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Examiners' Report
January 2012

GCE Economics 6EC01 01

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Introduction

General Comment

There was a strong response to the January 2012 exam paper by the vast majority of candidates. This was demonstrated by many relevant and detailed answers. The paper also differentiated effectively between the quality of responses.

Section A: supported multiple choice questions

Most candidates found this method of testing highly accessible. The quality of responses varied enormously and a relatively high proportion achieved high marks of 28 or more. The best answered questions were Q3 (calculations for price elasticity of demand) and Q1 (production possibility frontier); the least successful answers were those associated with market failure, namely Q8 (positive externalities from vaccinations) and Q7 (buffer stocks).

The key to success involved defining the main economic concept in the question (usually awarded 1 mark - but it could be up to 2 marks for two relevant economic concepts) 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, Q1 (production possibility frontier), Q2 (consumer and producer surplus areas), Q7 (buffer stocks) and Q8 (positive externalities from vaccinations).

In a similar vein, the tables in Q3 (price elasticity of demand) and Q4 (income elasticity of demand) offered scope for candidates to manipulate data to gain marks. Other questions, such as Q5 (minimum pricing) gave an opportunity for candidates to introduce diagrammatic analysis as a means of demonstrating their knowledge and application of the issues at hand.

A significant number of responses gained marks by eliminating incorrect options. Up to 3 marks were available for rejecting three incorrect options (providing that separate reasons were offered). However, mixed success was achieved here. It required candidates to explicitly state the option key being rejected and then to offer an appropriate explanation. Several examples of how to successfully eliminate incorrect options are provided in the report.

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

Question 9 (The price of beef) was more popular than Q10 (difficult time for house builders and first-time buyers) to a ratio of 3 to 1.

The standardisation of evaluation marks in the questions also provided a useful guide for candidates and teachers when preparing for the exam. Most responses offered some evaluative comments when required and so were credited with marks.

However, some responses were less successful in developing economic analysis in the large mark base questions. This appeared to reflect a trend noted in the A2 exam papers. Despite this, the quality of written communication offered plenty of scope for candidates to develop their answers in a structured and coherent argument.

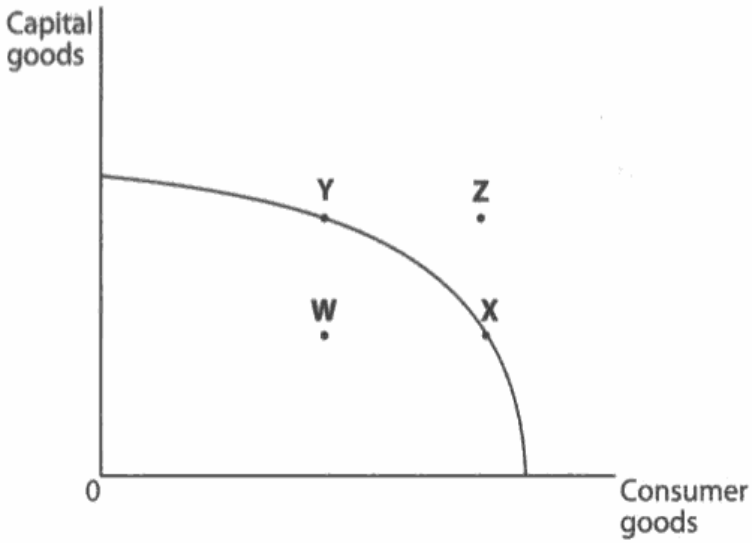
Question 1

This was a gentle introduction to the exam with candidates required to outline why a country's production possibility frontier could not achieve a given output combination of capital and consumer goods. More than half of candidates achieved full marks. Production possibilities was a common concept to be tested on the supported multiple choice paper.

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



The diagram shows a production possibility frontier for an economy. Which of the following is true?

(1)

~~A~~ There is full employment of resources at W.

~~B~~ Economic growth is likely to be higher at X than Y.

C Z is currently unattainable.

~~D~~ There is a constant rate of opportunity cost between X and Y.

Answer [C]

Explanation

(3)

A production possibility frontier (PPF) shows the maximum potential ~~an economy~~ level of output an economy can achieve of two goods or services when all its resources are fully and efficiently employed.

given the existing state of technology.
Answer A is wrong as at point W resources are unemployed, points Y and W would show full employment Z is unattainable as further innovation in technology or ~~labour~~ additional labour would be required to shift the PPF outwards towards Z.

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Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option C (1 mark).

A definition of production possibility frontier (1 mark) was followed by use of the rejection technique to eliminate option A (1 mark). Reference was then made as to how position Z could be achieved through the development of new technology or greater labour supply (1 mark).

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Examiner Tip

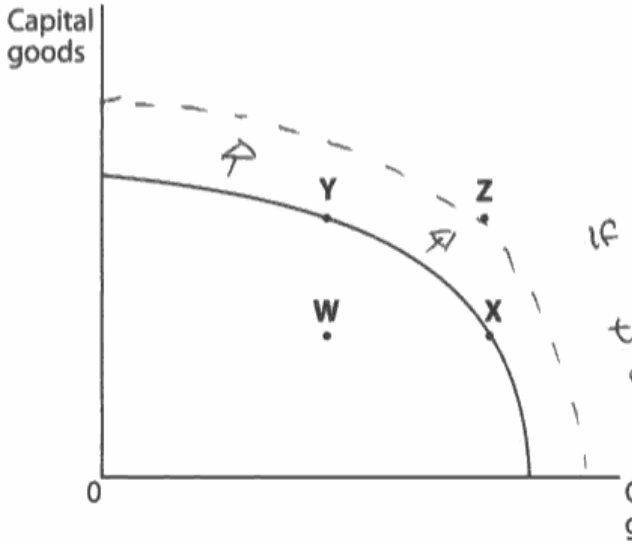
Define the key concept in the question, namely the production possibility frontier.

Always carefully consider the shape of any curves in diagrams provided. A minority of candidates selected incorrect option D, confusing the bow shaped production possibility frontier with a constant opportunity cost.

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



If the economy grew the PPF curve would shift outward.

The diagram shows a production possibility frontier for an economy. Which of the following is true?

(1)

A There is full employment of resources at W. ✗

B Economic growth is likely to be higher at X than Y. ✗

C Z is currently unattainable.

D There is a constant rate of opportunity cost between X and Y. ✗

Answer [C]

Explanation

(3)

The production possibility frontier shows the different combinations an economy or country can produce of a good or service, using all the resources available in the most efficient way possible.

The PPF curve shows the maximum ~~output~~ output an economy can produce using all the resources available in the most efficient way.

possible. W is a point at which the production is not using its maximum and point Z is currently unattainable this means that unless the economy grows or production increases via new technology it is not able to occur. Answer B is wrong because an increase in the production of consumer goods would not help economic growth as much as the increase in production of capital goods.

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Examiner Comments

This answer achieved 4 out of 4 marks.

The candidate annotated the diagram to indicate that economic growth was required to reach position Z and the production possibility frontier was shifted out (1 mark). This was supported by a definition of a production possibility frontier (1 mark) and on how new technology can enable the economy to grow (1 mark).

The rejection of option B required further explanation, for example, capital goods include machinery and factories, which make a significant contribution to economic growth.

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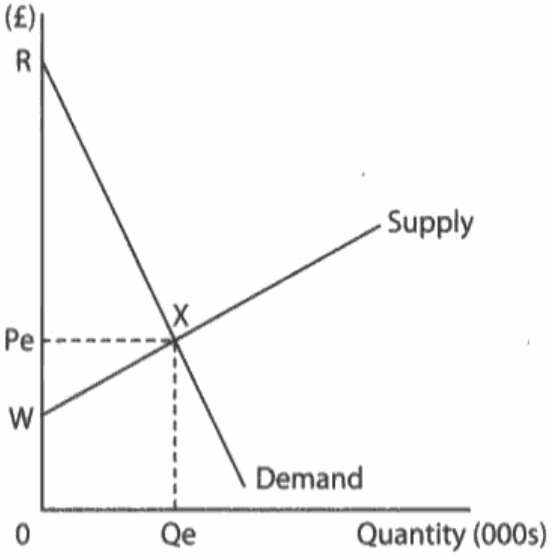
Examiner Tip

Be prepared to annotate diagrams that are provided in the questions as there is usually an application mark available for this.

Question 2

This was another high scoring question with most candidates defining both consumer surplus and producer surplus and then identifying each area on the diagram provided. More than half of candidates achieved full marks.

2 Price per pair of sports shoes (£)



The diagram shows the market for sports shoes. Which of the following is true?

(1)

A The supply of sports shoes is price inelastic.

B The area of consumer surplus is greater than the area of producer surplus.

C There is constant price elasticity of demand along the length of the demand curve.

D There is an inverse relationship between the price and quantity supplied of sports shoes.

Answer B

Explanation

(3)

Consumer surplus is the difference between the price the consumer is willing to pay and the actual price paid.
Producer surplus is the difference between the price the producer is willing to supply for and the actual market price

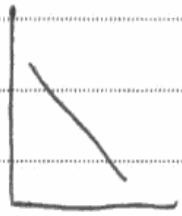
Consumer Surplus Pe X R

Producer Surplus Pe X W

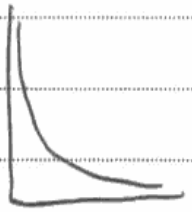
Consumer surplus area is greater than producer surplus

∴ B is correct

C is incorrect as ~~PED~~ price elasticity of demand (PED) on a ~~straight~~ demand curve line always varies along its length. ~~PED only~~



PED varies



PED constant

ResultsPlus

Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option B (1 mark).

The definitions of consumer surplus and producer surplus (1+1 marks) are reinforced by identifying these two areas on the diagram (1 mark).

The candidate also offered a valid rejection of option C, indicating that price elasticity of demand varies along the length of a straight line demand schedule. This would also be worth a mark.

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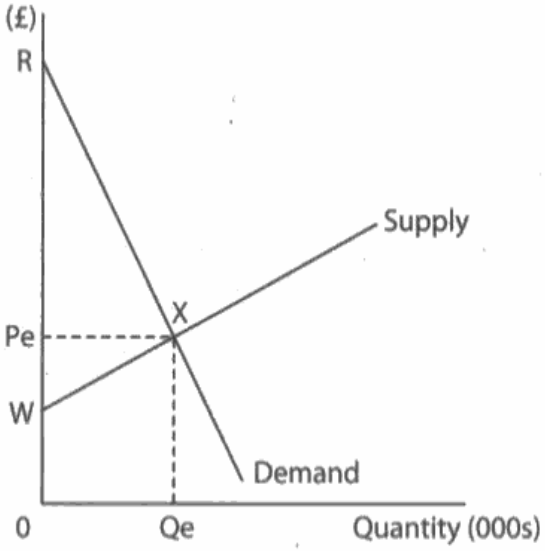
Examiner Tip

Note an explanation of why the option is incorrect must be given rather than just repeating the statement in the question.

2 Price per pair of sports shoes (£)



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B The area of consumer surplus is greater than the area of producer surplus.

