

Examiners' Report
June 2016

GCE Economics 8EC0 01

Edexcel and BTEC Qualifications

Edexcel and BTEC qualifications come from Pearson, the UK's largest awarding body. We provide a wide range of qualifications including academic, vocational, occupational and specific programmes for employers. For further information visit our qualifications websites at www.edexcel.com or www.btec.co.uk.

Alternatively, you can get in touch with us using the details on our contact us page at www.edexcel.com/contactus.



Giving you insight to inform next steps

ResultsPlus is Pearson's free online service giving instant and detailed analysis of your students' exam results.

- See students' scores for every exam question.
- Understand how your students' performance compares with class and national averages.
- Identify potential topics, skills and types of question where students may need to develop their learning further.

For more information on ResultsPlus, or to log in, visit www.edexcel.com/resultsplus. Your exams officer will be able to set up your ResultsPlus account in minutes via Edexcel Online.

Pearson: helping people progress, everywhere

Pearson aspires to be the world's leading learning company. Our aim is to help everyone progress in their lives through education. We believe in every kind of learning, for all kinds of people, wherever they are in the world. We've been involved in education for over 150 years, and by working across 70 countries, in 100 languages, we have built an international reputation for our commitment to high standards and raising achievement through innovation in education. Find out more about how we can help you and your students at: www.pearson.com/uk.

June 2016

Publications Code 8EC0_01_1606_ER

All the material in this publication is copyright
© Pearson Education Ltd 2016

Introduction

This paper (8EC0 01) was the first examination paper from the new specification launched in September 2015. Overall, the paper appeared accessible to the vast majority of candidates and differentiated effectively between the qualities of responses.

8EC0 paper 01 tested candidates on their knowledge and understanding of topics covered in Theme 1 of the specification content. While candidates found some of the new specification questions a challenge it was pleasing to note a good standard of responses and the paper differentiated well.

The paper comprises two sections. Section A comprises a range of multiple-choice and short-answer questions based on a spread of specification elements in Theme 1, and Section B focused more particularly on the housing market, a key market in the UK economy, with a wide range of data provided from which candidates could draw to gain application marks. Section B comprises one data response question broken down into a number of parts, including a choice of extended open-response questions; candidates select one from a choice of two.

The time available for the paper is one and a half hours and candidates are advised on spending 25 minutes on the 20 marks available in Section A and 1 hour and 5 minutes on Section B. Many showed timing problems on the 15-mark section and the 20-mark essay, having spent a disproportionate amount of time on Section A.

Each short question was broken down into a non-supported multiple choice questions, using option boxes which were dealt with well, plus a short questions or question worth 1+2 or 3 marks. Three-mark responses were often impressive with good subject knowledge (K), analysis (An) and application (App) where required, although candidates would benefit with practising more concise responses which may have impeded the time they could dedicate to questions 6(e) and 6(f) or 6(g). A significant number of candidates did not indicate which essay 6(f) or 6(g) they were answering by marking a cross in the box available, although their written responses did make it clear. Very few candidates struggled to answer some of the questions on the paper and there was a pleasing grasp of the knowledge of the functions of the price mechanism 6(b) in some cases. Quantitative questions were usually dealt with well with candidates soundly heeding advice to show their working.

Candidates grasped the need to provide logical chains of reasoning with their analysis and applying theory and data to questions. Most candidates grasped the need in the 15 mark and 20 mark responses that a limited number of points evaluated in depth would be sufficient to access top levels rather than the legacy specification approach where a specific number of points were required. Diagrams were accurately drawn to a high standard but would have benefited from a careful explanation or evaluation of them. More successful extended answers applied the same approach of carefully explained evaluation applying data or theory to answer the question but there was scope for improvement for many in avoiding Level 1 evaluation (L1e) which does not go beyond the generic or thin opportunity cost or magnitude type response. In some cases evaluation was not evident, restricting a candidate's ability to access top marks. For top level evaluation (L3e) in the essays 'sustained judgement' is required - many candidates attempted this as a conclusion with mixed success - in some cases repeating the previous points as a summary rather than making a clear judgement call. A conclusion should answer the question using positive economics. Candidates would benefit from attempting to weigh up theory and the sufficiency of the data as they write, to offer clear and sustained judgement.

