplier of healthcare in the UK. (2)
The private sector suppliers only account for a tiny proportion of healthcare provided. (1)
If monopoly is defined as 25% or more of market then award 1 mark.

(a)(ii) With reference to Extract 1 and other information, analyse the case for state provision of healthcare.
Factors include:
Unequal (asymmetric) information (between doctor and patient)
Information problems: consumers do not know how much health care they will require or when
Equity: healthcare provision not dependent on income
Prevents exploitation of patients by monopoly providers e.g. local hospitals
Accept arguments on criticisms of private healthcare provision.
Positive externalities.
Cheap to run.
Economies of scale.
Has helped to increase life expectancy.
Up to 4 marks for each factor i.e. full marks could be obtained for 2 points done very well.
Otherwise mark as follows: 3 + 3 + 2 or 2 + 2 + 2 + 2
Maximum 3 marks for identification only.

(b) Analyse three factors which might explain why `the demand side is growing very strongly' in the market for healthcare (Extract 1, lines 10-11)
Factors include:
Ageing population: the elderly make greater demands than the young e.g. longer hospital stays; more drugs
Increased expectations: associated with highly income elastic demand for healthcare
Increasing availability of treatments with the discovery of new drugs
Advances in medical technology
Increased health awareness.
Increased negative externalities: Pollution
Changes in lifestyle
Hours of work and increased stress
3 x 3 marks; Up to 3 marks for identification of factors; 6 for explanation

(c) With reference to Extract 2, evaluate the benefits of charging for healthcare provision.
Benefits include:
Better quality healthcare - better facilities, shorter waiting times
But problem of the poor: might result in a 2 tier system
Transparency: people can see exactly how much of their pay is being spent on healthcare insurance (social insurance scheme)
But: this does not necessarily mean that the resources are being used efficiently
More choice - of doctors and hospitals
But: problems of adverse selection (low risk consumers might not insure themselves because the premiums are too expensive)

and moral hazard (incentive to over consume healthcare); cost of administering the system.
More equality in terms of treatments available But: only available to those who can afford it
Increased competition leading to increased efficiency But: waste of resources on marketing
More state finance for other areas e.g. education.
Price effect: Impact on demand
Identification of factors only: maximum 2 marks. Identification and explanation of any one factor: up to 3 marks A consideration of 3 factors with evaluation could achieve maximum marks (3 x 4 marks) Maximum 7 marks without evaluation.
Any 2 evaluation points are sufficient for 5 marks (either 3 + 2 marks or 2 + 3 marks)

(d) To what extent does state provision of healthcare illustrate the concept of `government failure'?
Award up to 2 marks for a general definition of government failure only: i.e. a fall in welfare/efficiency resulting from government intervention. N.B. The definition must demonstrate how *government intervention* leads to worse economic outcomes than if no such intervention had taken place.
Examples of government failure in the context of the NHS:
Waiting Lists
Backward in adoption of new technology: therefore, patients not receiving best treatment available
Poorer health standards in comparison with other countries

More administrators than beds

Identification and explanation of 2 points (2 + 3 or 3 + 2 marks).
Award up to 3 marks for any one evaluation point:
NHS is very cheap to run e.g. relative to other systems; health spending as a % of GDP .R*esources are allocated to where needs are perceived to be greatest* Maximum 5 marks without evaluation.

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Q2(a)(i) Analyse, with the aid of a supply and demand diagram, how a buffer stock scheme was intended `to regulate the cocoa market' (Extract 1, lines 3-5).
Up 3 marks for diagram correctly labelled. If axis not labelled - 2 marks
Explanation of how a buffer stock scheme can help to stabilise prices: up to 4 marks.
Original situation: supply at S 1: no action needed.
If supply rises to S2 in year 2, then ab must be removed from the market and placed in a buffer stock to avoid the price falling below the floor price (P1).
In contrast, if supply falls to S3 in year 3 then xy must be released from the buffer stock to prevent the price rising above the ceiling price (P2)
Allow analysis based on target price.

(a)(ii) Outline two reasons why such schemes might be ineffective.
Possible reasons:
Floor price set to high, resulting in persistent surpluses
Costs associated with running such schemes e.g. storage.
Inadequate stocks at times of shortage
Some producers may refuse to join the scheme
Perishability of cocoa beans
Incentive for suppliers to over-produce.
Demand side argument - monopoly
2 x 3 marks.
2 marks for identification only

(b) Explain why fluctuations in cocoa prices persist from year to year.
Consideration of Cobweb analysis i.e. clear understanding that prices this year determine output in the following year.
Consequently, high prices this year encourage farmers to produce more cocoa in subsequent years leading to increase supply and lower prices. In contrast, low current prices will encourage farmers to use land to grow different crops so that less will be supplied in the future causing prices to rise in the future.
Award up to 4 marks if only one side done.
Candidates might illustrate their answers with a diagram but this is not essential.
Answers based solely on inelastic demand and inelastic supply: maximum 4 marks.
Generalised answers maximum 2 marks E.g. the weather, uncertainty If linked to supply changes up to 3 marks
Discussion to line 12, maximum 2 marks

(c) Examine two possible reasons why the market for chocolate confectionery is dominated by large multinational companies `such as Nestle, Jacob Suchard, Cadbury Schweppes and Mars' (Extract 2, line 6)
Possible reasons: Economies of scale Heavy promotional activity leading to strong brand names High start up costs
Identification and explanation of 2 points (2 + 3 or 3 + 2 marks).
If barriers to entry only: award 1 mark
Award up to 3 marks for any one evaluation point:
Comment on significance of points identified
Economies of scale might be less significant than the desire to eliminate competitors
Maximum 5 marks without evaluation.

(d) Examine reasons why intervention in the market for cocoa is often considered to be desirable.
Intervention desirable because:
Producers are in a weak bargaining position relative to main buyers of cocoa
To reduce price instability
To ensure greater stability of income
Enables planning for the future by farmers
Precarious nature of farming
Protects employment on plantations.
Government intervention to reduce monopoly power of buyers of cocoa.
Credit macro arguments
Evaluation points:
Intervention might prevent exit of inefficient producers
Intervention might be inefficient - e.g. high cost of storage
Prices (and therefore, revenues of producers) might be higher than under a free market.

Identification of factors only: maximum 2 marks. Identification and explanation of any one factor: up to 3 marks A consideration of 3 factors with evaluation could achieve maximum marks (3 x 4 marks)
1 mark for comment on consumers of cocoa / chocolate.
Maximum 7 marks without evaluation.
Any 2 **evaluation points are sufficient for 5 marks (either 3 + 2 marks** or 2 + 3 marks)
(12)