C There is constant price elasticity of demand along the length of the demand curve.

D There is an inverse relationship between the price and quantity supplied of sports shoes.

Answer [B]

Explanation

(3)

Consumer Surplus is the difference between the price one is prepared to buy for and the price actually bought for.

Producer Surplus is the difference between the price someone is preapared to sell for and the price actually sold for.

ResultsPlus
Examiner Comments

This answer achieved 3 out of 4 marks.
Correct option B (1 mark).

The candidate defined both consumer surplus and producer surplus (1+1 marks) but made no attempt to use the diagram offered.
A further mark could be gained by stating the area of consumer surplus (RXPe) and producer surplus (WXPe).

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Examiner Tip

Be prepared to annotate any diagrams provided. A mark is available for identifying and shading in the areas of consumer surplus and producer surplus.

Question 3

Most candidates accurately defined price elasticity of demand and calculated the values for fresh fruit and fresh vegetables from the data provided. This was the highest scoring question on the paper with almost two-thirds of candidates achieving full marks.

However, a common mistake was for some candidates to select the incorrect option C, revealing confusion between the numerical value for elastic and inelastic goods.

3 The table below shows UK estimates of the percentage changes in price and quantity demanded for fresh fruit and fresh vegetables between 2007 and 2008. You may use the last column for your workings.

Type of food	Price change (%)	Quantity demanded (%)	PED
Fresh fruit	7.0	–7.7	−1.1
Fresh vegetables	8.0	–9.6	−1.2

(Source: © Crown Copyright 2008)

Other things being equal the data in the table suggest that:

(1)

A Demand is more price elastic for fresh vegetables than fresh fruit.

B Total revenue has increased for producers of both fresh fruit and fresh vegetables.

C Demand is price inelastic for both fresh fruit and fresh vegetables.

D There is a negative income elasticity of demand for fresh fruit and fresh vegetables.

Answer [A]

Explanation

(3)

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

PED = percentage change in quantity demanded / percentage change in price

The price elasticity of demand for fresh fruit is -1.1 whereas, the price elasticity of demand for fruit is -1.2. Hence, a small change in price would lead to a fall in the demand for fresh vegetables. Thus, the demand for fresh vegetables is more price elastic than fresh fruits.

ResultsPlus
Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option A (1 mark).

The candidate provided a correct definition and formula for price elasticity of demand (1 mark). This was supported with the correct calculations for price elasticity of demand of fresh fruit and fresh vegetables shown in the table (1+1 marks).

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Examiner Tip

Be prepared to define price elasticity of demand or show its formula to gain a mark. However, there is no need to do both since just one mark is available here.

Type of food	Price change (%)	Quantity demanded (%)	PED
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B Total revenue has increased for producers of both fresh fruit and fresh vegetables.

C Demand is price inelastic for both fresh fruit and fresh vegetables.

D There is a negative income elasticity of demand for fresh fruit and fresh vegetables.

Answer [C]

Explanation

(3)

Price elasticity of demand is defined as the percentage or proportionate change in quantity demanded due to percentage or proportionate change in price.

The formula is written as:-

$$PED = \frac{\%\text{ proportionate change in quantity demanded}}{\%\text{ proportionate change in price}}$$

Above both goods have a negative price elasticity of demand so it can be said that if price is inelastic.

ResultsPlus
Examiner Comments

This answer achieved 3 out of 4 marks.

Incorrect option C (0 mark).

A correct formula of price elasticity of demand (1 mark) was supported with the calculations for fresh fruit and fresh vegetables (1+1 marks). However, the incorrect option was selected, revealing some confusion over the numerical value for a good which is price elastic in demand.

ResultsPlus
Examiner Tip

Be careful to learn the numerical values for elastic and inelastic goods.

Question 4

Most candidates gained a mark by showing the formula or by defining income elasticity of demand and then made some reference to the data provided. However, a significant number of answers failed to make use of the transport data in the table provided. Nevertheless, just under half of candidates achieved full marks.

4 The table below shows UK average weekly income and selected transport statistics 2002–2008.

Year	2002	2008
Average gross weekly household income (in real terms at 2002 prices)	£552	£604
Billion passenger kilometres travelled by:		
Cars and taxis	393	402
Buses and coaches	5.2	5.2
Bicycles	4.4	4.7
Rail	48	61

(Source: © Crown Copyright, adapted from Figures 8.3 and 17.3 in the Annual Abstract of Statistics and Social Trends 2010)

The data in the table suggest that over the period

(1)

A The income elasticity of demand for bus and coach travel is equal to 1.0.

B The income elasticity of demand for travel by bicycle is negative. X

C The price elasticity of demand for rail travel is positive.

D The income elasticity of demand for travel by cars and taxis is positive. ✓

Answer [D]

Explanation

(3)

Income elasticity of demand measures how responsive demand is to a change in income. The income elasticity of demand for travel by car and taxi is positive because we can see from the data that increased house-hold incomes from 2002 (£552) to 2008 (£604) causes an increase in passenger kilometers for cars and taxis from 393 to 402.

From this we can see that cars and taxis are normal goods i.e an increase in income causes an increase in demand for cars and taxis.

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Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option D (1 mark)

Definition of income elasticity of demand (1 mark).

Explicit use of the data to show a positive income elasticity for cars and taxis (1 mark).

Explanation that a positive income elasticity of demand means that cars and taxis are normal goods (1 mark).

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Examiner Tip

Make explicit use of the data provided even if it is hard to undertake calculations.

4 The table below shows UK average weekly income and selected transport statistics 2002–2008.

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The data in the table suggest that over the period

(1)

A The income elasticity of demand for bus and coach travel is equal to 1.0.

B The income elasticity of demand for travel by bicycle is negative.

C The price elasticity of demand for rail travel is positive.

D The income elasticity of demand for travel by cars and taxis is positive.

Answer D

Explanation

(3)

Income elasticity of demand (YED) is the measure of responsiveness of demand for a good to a change in consumer's income.

As income of household increases, the demand for each transportation also increases except buses and coaches which are maintained. $YeD = \frac{\% \Delta Qd}{\% \Delta Y}$

~~As YeD is positive~~ $YeD_{cars\ \&\ taxis} = \frac{\frac{402 - 393}{393} \times 100}{\frac{604 - 552}{552} \times 100}$

$= \frac{2.29}{9.42} = 0.24$

Therefore YeD for travel by cars and taxis is positive.

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Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option D (1 mark).

The candidate defined income elasticity of demand (1 mark) and then made excellent use of the data to calculate this for cars and taxis at 0.24 (2 marks). The link between a 'plus' answer and positive income elasticity of demand was clearly made.

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Examiner Tip

Be prepared to use the data provided to calculate income elasticity of demand as this candidate has done.

Question 5

Most candidates understood the meaning of a minimum price scheme and a pleasing number offered relevant diagrammatic analysis to show its effects in the alcohol market. Almost half of candidates achieved full marks.

Some responses confused a minimum price with a buffer stock scheme and others incorrectly labelled the excess supply as a triangular area.

5 In 2010 the Scottish Government proposed a legal minimum price per unit of alcoholic drink. Other things being equal, a minimum price set above the market equilibrium price is likely to cause

(1)

A an excess supply

B a fall in price

C an increase in consumption

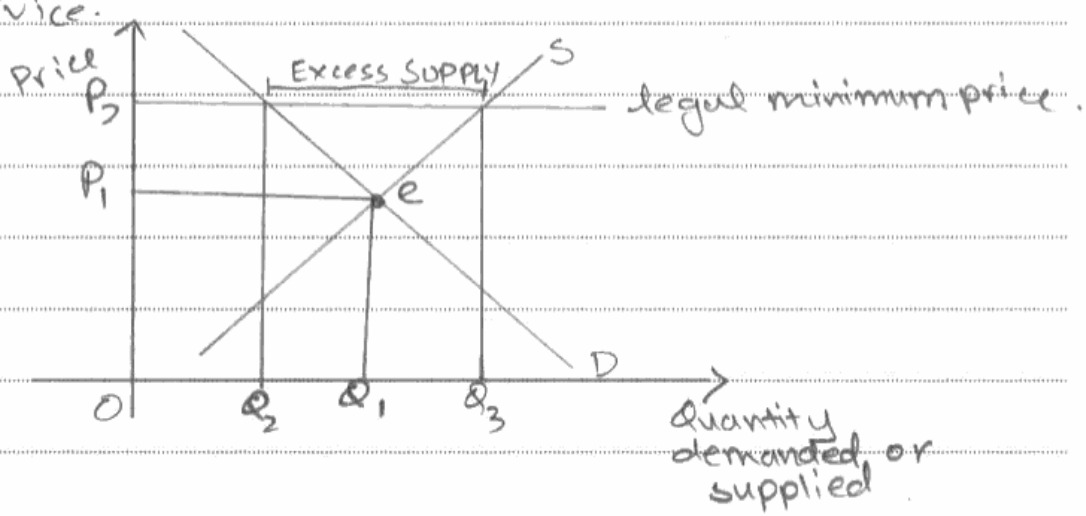
D no effect in the market

Answer [A]

Explanation

(3)

legal minimum price is a type of government intervention, it is also known as 'floor price'. It is set to reduce consumption of the targeted goods or service.



~~Af~~ Previously equilibrium was e, after imposing legal minimum price, quantity demanded reduced to OQ_2, quantity supplied increased to OQ_3. Therefore Q_2Q_3 is now excess supplied.

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Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option A (1 mark).

A definition of a minimum price was offered (1 mark) and combined with a diagrammatic explanation of how this created an excess supply (2 marks).

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Examiner Tip

Always fully label the axes and curves used in diagrams. State clearly the excess supply. Avoid confusing with a buffer stocks scheme or the idea of government purchase of surplus stocks - since alcohol is a good with negative externalities for society.

5 In 2010 the Scottish Government proposed a legal minimum price per unit of alcoholic drink. Other things being equal, a minimum price set above the market equilibrium price is likely to cause

(1)

A an excess supply

B a fall in price ✓

C an increase in consumption ✗

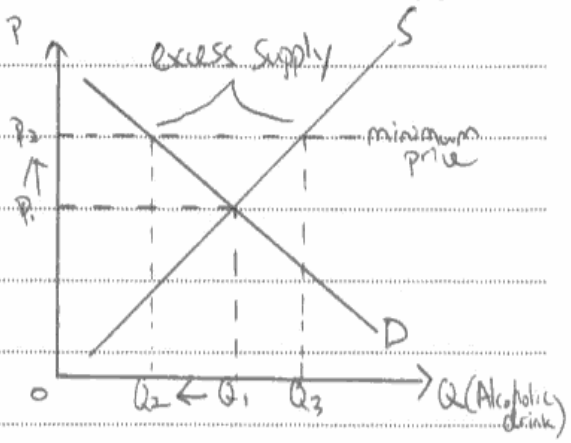
D no effect in the market ✗

Answer [A]

Explanation

(3)

With a minimum price (P_2), there will be an increase in market price from P_1 to P_2, decrease in consumption from Q_1 to Q_2, And an excess supply of alcholic drink of Q_3 Q_2.