Most candidates completed the paper in the time available though some struggled to develop their answers for the last questions or make use of the data available, particularly the extracts. It is important to practise full papers using the Sample Assessment Materials and other published resources under timed conditions to strengthen exam skills. The performance on individual questions is considered in the next section of the report and there are two examples of candidate work for each one. These examples act as a guide as to why a question was well answered and also how to improve further.

Section A:

multiple-choice and short-answer questions

Most candidates found this method of testing highly accessible. A significant number of candidates were very well prepared and demonstrated an excellent understanding of both the new specification and the techniques involved in answering the questions, providing accurate definitions and knowledge, accurate diagrams and relevant application. The multiple choice questions format provided an accessible format for candidates to select their chosen option and in order to increase candidate accessibility, future options will be placed in alphabetical or numerical order. The key to success was for the candidate to be confident in expressing economic knowledge rather than having to second guess what the question was asking for.

Section B:

data response questions

The new format for data questions met with a positive response on the whole. Responses to 6(a) on price elasticity of supply provided confident evidence of candidates' revision and good exam technique in use of data and linked development of the reasons for different relative elasticities. Diagrams attempting to illustrate the change in producer surplus in 6(c) were not as confident as 6(a) indicating the dynamic nature of markets changing is an area on which to spend more time. The quantitative skill 4-mark calculate question 6(d) was straightforward, with the overwhelming majority of candidates showing their working and thus avoiding zero marks for simply putting down a response that did not answer the question, in this case indicating that house prices had fallen.

There is a substantial weighting for evaluation marks (16 out of 45 marks) in the level based responses. A 10 mark question comprises 4 evaluation marks, a 15 mark comprises 6 evaluation marks and a 20 mark question comprises 6 evaluation marks. Consequently, it is vital that candidates make in-depth applied evaluative comments when required by the question, as well as offering judgement using positive economics throughout, in order to avoid disappointment.

Candidates have grasped the need to avoid generic evaluation comments and are providing significant depth of explanation and application in their evaluation. To achieve the higher level, the maximum evaluative marks, there needs to be evidence of substantiated judgement, this was often missing or left to a conclusion which summarised the points covered and made a generic judgement call.

Both essay questions were accessible to candidates though question 6(f) (government intervention) proved to be slightly more popular and more of a challenge than question 6(g) (government provision); this appears to be related to the issue of 'microeconomic effects' which were not always fully considered.

Question 1 (b)

Most candidates achieved marks by firstly defining specialisation or definition of money acting as a medium of exchange or a measure of value or a store of value or a method of deferred payment. The more able answers then went on to link them together through use of an example. For example, workers motivated by pay as a means of exchange to undertake training and become more specialised to earn more or as a measure of value companies buying training or machinery to enable their employees to become more specialised thus boosting productivity. This question polarised performance with a significant number having clearly revised functions of money as taken from the specification and those that were unable to access the marks on this question. A common error was not to clearly answer the question by making the linked development from money to improved specialisation.

(b) Explain what function money has in improving specialisation in the production of smartphones.

(3)

Money is a medium of exchange in economical transactions.
Money can be used as an incentive for workers to improve their output and quality of smartphones.
For example, if a firm paid workers at a rate of 'per unit produced' workers would produce as many smartphones as possible which inadvertently increases productivity.



ResultsPlus Examiner Comments

This answer achieved 3 out of 3 marks.

The candidate begins by defining a function of money as 'medium of exchange' (1 Knowledge mark). Effective use is made of the context, making smartphones, to link money to specialisation as an incentive to workers to improve output (1 Application mark). Finally, mention is made of being paid per item to boost productivity, linking to improved specialisation (1 Analysis mark).



ResultsPlus Examiner Tip

Make use of the context provided in the question to concisely structure your answer. If this is difficult to relate to smartphones then consider the context as a workplace or a business. A simple 3 mark approach in this case required - definition, application and linked analysis.

(b) Explain what function money has in improving specialisation in the production of smartphones.

(3)

Money can be used as a form of motivation or a bonus. The workers will work harder and potentially produce more smartphones more efficiently. It can also be used to purchase specialised machinery to produce a good faster and more efficiently.