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Examiner Comments

This answer achieved 3 out of 4 marks.

Correct option A (1 mark).

Correct diagrammatic explanation of an excess supply of alcohol (2 marks) but no attempt to define a minimum price.

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Examiner Tip

Be prepared to define key concepts in the question.

Question 6

This was another question where nearly half of all candidates achieved full marks. Many were able to define a public good and offer examples, along with explaining the free rider problem.

6 A free market economy fails to allocate resources efficiently to the production of public goods because

(1)

A No opportunity cost is involved in the provision of public goods.

B Providing public goods can result in a free rider problem.

C Public goods can only be provided by the private sector.

D The prices of public goods may be set at too high a level.

Answer **B**

Explanation

(3)

A free market economy is one in which all resources are allocated by the price mechanism (forces of demand and supply).
Public goods are those characterised by non-excludability - once it is consumed by one person it is impossible to stop others from benefitting, and non-rivalry - when it is consumed by one person there is no lessening of the amount available to be consumed by others.
Examples of public goods are flood-defence systems and street-lighting.
The free-rider problem occurs because producers are unable to charge consumers - due to non-excludability, thus there is no incentive to provide public goods.

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Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option B (1 mark).

A definition of a free market economy (1 mark) and an outline of public goods were provided (1 mark). This was reinforced with a good explanation of the free rider problem (1 mark).

Suitable examples of public goods also merited a mark but full marks had already been achieved here.

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Examiner Tip

Focus on explaining the free rider problem as this is the main theme in the question.

6 A free market economy fails to allocate resources efficiently to the production of public goods because

(1)

A No opportunity cost is involved in the provision of public goods.

B Providing public goods can result in a free rider problem.

C Public goods can only be provided by the private sector.

D The prices of public goods may be set at too high a level.

Answer B

Explanation

(3)

Public goods are goods which are non-rival and non-excludable

A free market economy is where the resource are allocated by the forces of demand and supply or the invisible hand and this is mainly by the private sector.

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Examiner Comments

This answer achieved 3 out of 4 marks.

Correct option B (1 mark).

A definition of public goods was provided through identifying its characteristics (1 mark) and this was supported with a definition of a free market economy (1 mark).

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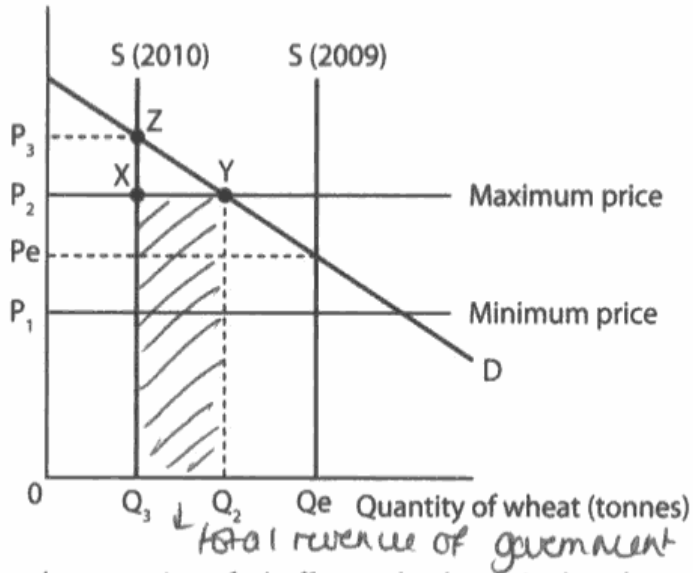
Examiner Tip

Offer some application to the question, for example, explain the free rider problem and give examples. This response was too limited to achieve full marks.

Question 7

Most candidiates find questions on market failure challenging. This question on buffer stocks was no exception and only a quarter achieved full marks. The majority of responses made little effort to annotate the diagram or use quantities from the diagram to explain their answer.

7



total revenue of government agency.

The diagram shows the operation of a buffer stock scheme in the wheat market where a government agency intervenes to ensure the price remains between P_1 and P_2. The 2010 harvest led to

(1)

A An excess supply of wheat

B The government agency buying wheat and adding to its stockpile

C Price decreasing to P_1

D The government agency selling wheat from its stockpile

Answer D

Explanation

(3)

A buffer stock scheme is a scheme created by the government where a government agency buys or sells from its stockpile in order to reduce price fluctuations of commodities. The agency sell the quantity X Y. The total shaded area is the total revenue of the government agency which is X Y Q_2 Q_3. The answer can not be B because the supply curve is clearly shifted to the left, so there is a poor harvest, therefore the agency has to sell from its stockpile. They would only buy when it was a good harvest and if supply shifted to the right.

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Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option D (1 mark).

The candidate outlined the meaning of a buffer stock scheme through agency buying and selling of stock to reduce price fluctuations (1 mark). This was supported by referring to the quantity the agency sells from its stockpile as XY (1 mark). Annotation of the diagram to show the area of government agency revenue was also awarded (1 mark).

Effective rejection of option B was also offered, particularly identifying that it was a poor harvest and so the agency would sell rather than buy from its stockpile. This would also be credited with a mark but full marks had already been achieved.

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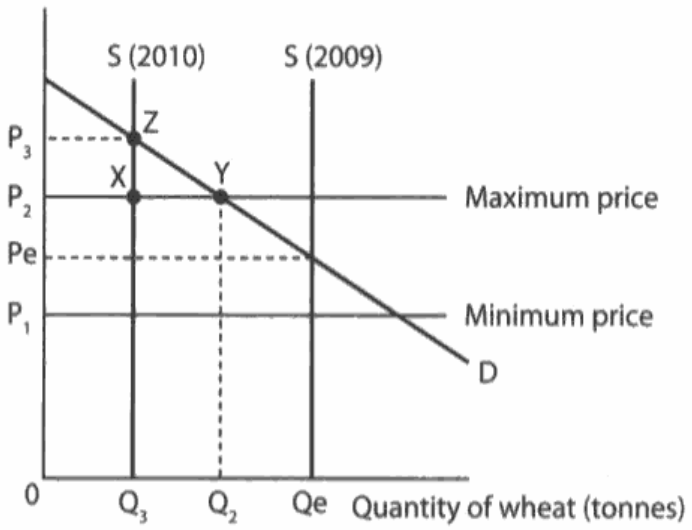
Examiner Tip

Annotate the diagram and ensure careful labelling as provided in this example.

7



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(1)

A An excess supply of wheat

B The government agency buying wheat and adding to its stockpile

C Price decreasing to P_1

D The government agency selling wheat from its stockpile

Answer [D]

Explanation

(3)

A buffer stock scheme is where the government will buy or sell reserves of ~~where~~ a commodity to keep supply, markets, and price stable.

The 2010 harvest was obviously poor, perhaps due to adverse weather conditions, and there is a low supply to the market.

With low supply, price is pushed up to P_3, which is above the maximum price set by the government to protect consumers.

The government sells a quantity of wheat ($Q3-Q2$) to increase supply in the market and take price down to P_2, the maximum price.

Answer A is wrong as there's under supply in 2010, not under supply.

Answer B is wrong as buying wheat would decrease supply and push up price even further.

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Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option D (1 mark).

An explanation of a buffer stock scheme (1 mark) was supported by reference to a poor harvest which forced up price to P3 in a free market (1 mark).

The candidate proceeded to identify the amount Q3Q2 that the government agency sells to the market to ensure price does not exceed P2 (1 mark).

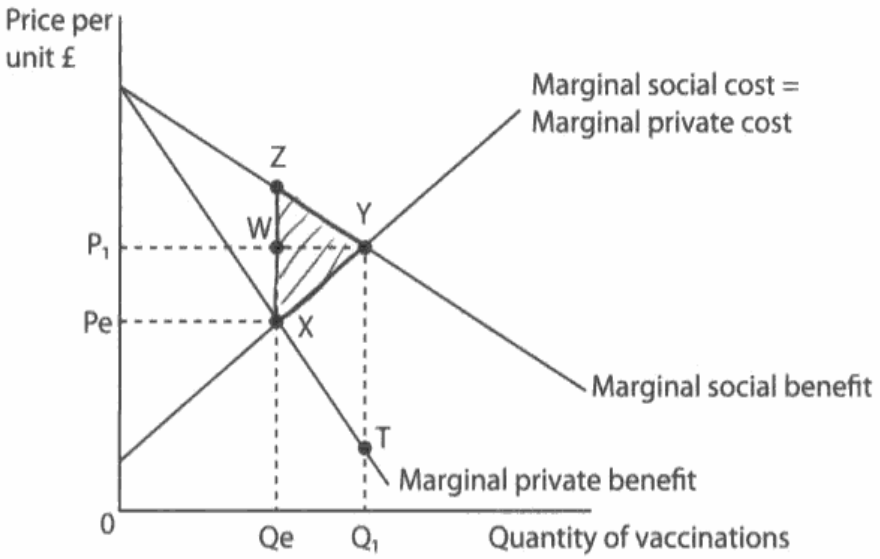
ResultsPlus
Examiner Tip

Be careful in using the rejection technique: the explanation for eliminating option A is wrong; however, the explanation for eliminating option B is acceptable for securing a mark.

Question 8

Many responses annotated the diagram but the explanation lacked application to vaccinations.

8



The diagram shows the market for vaccinations. Assume there are no external costs. Which of the following is true?

(1)

A The free market equilibrium quantity exceeds the social optimum quantity.

B The area of welfare loss is XTYZ.

C An increase in quantity from the free market equilibrium will lead to a net welfare gain.

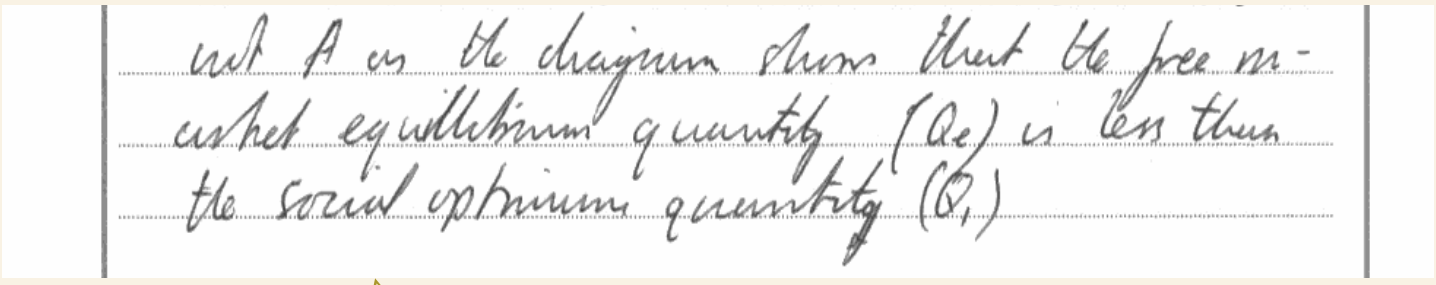
D At the free market equilibrium quantity, marginal social cost exceeds marginal social benefit.

Answer C

Explanation

(3)

Triangle XZY represents the welfare gain. The diagram shows that when you are moving from Quantity Qe to Q1 you are moving closer to the social ~~equilibrium~~ optimum quantity and therefore this will lead to a net welfare gain which means the answer is C. The answer is



ResultsPlus
Examiner Comments

This answer achieved 3 out of 4 marks.

Correct option C (1 mark).

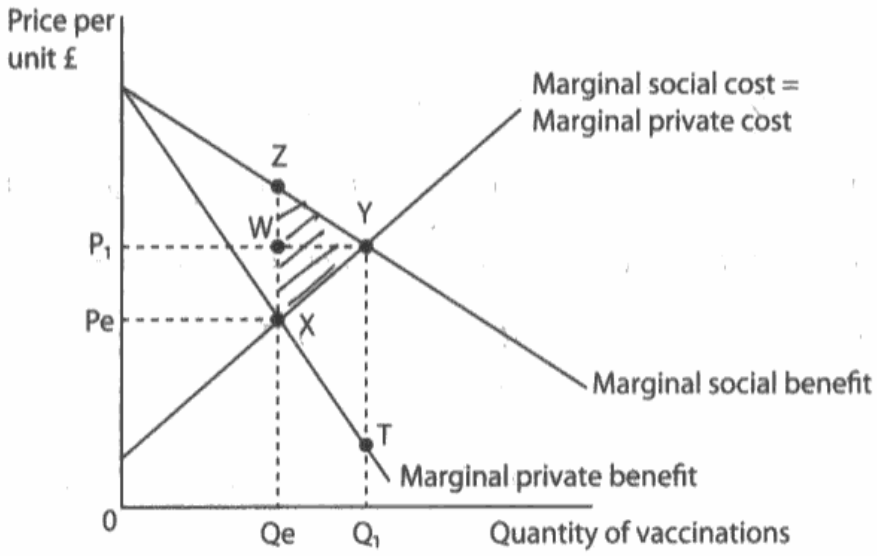
The candidate identified the area of welfare gain as XZY (1 mark) and also the free market equilibrium quantity Qe and the social optimum quantity Q1 (1 mark).

ResultsPlus
Examiner Tip

Offer some application to the context of the question, namely, how vaccinations yield external benefits to society.

Consider the key concepts to define such as external benefits or welfare gain.

8



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C An increase in quantity from the free market equilibrium will lead to a net welfare gain.

D At the free market equilibrium quantity, marginal social cost exceeds marginal social benefit.

Answer [C]

Explanation

(3)

The market equilibrium is Qe where the optimal equilibrium is Q1. The difference between ~~the~~ Q1 and Qe are the under ~~produc~~ production of the good, so A is wrong.

option

~~option~~ The ~~are~~ area of welfare loss is ZYXW which is the shaded triangle ~~B~~ but not the area of XTYZ, so option B is wrong

~~For option D,~~

Option D is also wrong, at the market equilibrium quantity the marginal social cost is ~~at~~ point X and the marginal social benefit is ~~at~~ point Z. ~~Is~~ The marginal social benefit is greater than the marginal social cost.

ResultsPlus
Examiner Comments

This answer achieved 4 out of 4 marks.

Correct option C (1 mark).

The candidate identified the market and social equilibrium positions (1 mark) and also the area of welfare loss ZYXW (1 mark).

Effective use of the rejection technique was made to eliminate option D by explicitly showing that marginal social benefit at point Z exceeds marginal social cost at point X when the economy is at free market equilibrium (1 mark).

ResultsPlus
Examiner Tip

Make explicit use of the diagram for explaining the correct answer or rejecting incorrect options.

Question 9 (a)

This question was well answered with nearly eighty percent of candidates achieving either five or the six full marks. It offered an opportunity for candidates to demonstrate their understanding of the price mechanism model and use of relevant diagrammatic analysis.

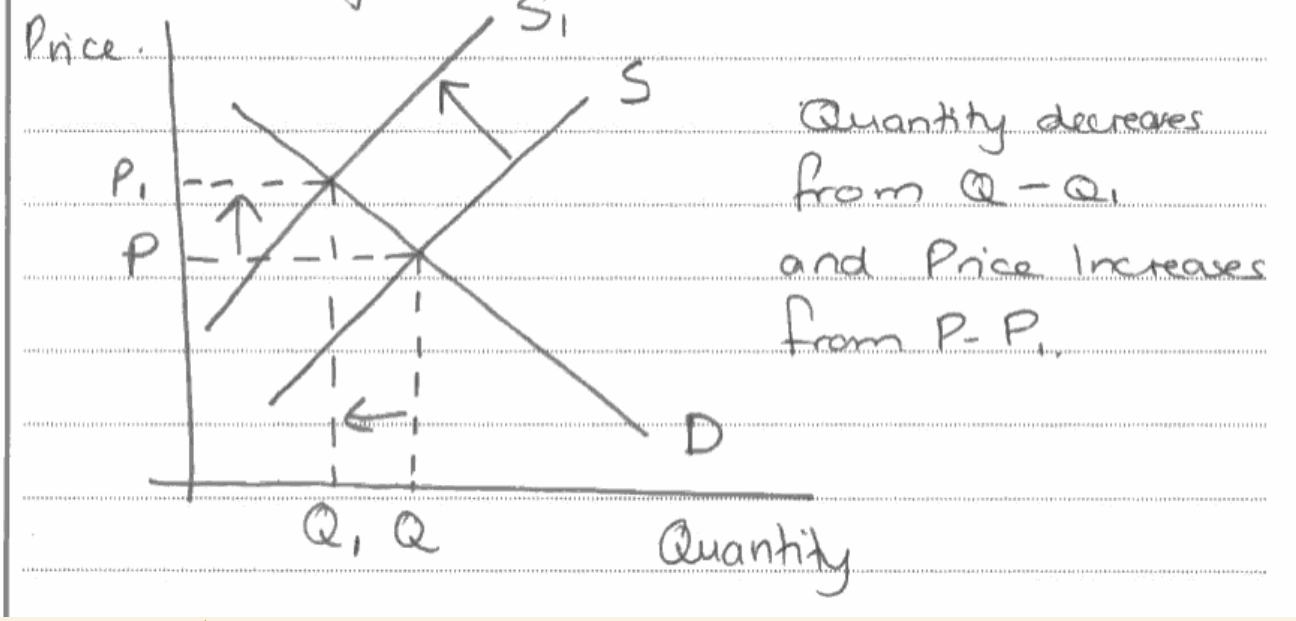
(a) With reference to Figure 1 and the second paragraph of Extract 1, explain the causes of the increase in price of beef. Use a supply and demand diagram in your answer.

(6)

Price of beef has increased due to 'higher costs for cattle feed and severe drought conditions in Austrailia and New Zealand (the main suppliers of beef for american fast food). This increases the cost of production, ~~making~~ shifting the supply curve to the left, which in turn increases the price of beef available to consumer too.

~~Extra~~ Figure 1 shows that price of ground beef at standard quality was around 75 US cents per pound in weight in 2009, and it

increased to over about 100 us cents per pound by 2010.



ResultsPlus
Examiner Comments

This response achieved 6 out of 6 marks.

Explicit data reference to the price increase in beef (1 mark) was supported with reasons, such as higher costs of cattle feed and severe drought that shift the supply curve inwards (1+1 marks).

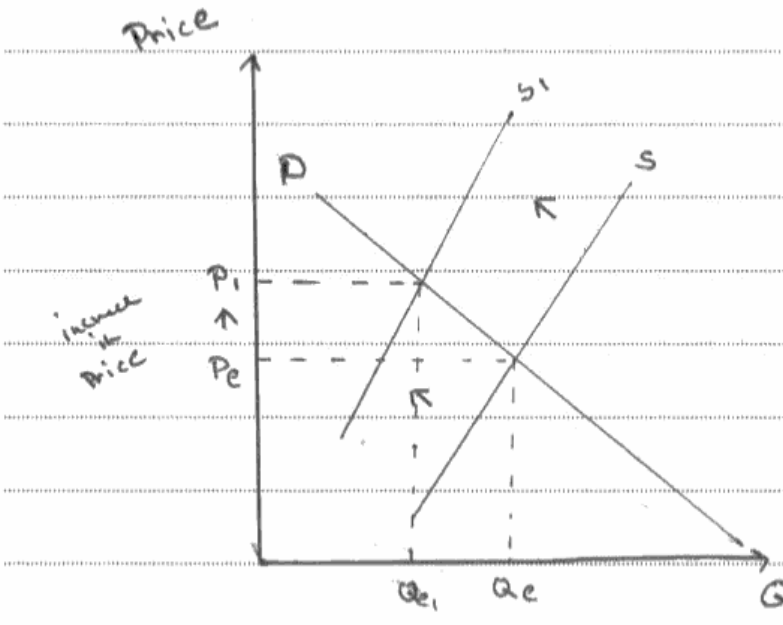
A suitable diagram was offered as required by the question (3 marks).

ResultsPlus
Examiner Tip

Follow the question instructions, namely, make explicit use of the price data in Figure 1, offer reasons for the price increase of beef from Extract 1, and then draw a suitable diagram to illustrate this.

(a) With reference to Figure 1 and the second paragraph of Extract 1, explain the causes of the increase in price of beef. Use a supply and demand diagram in your answer.

(6)



Beef Price have ob Due to drought in Australia and Newzeland the supply of beef had been decreased causing supply to move from S to S1, and increasing Price from Pe to P1. One more reason for the rise in price of beef is the rise of cost for cattle feed.

ResultsPlus
Examiner Comments

This response achieved 5 out of 6 marks.

The diagram (3 marks) was supported with reasons for the increase in price of beef (1+1 marks). No reference was made to the price data in Figure 1.

Overall, the answer was too brief and it would benefit from directly linking higher production costs to the inward shift of the supply curve.

ResultsPlus
Examiner Tip

Make direct use of the price data offered in the data.

Question 9 (b)

Many candidates achieved the four knowledge, application and analysis marks available but relatively few offered any evaluative comments.

(b) Using cross elasticity of demand, discuss the likely relationship between the price of beef and the demand for chicken and fish.

(6)

Cross elasticity of demand measures the responsiveness of change in demand of one good in relation to a change in price of another. As chicken and fish are substitutes of beef, their cross elasticity of demand will be positive. A consumer can quickly and easily switch from consuming beef to chicken or fish thus making their demand curves relatively elastic. As the price of beef rises, the likely outcome would be a rise in demand for chicken or fish as their prices would be more appealing to the consumer. This is all taking into account ceteris paribus. A small fraction of people however have an inelastic demand for red meat and would therefore absorb the change in price and not switch to the alternate good.

Furthermore an epidemic in the chicken industry, such as bird flu would also result in the consumers absorbing the price increase in the meat market. Limited fishing due to regulations or pollution would have the same effect.

ResultsPlus
Examiner Comments

This response achieved 6 out of 6 marks.

The answer started with an explanation of cross elasticity of demand (1 mark) where chicken and fish are substitutes to beef (1 mark) and that a positive elasticity relationship exists (1 mark). This was followed by application of rising beef prices causing a rise in demand for chicken and fish (1 mark).