ResultsPlus
Examiner Comments

This answer achieved 2 out of 3 marks.

A definition was missing (0 Knowledge marks). Application was limited to money acts as a motivation/bonus but enough to earn a mark for purchase specialised machinery could also have been taken as the Application mark (1 mark for Application). Specialised machinery resulting in the production of more smartphones, was viewed as sufficient analysis to answer the question (1 mark for Application).



ResultsPlus
Examiner Tip

It is good practice to start with a definition, explicitly or implicitly, to ensure you are answering the question and to develop secure application and linked analysis.

Question 2 (a)

Most candidates achieved high marks by accurately defining 'external benefits'. We allowed 'positive externalities' as a common response, albeit a synonym. Confident concise answers were in the majority here; drawing on the following definitions: When the social benefits of an economic action are greater than the private benefits; benefits accruing to a third party; spillover effects and outside the price mechanism. The latter was not always clearly explained and 'benefit to society' was not awarded.

2 (a) Define the term 'external benefits'.

(1)

External benefits are when social benefits are greater than private benefits. External benefits affect those who are not involved in the economic decision.



ResultsPlus

Examiner Comments

This answer achieved 1 out of 1 marks.

Definition of external benefit is accurately provided when the social benefits of an economic action are greater than the private benefits (1). An alternative definition is also provided which comes very close to outside the price mechanism and would receive a benefit of doubt (1).



ResultsPlus

Examiner Tip

The mark scheme accommodates a range of accurate economic definitions for 'external benefits'. Concise accurate answers for 1 mark are the best approach.

2 (a) Define the term 'external benefits'.

(1)

External benefits are benefits such as education, which these benefits affect the whole population, where the public can use ~~also~~ to



ResultsPlus

Examiner Comments

The answer achieved 0 out of 1 marks.

Education may exhibit external benefits to third parties but is not a definition in itself.



ResultsPlus

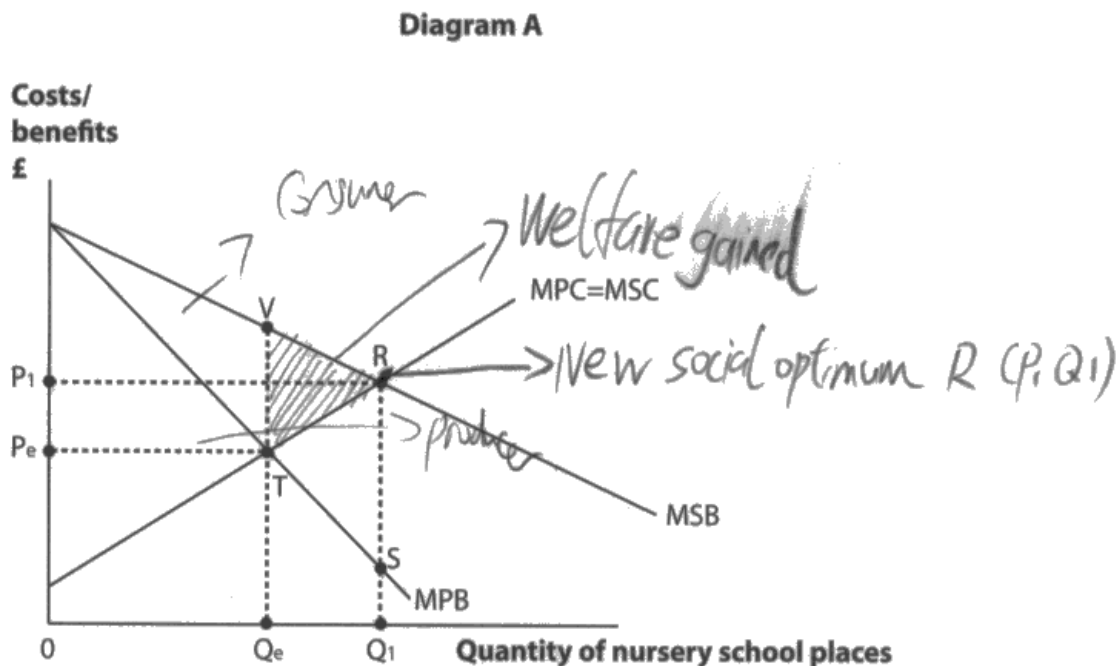
Examiner Tip

Candidates need to learn precise definitions and not waste their time with an over long guess at answering the question, in the hope that something will be correct.