Two relevant evaluative comments were made that suggest the relationship might be quite weak, namely, some people have a (price) inelastic demand for red meat and that other factors might affect the relationship, such as a bird flu epidemic or fishing regulations. Either of these points were sufficient for 2 evaluation marks.

ResultsPlus
Examiner Tip

Be prepared to offer evaluative comments when required by the question.

(b) Using cross elasticity of demand, discuss the likely relationship between the price of beef and the demand for chicken and fish.

(6)

Cross elasticity of demand is the responsiveness of change in demand of one good towards a change in price of another good. Beef and chicken and fish has a positive cross elasticity of demand as they are being classified as substitutes.

Therefore due to increment of prices of the beef, would increase the demand for chicken and fish as now chicken and fish is more cheaper for consumers than the beef.

ResultsPlus
Examiner Comments

This response achieved 4 out of 6 marks.

This answer was brief but gains all four knowledge, application and analysis marks available. No evaluative comment was offered.

ResultsPlus
Examiner Tip

Be prepared to offer evaluative comments when required by the question.

Question 9 (c)

This question revealed great variation in the quality of answers ranging from zero to full marks. The weaker responses tended to confuse income elasticity of demand with price elasticity of demand and so the whole analysis was irrelevant and flawed. However, more than ten percent achieved the full eight marks available through extensive explanation with an evaluative comment.

(c) Assess whether beef and beef burgers are likely to be normal goods or inferior goods.

(8)

income elasticity of demand is responsive of change in demand of a good due to a change in income. (YED)

normal goods are goods such as clothes, DVDs that have a positive YED because we buy more of them as income rises.

inferior goods are things like own brand products or bus travel that have a negative YED because we buy less as income rises.

The recession caused falling incomes, and we are told this has increased demand for burgers as people have switched from eating out (a luxury) to eating burgers.

From this it appears beef burgers are inferior goods, because demand increases as income falls.

However, this may only affect low income households who have a higher proportion of their income spent on good as opposed to high income households who may not notice the change.

The demand of beef will also depend on whether relative prices of other commodities are changing, because consumers may continue buying beef in the recession if the substitutes are more expensive. similarly, if prices of other goods (i.e chicken) fall they will switch to these.

ResultsPlus
Examiner Comments

This response achieved 8 out of 8 marks.

A definition of income elasticity of demand (1 mark) was supported with explanations of normal goods (1+1 marks) and inferior goods (1+1 marks). The candidate also used the extract to suggest that beef burgers are an inferior good since demand increased during the recession (up to 2 marks). Note a maximum of 6 knowledge, application and analysis marks available.

The final paragraph offered evaluative comments by linking changes in demand for beef to different income levels of households and it also considered how relative prices of the goods might change and so affect overall demand. 2 marks are awarded.

ResultsPlus
Examiner Tip

Read the question carefully as it mentions 'beef and beef burgers'. This distinction gives a means to evaluate.

High quality cuts of beef might be a normal good but low quality beef burgers could be an inferior good.

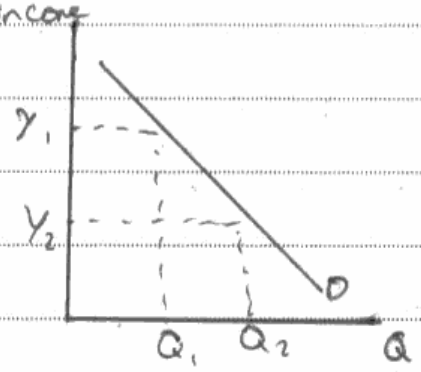
(c) Assess whether beef and beef burgers are likely to be normal goods or inferior goods.

(8)

Normal goods are those that have a (+) positive income elasticity of demand (YED); so as incomes increase so does the demand for the good. Inferior goods have a (-) negative YED; so as incomes increase demand falls and vice versa.

The data shows that during a recession/a fine were (disposable) income would be low, people switched from eating at restaurants to eating at burger bars. From this as income is falling demand is increasing. This suggests that beef is an inferior good as it behaves as oe. income

As income falls from Y_1 to Y_2, demand for beef burgers rises from Q_1 to Q_2.



ResultsPlus
Examiner Comments

This response achieved 6 out of 8 marks.

The full six knowledge, analysis and application marks were gained but there was no evaluation.

ResultsPlus
Examiner Tip

Offer evaluative comments when required by the question.

Question 9 (d)

This question demonstrated great variation in the quality of responses. Some excellent answers were received on the complex negative externalities model indicating that candidates are getting to grips with the demands of the unit.

However, one area for improvement is on the drawing of the negative externalities model. A significant number of diagrams were incorrectly labelled or placed the welfare loss triangle in the wrong area.

*(d) Using the concepts of external costs and market failure, examine the possible economic effects of farmers 'burning more rainforest to turn land into cattle ranches and into fields for growing crops'. (Extract 2, lines 5–6). Use an appropriate diagram in your answer.

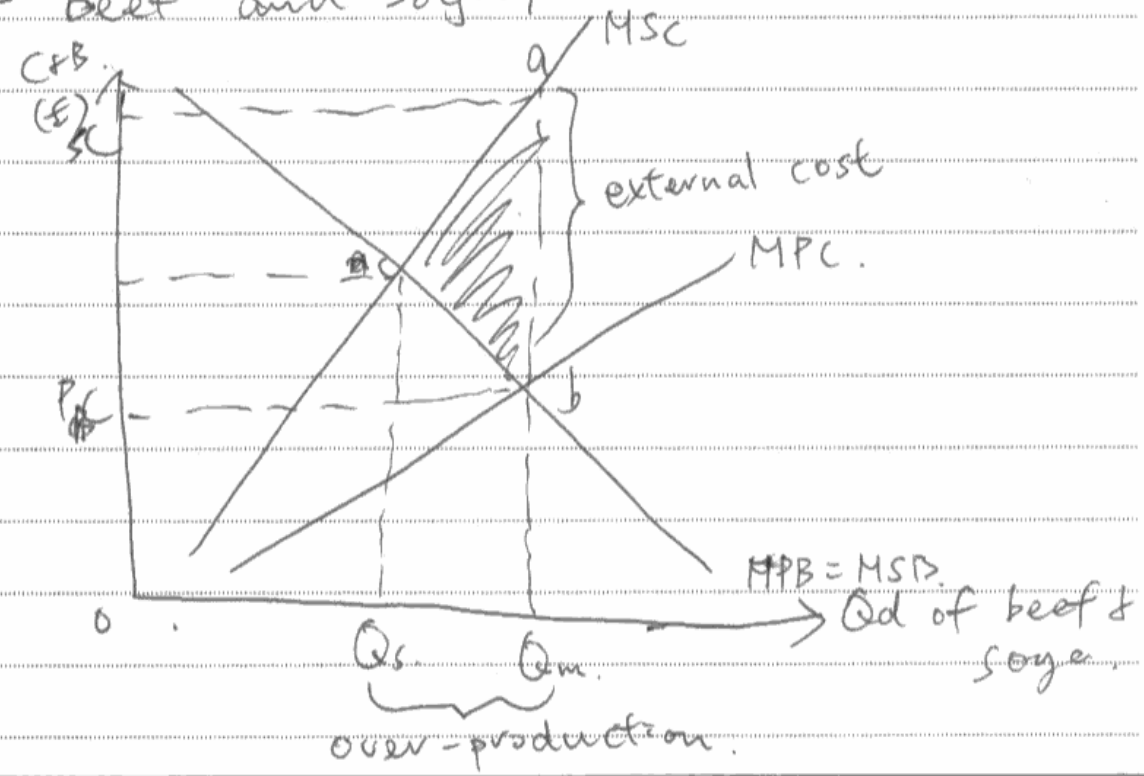
(14)

Market failure occurs when the market fails to allocate an efficient level of resources, which leads to ~~use~~ net welfare loss.

External costs are costs on third parties from an economic activity.

The increase of the beef and soya prices create great ~~[illegible]~~ incentive for farmers to produce more and increase the supply of them. Therefore, more rainforest are burned and turn land into cattle ranches and into fields for growing crops.

However, this may lead to over production of beef and soya,



Qm
Qs.
Qm>Qs
At Qm
SC>PC
↓
ab
↓
abc
↓
^ ^
↓

Private optimum output Qm is where MPB = MPC, only private cost and benefits are taken into account. Social cost and benefits are ignored.

Social optimum output Qs is where MSC = MSB, full social cost and benefit are taken into account.

In the case of the production of beef and soya, Qm is greater than Qs, which leads to an over-production.

At Qm level of production, social cost is greater than private cost, which creates an external cost 'ab' and 'abc' is the net welfare loss.

As a result, overall misallocation of resources and allocative inefficiency causes market failure.

ResultsPlus
Examiner Comments

This response just about achieved 8 out of 14 marks.

All eight knowledge, application and analysis marks were gained: definition of market failure (1 mark), outline of market failure leading to over production of beef and soya (1 mark), definition of external costs (1+1 marks), diagram and its explanation (4 marks).

However, no evaluation was offered and there was little in terms of the types of external costs associated with the burning of more rainforest.

ResultsPlus
Examiner Tip

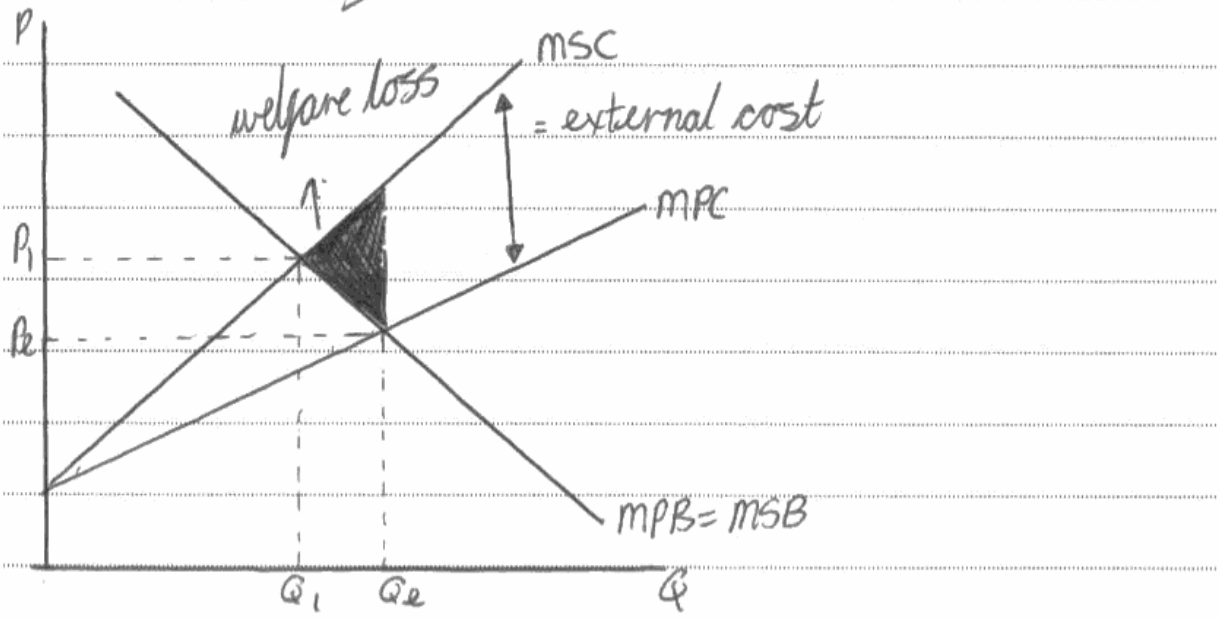
Always offer evaluative comments on the high mark base questions.

*(d) Using the concepts of external costs and market failure, examine the possible economic effects of farmers 'burning more rainforest to turn land into cattle ranches and into fields for growing crops.' (Extract 2, lines 5–6). Use an appropriate diagram in your answer.

(14)

External costs are negative third party effects ignored by the price mechanism. The external costs of deforestation include the huge carbon dioxide emissions and the extent of the forest cut down which will affect the wildlife and the biodiversity of the area. The loss of trees which improve the environment by absorbing CO_2 will be decreased. It will have a severe effect on global warming. This is

a market failure as there has been a misallocation of resources and a net welfare loss to society.



The free market equilibrium is Qe and Pe (where MPC = MPB) and the social optimum is Q1 and P1 (MSC = MSB). Therefore there is under pricing and over production, so the good is over consumed.

EVAL PLAN: indigenous people.

- magnitude: 400m tonnes, 7330 sq miles → global warming → ozone layer
- long term: rate accelerating → won't be any left
- hard to price pollution

The magnitude of the effects of deforestation in Brazil are huge. It releases 400 million tonnes of CO_2 every year which makes Brazil one of the biggest carbon

emitters. The effects of the emissions won't be too noticeable in the short run, but in the long term it will cause permanent damage like speeding up the effects of global warming and worsening the ozone layer.

7,330 square miles of rainforest is lost each year, which will have huge external costs on the natural environment and biodiversity. It's a market failure as it is an example of unsustainable economic growth. The local indigenous people will be forced to leave their homes and traditional lifestyles.

In the long term, the effects are looking worse. As extract 2 explains that the rate of deforestation has accelerated over recent years, the worst effect could be the full destruction of all the Amazon.

However, it is very hard to place a monetary value on pollution and schemes could be constructed to reduce the external costs.

ResultsPlus
Examiner Comments

This response achieved 14 out of 14 marks.

The full eight knowledge, application and analysis marks were awarded. This included definition marks, diagram marks and explanation of types of external costs giving rise to market failure.

The evaluative comments included discussion of the magnitude of deforestation using the extract information to back up the point (2 marks) and consideration of the long term implications (2 marks). A final comment was made on the difficulty of placing a monetary value on pollution and on schemes to reduce external costs (2 marks).

ResultsPlus
Examiner Tip

Always draw diagrams clearly and explain them. Consider making three evaluative comments to secure the evaluation marks available. Extend the QWC answers.

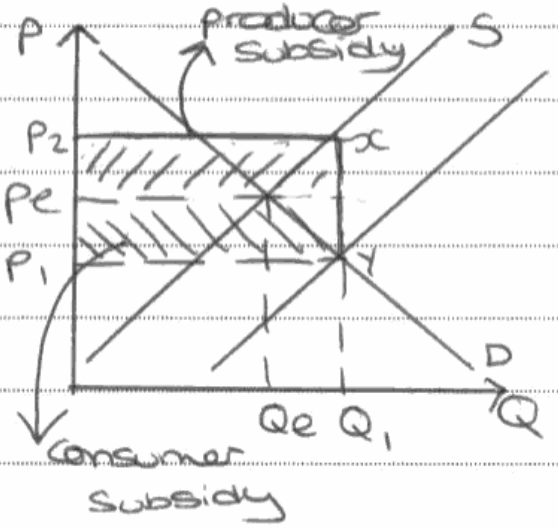
Question 9 (e)

Quite often in this question, the evaluation was better than the economic analysis.

*(e) Discuss the possible economic effects of the government providing subsidies to support sustainable development projects such as those referred to in Extract 2.

(14)

A subsidy is a grant given to firms to reduce production costs and increase supply.



Extract 2 says that the development projects include replanting trees and creating an eco-friendly environment. By planting trees, it will create greater biodiversity and habitats for unique species. This will attract tourism as they come to see these species that wont be seen anywhere else on earth. This will have a positive impact on jobs and therefore on the local economy. As incomes rise through this process, the government can collect greater tax revenue which then can be used to enhance the economy by either further subsidising the project or reducing taxes.

This will encourage employment further. As production costs will fall, this increases producer surplus. The decrease in costs may also be passed on consumers by lowering tickets to visit the projects.

However, the subsidy to the development projects does involve a opportunity cost. This is the area $P_2 \times Y P_1$ on the graph. It could be argued that this money spent could have been used on the education system in Brazil or on healthcare. This would create a better and healthier workforce and make the country more competitive.

The magnitude of the subsidy will determine the economic effects. A large subsidy (1 million) will have a greater economic effect than a smaller (£50,000) subsidy.

The subsidy may lead to government failure in the future. This is because the project may rely heavily on the government for its subsidies. Therefore, this will cause the goverment to subsidise the

project further in the long run creating greater problems for itself. A short term subsidy may be more appropriate,

ResultsPlus
Examiner Comments

This response achieved 12 out of 14 marks.

The idea of a subsidy as a government grant to increase supply (1 mark) and acting like a reduction in production costs (1 mark) was a good starting point. This was backed up by explanation of a subsidy diagram (3 marks) and how producer surplus might increase (1 mark).

The candidate explored how the subsidy could promote sustainable development through tourism creating local jobs and income in the rain forest (2 marks).

Evaluation included reference to opportunity costs of the government subsidy (2 marks) and how it might create inefficiency (1 mark). There was also some linking of the magnitude and time span of the subsidy - both of which required further development (1 mark).

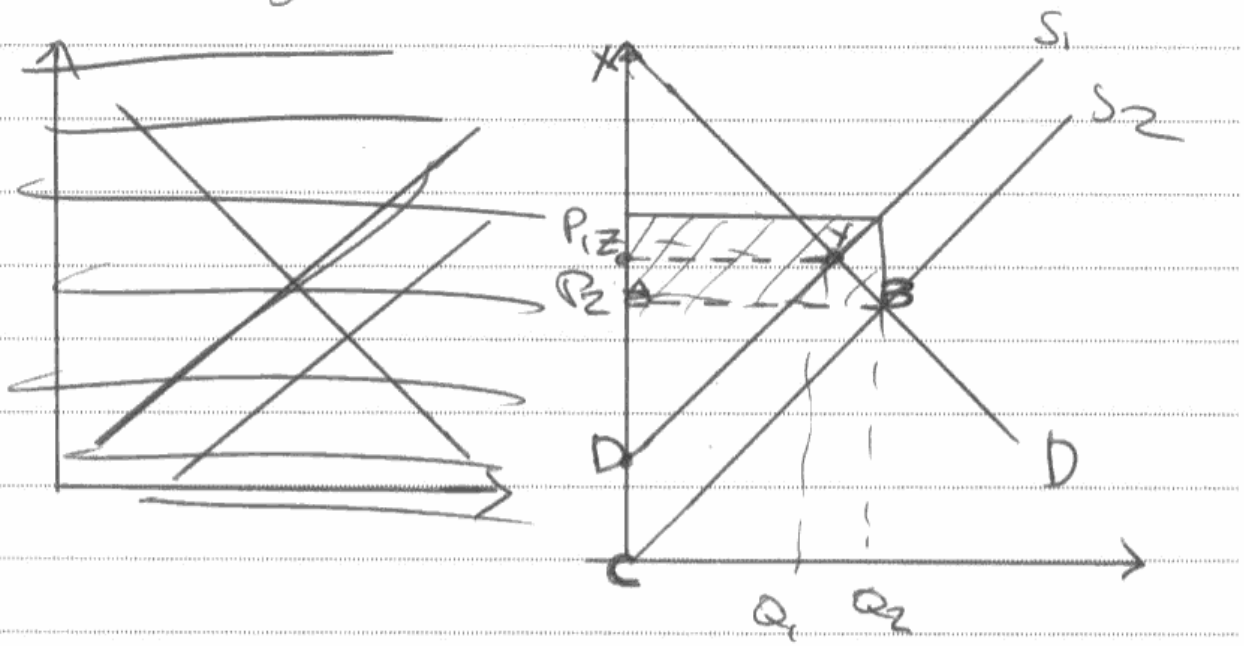
ResultsPlus
Examiner Tip

Be prepared to use relevant diagrammatic analysis to develop the answer.

*(e) Discuss the possible economic effects of the government providing subsidies to support sustainable development projects such as those referred to in Extract 2.

(14)

Subsidies are grants given by the gavement to ~~reduce~~ encourage production, reducing costs of production and increasing supply.



If there are subsidies given by the gavement, supply is encouraged therefore supply shifts to the right from $S_1 - S_2$, decreasing the price from $P_1 - P_2$.

The consumer surplus increases. It is the difference between what consumers are willing and able to buy and what they actually buy. The original consumer surplus was XZY but after the subsidy it increased to the area XAB.

The producer surplus also increases. It is

the difference between what producers are willing to receive and what the actually receive. The original producer surplus was ZYD and the new is ABC.

As subsidies are given for these development projects, external benefits can be enjoyed. Some projects refered in Extract 2 are replanting trees and creating an eco-friendly tourism. This causes employment to rise and therefore incomes.

However it depends on the magnitude of the subsidy given. These development projects have high costs, if the subsidy is insignificant then it might not be helpful in order to complete the projects.

Also the subsidies might not be used correctly. For example instead of using the subsidy ~~to plant the trees, grants may be used elsewhere to reduce personal costs~~ for expensive costs of the production, they might be used to insignificant parts which will lead to a ~~misallocation~~ wrong choice of the funds.

ResultsPlus
Examiner Comments

This response achieved 10 out of 14 marks.

The candidate easily secured the knowledge, application and analysis marks available through the use of definitions, a subsidy diagram and economic explanation (8 marks).

The evaluation was not so convincing here (1+1 marks). Discussion of the magnitude of the subsidy and its possible misuse needed developing. For example, the extract raises the issue of how the government has not revealed the size of funds available or its time scale.

ResultsPlus
Examiner Tip

Try and develop evaluation comments into a reasoned argument.

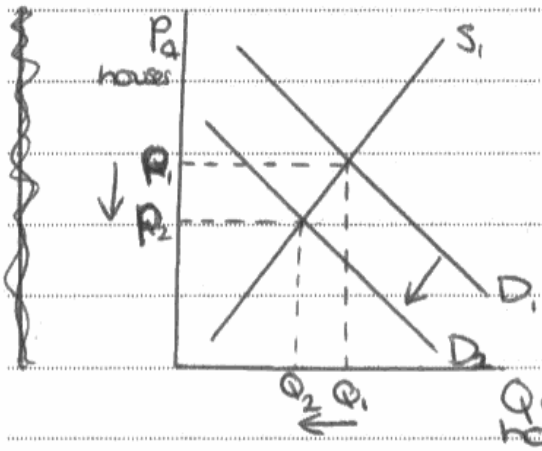
Question 10 (a)

This question was well answered with nearly ninety percent of candidates achieving either five or the six full marks. It offered an opportunity for candidates to demonstrate their understanding of the price mechanism model and use of relevant diagrammatic analysis.