Question 2 (c)

More able candidates had little trouble in making effective annotations of the diagram by shading in the welfare gain area as VRT with a suitable arrow and circling Q_1 with an arrow indicating the new social optimum. Variations on this were also allowed with just shading VRT and circling R, S, P1 or Q_1 . A significant number of candidates had trouble identifying the welfare gain area – a common mistake being shading it as RST. In addition candidates that did not perform well on this question tended to add a subsidy shift outwards in $MPC=MSC$ and ignoring the need to identify the new social optimum.

Diagram A shows the market for nursery school places.



- (b) Which **one** of the following measures could a government introduce to achieve the social optimum consumption of nursery school places?

It could introduce a:

(1)

- A maximum price of OP_1 per unit
- B subsidy of RS per unit
- C tax of VT per unit
- D minimum price of OP_1 per unit

- (c) Annotate on Diagram A the welfare gain area and the new social optimum output resulting from successful government intervention in the market for nursery places.

(2)



ResultsPlus
Examiner Comments

This candidate achieved 2 out of 2 marks.
Clear and confident annotations are provided identifying the welfare gain and new social optimum.

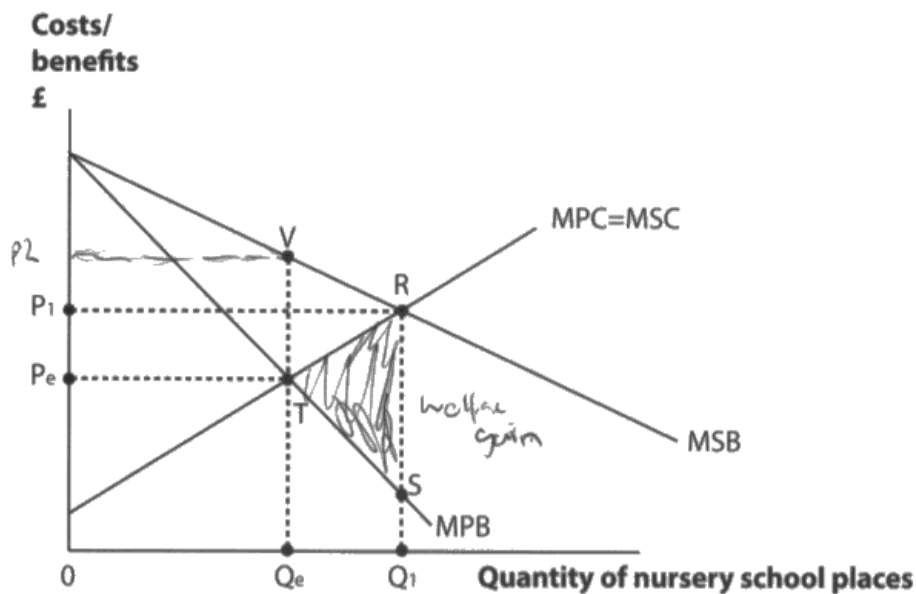


ResultsPlus
Examiner Tip

Shading and circling to answer questions is always aided by clear written annotations to ensure full marks for diagrams.

Diagram A shows the market for nursery school places.

Diagram A



(b) Which **one** of the following measures could a government introduce to achieve the social optimum consumption of nursery school places?

It could introduce a:

(1)

- A maximum price of OP_1 per unit
- B subsidy of RS per unit
- C tax of VT per unit
- D minimum price of OP_1 per unit

(c) Annotate on Diagram A the welfare gain area and the new social optimum output resulting from successful government intervention in the market for nursery places.

(2)



ResultsPlus
Examiner Comments

This answer achieved 0 out of 2 marks.

Unfortunately the inaccurate shading of the welfare gain/loss box was evident among a significant minority of candidate. What was more common was no attempt to identify the new social optimum.



ResultsPlus
Examiner Tip

Ensure you learn in full the externalities diagrams and understand the demands of the question - in this case to earn 1+1 mark for indicating the welfare gain and the new social optimum output, no attempt was made at the latter. It is worth spending time thinking through what the externalities diagram means rather than attempting to use a photographic memory.

Question 3 (b)

The most common measures identified were a tax on water or water consumers with candidates explaining or making use of a diagram to indicate the reduction in water extraction. Answers that used as a measure a tax on the flower industry sometimes struggled to pick up the second application mark identifying resulting reduction in water extraction. Alternative measures were well applied including: regulation, subsidising alternative provision or efficiency measures and use of pollution permits (sometimes identified a tradable). Many answers were a little on the long side, candidates do not have to use all the lined space available; rather than it being there for guidance it is more to avoid the need for additional paper or to enable the ability to make use of a suitable diagram.

(b) Explain **one** measure the Kenyan government could use to reduce the impact of water extraction from Lake Naivasha.

(3)

The Kenyan government could impose ~~a~~ indirect taxes on the flower industry. This would raise the price and decrease the supply and production of the cut-rose flower industry, because the producers would make less profit.^{and so they will produce less.} AS their production decreases, they will use less water extraction and therefore this will reduce the impact of water extraction from Lake Naivasha.



ResultsPlus

Examiner Comments

This answer achieved 3 out of 3 marks.

A clear, concise and well-structured answer is provided. The candidate immediately identifies the measure (1 mark for knowledge) then applies their theoretical understanding in context, carefully identifying how the measure reduces water consumption and thereby answering the question (1+1 marks for application). Note a maximum of two marks for application is available.



ResultsPlus

Examiner Tip

Take care reading the question so that you answer it in full, some candidates did not pick up the last application mark for identifying the reduction in water consumption or reduced quantity of water consumed.

(b) Explain **one** measure the Kenyan government could use to reduce the impact of water extraction from Lake Naivasha.

(3)

The government could use tradable pollution permits. These would allow firms to extract a certain amount of water, and any water over this limit would be subject to fines. The permits could also be traded between firms, so that firms which do not extract much water can sell their permits to firms which do extract lots of water. This would effectively reduce water extraction as the prospect of fines ~~dis~~ will discourage firms from extracting large amounts of water, which in turn, would reduce damage to fish stocks and competition for water.



ResultsPlus

Examiner Comments

This answer also achieved 3 out of 3 marks.

The answer provides a valid measure, permits, developing the response with a logical chain of reasoning suitable for the essay based questions; applying theory in context to a high standard.



ResultsPlus

Examiner Tip

Some candidates will easily be able to write substantial responses inside the time constraints but there was some evidence of too much time being spent on 3 mark responses despite the guidance provided. A minority used a suitable diagram which along with a clear identification of the measure, tax on water consumption, and fall in quantity of water consumed would have quickly achieved full marks.

Question 4 (a)

This question on diminishing marginal utility was handled well by most candidates indicating confidence with the new specification. Many responses started with an accurate definition of diminishing marginal utility and then followed up with linked application that consumers at an 'All you can eat buffet' derive less additional satisfaction from an additional plate of food than the one before. On some occasions numerical values were accurately applied or demand curves were used to illustrate the application of theory. Sometimes the definition of diminishing marginal utility was insufficient, missing the idea that it was the 'additional' utility which was declining for each additional plate rather than total utility itself.

4 A restaurant in London offers an "all you can eat buffet for £8.99". At this price you can refill your plate as many times as you like.

(a) With reference to the statement above explain what is meant by 'diminishing marginal utility'.

(3)

The law of diminishing marginal utility states that as a consumer increases consumption, their marginal utility decreases. Marginal utility is the additional benefit gained from consuming an additional unit of a good or service. In other words, utility increases at a diminishing rate when consumption increases. Consequently, consumers are willing to pay less, the more goods they consume a good or service. In this example, the consumer will gain a large amount of utility on their first plate of food, and additional utility on their second plate, but less than the original plate, so on and so forth.



ResultsPlus Examiner Comments

This answer achieved 3 out of 3 marks.

The initial sentence almost defines the key term by repeating it but then the candidate goes on in the second sentence to provide an accurate definition (1 mark for Knowledge). The diminishing rate of additional benefit (utility) is then carefully applied to the context thus earning full application marks. (1+1 Application).



ResultsPlus Examiner Tip

Be careful not to provide a definition by simply repeating the key term itself. More able answers will carefully link theory to context through linked application to earn full marks.