(a) With reference to the last paragraph of Extract 1, explain why house prices fell in September 2010. Illustrate your answer with a supply and demand diagram.

(6)

House prices fell by 3.6% according to Nationwide Bank. This could be due to "high (and rising) unemployment", in which means less people have stable incomes so less are likely to be able to afford to buy houses, causing a fall in demand.



Demand for housing fell from D_1 to D_2 causing the price to fall from P_1 to P_2 and ~~[illegible]~~ The demand also fell due to the difficulty of getting a mortgage. This is because mortgage rates are higher and therefore a greater deposit has to be put down to buy a house but people don't have the money as there is "limited wage growth" and high unemployment. Deteriorating consumer confidence means people are less likely to buy a house as they are unsure of the future of their jobs and other things and therefore aren't going to make the huge investment of buying a new house. So demand falls causing the price to fall.

ResultsPlus
Examiner Comments

This response achieved 6 out of 6 marks.

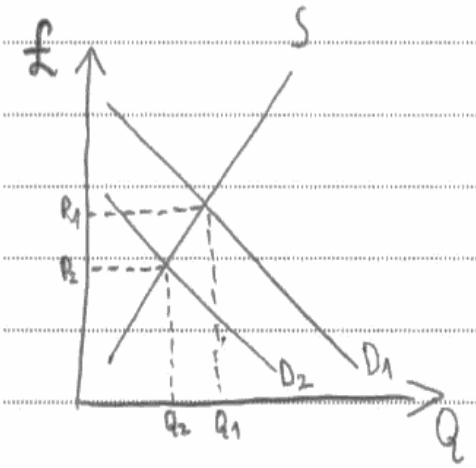
Explicit reference was made to the fall in house prices (1 mark) along with an outline of two reasons, which seem to overlap. These were high and rising unemployment (1 mark) and the difficulty in obtaining a mortgage (1 mark). This was supported with a diagram and explanation (3 marks).

ResultsPlus
Examiner Tip

Make effective use of the extract information to answer the question.

(a) With reference to the last paragraph of Extract 1, explain why house prices fell in September 2010. Illustrate your answer with a supply and demand diagram.

(6)



In September 2010 the falling house prices ~~[illegible]~~ were caused by many reasons. Firstly, it's mainly because of the raising unemployment. People have lost their jobs

ResultsPlus
Examiner Comments

This response just about achieved 4 out of 6 marks.
The candidate referred to rising unemployment (1 mark) and shows a suitable diagram (3 marks). There was no development of how rising unemployment might cause a fall in house prices.

ResultsPlus
Examiner Tip

Offer more than one reason for falling house prices as the extract lists several. Always outline what is happening on the diagram.

Question 10 (b)

Most responses referred to the information provided to help explain the effects of falling house prices on house-building companies. However, relatively few answers offered evaluative comment and Figure 2 was sometimes misinterpreted as showing falling profits rather than falling share prices.

(b) With reference to Extract 1 and Figure 2, assess the likely impact of falling house prices on house-building firms.

(8)

~~Almost~~ Six ~~of~~ out of seven largest UK house builders' share prices reduced over 15% from Jan 1st to Nov 5th 2010. More than ~~More~~ £1 billion has been knocked off the stock market value of British seven leading house building firms. Because a fall in house prices has caused the supply of new housing to ~~sharp~~ fall sharply. Hence firms's total revenue reduced ~~a~~ dramatically.

However, ~~if~~ it depends on the magnitude of the falling house price rate. ~~If it reduced a gr~~ If this rate is great, then these firms ~~to will~~ may make a ~~gre~~ loss because of the reduced total profit.

Over a period when share prices generally have increased by nearly 20%. The fall in ~~price~~ house prices has caused the supply of new housing to fall sharply, builder's profits and employment have suffered. As these firms make a loss, then the employees may have less wages.

However, it depends on different places of the UK. eg. Berkeley Group still have a rise around 2.9%. It maybe ~~this company's~~ ~~to place~~ the price of house did not reduce a lot in this company's ~~build~~ workplace.

ResultsPlus
Examiner Comments

This response achieved 8 out of 8 marks.

The first paragraph referred to discussion on the fall in share prices with over £1 billion being knocked off house building firms value (1 mark) on the stock market and how this led to a fall in supply of new houses (1 mark) and lower revenue (1 mark).

Data reference was also made to a fall in builders' profits and employment (1 mark) and how it might even lead to losses (1 mark) and pressurise firms into cutting wages (1 mark).

Evaluation came in the form of suggesting that the Berkeley Group were more successful since its share price rose by 2.9% - possibly due to the location where they are building (1 mark). The evaluation was supported by a comment on the magnitude of the fall in house prices (1 mark). Both of these points needed development but benefit of doubt was awarded.

Overall, the answer just about scraped full marks.

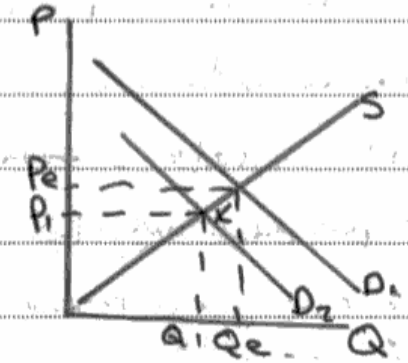
ResultsPlus
Examiner Tip

Develop the points made in the extract. For example, falling profits and employment might force firms into cutting production costs to increase efficiency and restore profits. This might involve reducing wages or the size and quality of houses built.

(b) With reference to Extract 1 and Figure 2, assess the likely impact of falling house prices on house-building firms.

(8)

falling house price as shown on the diagram causes a contraction in supply. Because there is less demand the builders will have to supply less. This means they will have less income possibly meaning they will have to lay off



workers. This causes more unemployment. The fall in supply has also caused a fall in the stock market value of Britains seven leading house building firms. ~~The firms do~~ The ~~supply~~ demand for cheaper accomadation such as renting properties has increased however meaning supply ~~has~~ can increased in that sector. Some firms may go bust however others will invest to make the firms more efficient to reduce costs actually increasing the firms sustainable economic growth.

ResultsPlus
Examiner Comments

This response achieved 6 out of 8 marks.

The answer referred to the effects of falling house prices: a reduction in supply (1 mark), laying off workers (1 mark), a fall in the stock market value of the house builders (1 mark) and that some might go bust (1 mark).

Evaluation was offered by suggesting that work could be found in the rental sector (1 mark) and that firms might invest to become more efficient (1 mark). Either of these points could have been developed to secure more marks.

Overall, this response required more use of the extract information provided.

ResultsPlus
Examiner Tip

Make explicit reference to information provided, for example, state the actual change in share prices for one or two of the building firms shown in Figure 2.

Question 10 (c)

Many candidates confused the determinants of price elasticity of supply with price elasticity of demand and consequently scored no marks. Less than five per cent of candidates gained full marks here. This question recorded the lowest mark on the whole paper.

(c) Discuss whether the supply of **new** housing is likely to be price elastic or price inelastic.

(6)

Supply
Price elasticity is the responsiveness in ~~th~~ supply due to a change in price.
Building new houses ~~in~~ is a long procedure, as materials have to be ordered, ~~housing~~ planning permission aquired, ~~house buy~~ etc ~~But~~ Building a house also takes a long time, so in short run it is ~~y~~ supply inelastic. However as with all things supply is elastic in the long run as factors can be changed. The materials can be kept in (non perishable) stockpiles to be used when required. More builders can be trained to ~~ta~~ decrease building times.
~~However the total~~ Also machines can be bought/built to ~~assit~~ assist in house building. So in ~~the~~ long run it is likely to be price ~~inelastic~~ elastic

ResultsPlus
Examiner Comments

This response achieved 6 out of 6 marks.

A definition of elasticity of supply (1 mark) was supported by suggesting that new houses will become more elastic over time (1 mark). In the short term they may be inelastic due to problems of getting materials and planning permission (2 marks). However, in the long term it is possible to stockpile materials, train workers and use more machinery (2 marks). This makes supply relatively price elastic.

ResultsPlus
Examiner Tip

Always consider how price elasticity of supply might change over time.

(c) Discuss whether the supply of **new** housing is likely to be price elastic or price inelastic.

(6)

* The supply of new housing is likely to be price inelastic due to the fact that it takes time for supplies to be obtained and houses to be built, in the short run.

* price elasticity of supply measures the responsiveness of the supply of a good to a change in price of the good.

However, in the longer run, when housing ~~can be~~ is built and can be access supply may be more ~~n~~ elastic.

The supply elasticity also depends on the availibility of land to build on for example if their is demand for new housing in central London it is likely to be supply inelastic as their is limited space.

The supply elasticity in the long run also depends on the number of firms, if house-building firms exit the market due to falling house prices supply will be more inelastic.

It is also difficult for new firms to enter the market due to high start up costs and initial losses.

ResultsPlus
Examiner Comments

This response achieved 6 out of 6 marks.

A definition of price elasticity of supply (1 mark) was supported with the idea that new housing is inelastic in the short term as it takes time to build but elastic in the long run (1 mark).

Factors such as the availability of land to build on, especially in London was discussed (2 marks) along with the exit and entry of firms in the industry (2 marks). Overall, this just about gained full marks.

ResultsPlus
Examiner Tip

Apply elasticity of supply to the context of the question. This answer raises the problem of the shortage of land to build on in central London.

Question 10 (d)

High marks could be gained by using the extract information to develop alternate views of the impact of falling house prices on the ability of first-time buyers to get on the property ladder. It was a classic case of using the information provided to develop a coherent economic argument. After all, candidates are not expected to be experts on the property market. The best responses took this approach and made good use of the information in Extract 2 and Figure 3.

*(d) To what extent might falling house prices help 'first-time buyers to get on to the property ladder' (*Extract 2, lines 3 and 4*)?

(14)

First time buyers will find it harder to get on the property ladder because banks and lenders are less willing to give mortgages to people as the econy is in a recession so there is less chance in people paying back the mortgage. ~~This~~ The deposit needed to pay for a house has risen because of this as well so first-time buyers will find it harder to find the money.

Moreover, first time buyers are usually students or graduates so they will probably not have a well paid job if even a job at all, firms are trying to reduce their cost of production so they are trying to cut staff costs which means the students and graduates will have less money to pay for a deposit and banks will be less willing to give them a mortgage.

Furthermore, student tuition fees will rise even further so students will be in much more debt and so their credit rating will be lower as they will be in much more debt if they get a mortgage so it will take a very long time for them to pay back the mortgage.

Another point is that government subsidies of affordable housing will reduce by 20%. So there will be even less affordable housing to buy and first buyers there might not be enough homes for all the buyers.