This answer achieved 1 out of 3 marks.

The definition is not accurate. Rather than identifying that the additional satisfaction declines, the candidate instead explains inaccurately that satisfaction (total utility) declines overall as more plates of food are consumed, this may be the case if disutility is achieved but the candidate does not make this clear. There is some implicit understanding through application that over time additional plates of food will provide less additional satisfaction. As a consequence this answer is given the benefit of doubt and awarded 1 mark for application.

- 4 A restaurant in London offers an "all you can eat buffet for £8.99". At this price you can refill your plate as many times as you like.
- (a) With reference to the statement above explain what is meant by 'diminishing marginal utility'.

(3)

Diminishing marginal utility is the fall of the the satisfaction of a consumer for example as ~~at~~ at a buffet after a while there will be diminishing marginal utility as ~~of~~ consumers become less satisfied



ResultsPlus Examiner Comments

This answer achieved 1 out of 3 marks.

The definition is not accurate. Rather than identifying that the additional satisfaction declines instead the candidate explains inaccurately that satisfaction (total utility) declines overall as more plates of food are consumed, this may be the case if disutility is achieved but the candidate does not make this clear. There is some implicit understanding through application that over time additional plates of food will provide less additional satisfaction. As a consequence this answer is given the benefit of doubt and awarded 1 mark for application.



ResultsPlus Examiner Tip

Revise all key terms across the Theme 1 specification.

Question 5 (b)

The more able responses for this question immediately used a price inelastic demand diagram to explain how a cut in their price would result in a fall in total revenue. Elongated answers often started by stating the PED formula and re-working the above question 5(a) before then moving on to a long written response. Written responses did not always carefully identify that a twenty percent fall in price resulting in little change in quantity demanded meant there would be a fall in total revenue, instead the resulting change was argued to be a rise in revenue or no change at all. The most common limitation to candidate answers was the absence of any mention of the change in total revenue.

5 "Since peaking at 132p a litre in July 2014, petrol prices have fallen by 20%".

(Source: adapted from UK petrol prices cut again, L Elliott, The Guardian 12-1-15
<http://www.theguardian.com/business/2015/jan/12/oil-slump-uk-petrol-prices-fall>)

(a) What is the expected percentage change in the quantity of petrol demanded if the price elasticity of demand is -0.2 ?

(1)

- A -0.4%
- B $+0.4\%$
- C -4%
- D $+4\%$

(b) The price elasticity of demand for petrol is -0.2 . Explain the change to the total revenue of petrol stations as a result of cutting their prices.

(3)

PED - measure of responsiveness of quantity demanded to a change in price $\left(\frac{\% \Delta Q_d}{\% \Delta P}\right)$

$$-0.2 = \frac{x}{-20\%}$$

$$x = -0.2 \times (-20) = +4\%$$

Price OIL is a price inelastic product, because PED = -0.2 , \Rightarrow the big fall in price causes small increase in consumption, \Rightarrow revenue will fall significantly.



ResultsPlus

Examiner Comments

This answer achieved 3 out of 3 marks.

The initial response is not relevant. The candidate has been drawn in by their initial reference to PED rather than looking at the question in full. Unfortunately the answer they provide regarding PED is the answer to question 5(a). The answer referring to 'Oil (petrol) is a price inelastic product' provides a concise response earning full marks. The candidate identifies that 0.2 is price inelastic, explains what this means regarding a price fall (1+1 marks for Application) and how this results in a fall in total revenue (1 mark for Knowledge).



ResultsPlus

Examiner Tip

Ensure you carefully read the question in full. In some cases knowledge marks were lost for not identifying the fall in prices would result in a fall in revenue or defining total revenue.

5 "Since peaking at 132p a litre in July 2014, petrol prices have fallen by 20%".

(Source: adapted from UK petrol prices cut again, L Elliott, The Guardian 12-1-15
<http://www.theguardian.com/business/2015/jan/12/oil-slump-uk-petrol-prices-fall>)

(a) What is the expected percentage change in the quantity of petrol demanded if the price elasticity of demand is -0.2 ?

(1)

A -0.4%

B $+0.4\%$

C -4%

D $+4\%$

(b) The price elasticity of demand for petrol is -0.2 . Explain the change to the total revenue of petrol stations as a result of cutting their prices.