On the other hand, house prices have reduced a lot so ~~students~~ new first time buyers will not have to get such a large mortgage for homes. This means it will be more affordable for buyers. ~~Also, may first-t~~

Also, may first-time buyers might have well paid jobs so they can afford deposits and ~~will have~~ lenders will give a mortgage to them. Not all first time buyers are students or graduates so they might have a lot of money.

In addition, the lenders might compete for interest rates which could bring the rates down and make it more affordable for first time buyers.

ResultsPlus
Examiner Comments

This response achieved 12 out of 14 marks.

The first four paragraphs developed reasons why falling house prices have not helped first-time buyers on to the property ladder (2+2+2+2 marks).

These included banks being reluctant to lend in a recession and requiring a higher cash deposit; the nature of first-time buyers - not in well paid jobs and being former students repaying university debt; government cuts in subsidies to new build affordable homes.

The final three paragraphs offered reasons why it might be easier to get on the property ladder (2+1+1 marks). These included increased affordability as the mortgage sum can be lower; some graduates might be in well paid jobs and lenders might offer competitive interest rates.

ResultsPlus
Examiner Tip

Remember to consider both views. This candidate has been successful here.

*(d) To what extent might falling house prices help 'first-time buyers to get on to the property ladder' (*Extract 2, lines 3 and 4*)?

(14)

In some cases first time buyers may struggle to get on the property ladder because due to unstable jobs, the number of new mortgages has decreased to 'its' lowest level in more than a decade'. They have also increased the cash deposit because of the risk that the first time

buyers won't be able to pay off the mortgage, and in this economic climate not many people have enough money to be able to afford a high priced cash deposit. Furthermore many first time buyers are post graduates, which means they will have a lot of debt already from their ~~decreased~~ introduced student loan. They have also a '30% cut in government subsidies for new-build affordable homes'.

On the other hand, as we can see from figure 3 the mortgage payments as a % of average take home pay for first-time buyers has greatly decreased in recent years. So it has become much more affordable than it has been for a while. Because of this it is likely that in the ~~long~~ short run there will be more new houses being bought by ~~to~~ first time buyers. There has also been an increased in demand for rental properties. However, because of the cheap prices of houses at the moment, it could mean that in the long run prices will go up again as demand goes up, so it will be more difficult for first time buyers to get on the property ladder.

ResultsPlus
Examiner Comments

This response achieved 8 out of 14 marks.
The candidate developed a sound case for falling house prices not helping first-time buyers on to the property ladder, namely: the decrease in the number of new mortgages, a higher cash deposit required, high student debt, government cuts to housing subsidies and the prospect of house prices rising in the long term. (7 marks).

However, the alternative view just mentioned Figure 3 and how mortgage repayments as a percentage of take home pay has fallen, but no explicit data was used (1 mark).

ResultsPlus
Examiner Tip

Make explicit reference to the data provided in tables and graphs when relevant to the answer.

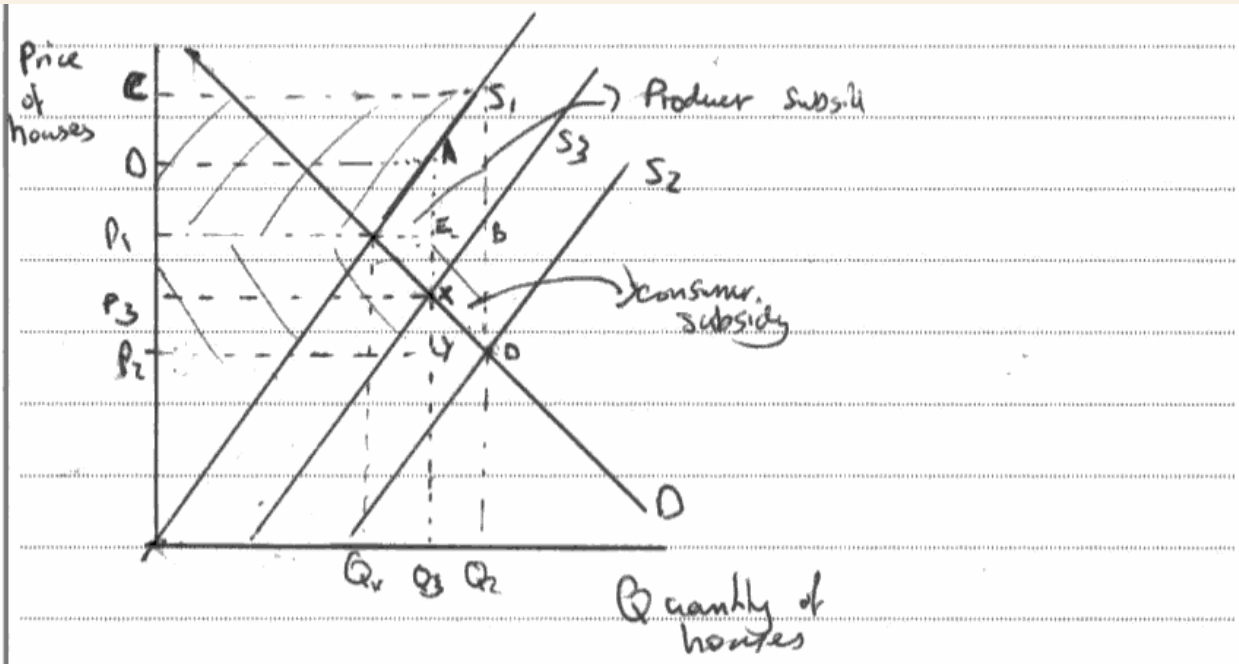
Question 10 (e)

Some candidates misinterpreted the question and focused on the effects a government subsidy for new build homes rather than the effects of a cut in such a government subsidy. Diagrammatic analysis also tended to be limited in many answers.

*(e) Discuss the likely economic effects of 'a 30% cut in government subsidies for new-build affordable homes' (Extract 2, line 7). Use an appropriate diagram in your answer.

(14)

A government subsidy is a when the government gives money to a firm in order to increase supply and decrease price.



A fall cut of 30% in gov subsidies for new houses would cause supply to fall from S_2 to S_3. This in turn would cause the price of affordable homes to rise be from P_2 to P_3. This cut would mean less first time buyers would be able to enter the market. This would mean the

Consumer Subsidy would fall from P_2DBP_1 to P_3XEP_1. This could mean that house prices because firms pass most of the extra cost gained by the reduced subsidy onto the consumer. This would make the homes even less affordable.

A 30% cut is quite a large cut

so could have a big effect on the prices of the houses. Which could mean people on lower incomes may find these 'affordable' houses unaffordable. However with all other house prices falling if these house prices rose they may struggle to sell. This could lead to the firm taking on the extra costs out of its profits rather than a big increase in price.

In the long run the firms may be more efficient because of the subsidy. This could lead to lower house prices in the future as firms have lower costs.
Also firms could keep costs ~~too~~ low by reducing employment. By reducing costs they could be able to charge a low price for houses.

The firms could choose to cut costs with the quality of the houses they build making the houses more affordable

As more people are entering now this leads to a decrease in demand for the new houses. Meaning there the price of them should fall

The government could now spend the 30%. Some where else in healthcare for example. This could lead to better healthcare so less people ill. This means improved productivity and the reduced costs of producing the houses.

ResultsPlus
Examiner Comments

This response achieved 14 out of 14 marks.

A definition of subsidy (1 mark) was supported with a relevant diagram depicting the effects of a 30% cut in subsidies for new build homes (4 marks). The complex nature of the diagram merited the full 4 marks available, including a shading in of the original subsidy area (although not quite correctly identified in the text). The effects of the cut for first-time buyers was explained in terms of becoming less affordable, especially if it is passed on to the consumer in the form of higher house prices (1+1 marks). Reference was also made to employment falling among builders (1 mark).

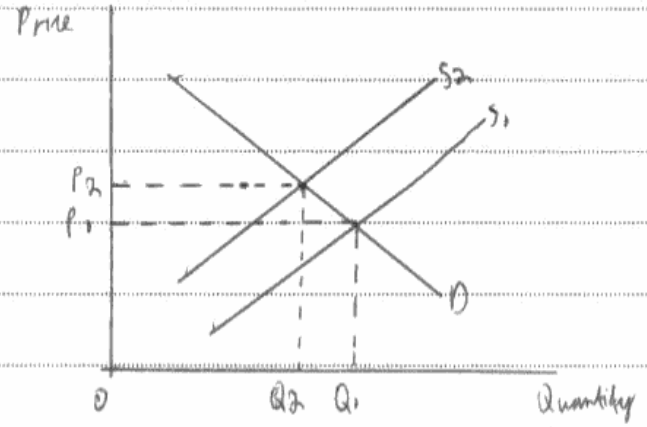
Evaluation took the form of extensive discussion on the size of the cut in government subsidy and how building firms might respond (2+2 marks) and finally, the implications for government finances (2 marks).

ResultsPlus
Examiner Tip

Make diagrams relevant to the context of the question.

*(e) Discuss the likely economic effects of 'a 30% cut in government subsidies for new-build affordable homes' (Extract 2, line 7). Use an appropriate diagram in your answer.

(14)



As my graph demonstrates a 30% cut in government subsidies for new build affordable homes would cause a decrease in supply, and increased prices for new build homes.

The first likely economic effect of 30% cut in government subsidies is that it will cause supply for new affordable homes to fall and increase the prices to for new affordable homes, and this may cause the effect of a fall in demand for new-build affordable homes. This could prove bad for the economy in terms of GDP, in the short term

A 30% cut in government subsidies ~~and~~ could mean the government are looking to use that money for different uses ~~of~~ in order to benefit the economy short term. For example if the government use the subsidy to retrain and educate people so that they

gain new employment, this would cut unemployment and increase ~~demd~~ demand for goods benefitting the economy.

Subsidies

The cut in government subsidies may cause the house-building firms that are making the new-build houses to restructure and hire less, or even possibly fire people in order to stay profitable or restrict loss. This would have a negative economic effect in the short run because demand for goods would fall.

To conclude ~~I~~ be in the short run the 30% cut in subsidies for new-build homes would have a negative effect on the economy, however in the long term I believe will benefit the economy, because the money saved ~~$~~ can help cut the deficit (if only a small part) and also it would make the ~~ec~~ economy more efficient in the long run.

ResultsPlus
Examiner Comments

This response achieved 8 out of 14 marks.

A basic diagram showing a cut in government subsidy (2 marks) was supported by the idea that new build homes become less affordable (1 mark). The damaging effects on building firms was also considered (2 marks).

Finally, there was discussion on government finances and alternative use of the funds saved such as directing money towards education and training or using it to reduce the deficit (up to 3 marks). On balance, the answer just about merits 8 marks.

ResultsPlus
Examiner Tip

Extend the answer for high mark base questions.

Paper Summary

In order to support candidates and teachers, an attempt has been made to identify the awarding of marks for the supported multiple choice and data response examples in this report. However, this mechanistic approach does not always reveal the true value of the overall answer and so should be taken into account when using as a teaching and learning tool.

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