(3)

The total overall revenue of petrol stations will have dropped as they're charging less. However as it is cheaper people consumers may very well begin to buy more consume more now. So petrol stations revenue may actually increase in the long run.



ResultsPlus Examiner Comments

This answer achieved 1 out of 3 marks.

The initial sentence identifying the change in revenue is accurate (1 mark for knowledge). The candidate then moves on to what may happen next. They may be referring to an extension in demand or a shift out in demand but it comes across as confused.



ResultsPlus Examiner Tip

A diagram will often help make clear what you are trying to say. In this case a diagram indicating an extension in demand, given demand is price inelastic, may have avoided the confusion for this candidate. Practice and use diagrams.

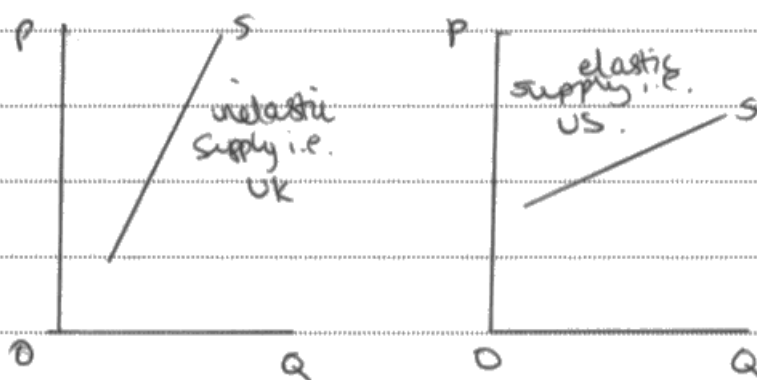
Question 6 (a)

The question required candidates to explain **one** possible reason for the difference in price elasticity of supply of new housing between countries using Figure 1. Most candidates started with a definition of PES or using a formula. This then moved on to concise use of the data looking at two countries with specific numerical reference and an application of theory as to what this meant in terms of their relative elasticity. Candidates then finished by valid linked analysis on why there was differing degrees of price elasticity usually associated with either land availability or weaker/tougher regulations affecting new builds. Less able responses only made one use of the data available in Figure 1, failed to provide linked analysis, confused the concept with PED or did not answer the question by explaining in the context of existing available stock of housing.

- 6 (a) With reference to Figure 1, explain **one** possible reason for the differences in price elasticity of supply of new housing between countries.

(5)

Price elasticity of supply is the responsiveness of supply to a change in price $\left(\frac{\% \Delta QS}{\% \Delta P}\right)$. The US may have a PES of 2 (elastic as > 1) and Netherlands of only 0.2 (inelastic as < 1) because of the differences in ease of entry into a market in different countries. ~~From~~ Major firms that dominate the market may be a reason for this or stringent government regulations which make providing more housing difficult. For example, in the UK, supply may be inelastic as there is lots of land around major cities such as London classed as greenbelt which cannot be built on.





ResultsPlus

Examiner Comments

5 out of 5 marks awarded.

The answer begins with a definition of price elasticity of supply and a PES formula (awarded 1 mark for Knowledge). The candidate then applies the data identifying US PES of 2.0 means it is price elastic (1 mark) whilst the Netherlands PES of 0.2 is price inelastic. They also reinforce this with two supply curves identifying the PES for the UK and US, awarding the diagrams in isolation 1+1 for application would be more secure if linked to numerical values or the diagrams were explained. Finally the candidate explains the one reason by focusing on barriers to entry (1 mark) with the linked analysis referring to stringent regulations in the housing market such as the greenbelt around London (1 mark).



ResultsPlus

Examiner Tip

Always make explicit use of the data provided, for example, refer to the actual PES of countries. It is an easy way into an answer by then explaining what the data means (knowledge defining PES plus application to relative elasticity) and why it differs (analysis).

- 6 (a) With reference to Figure 1, explain **one** possible reason for the differences in price elasticity of supply of new housing between countries.

(5)

The price elasticity of supply means the responsiveness of supply to change in ~~the~~ price.

$$PES = \frac{\% \text{ change in supply}}{\% \text{ change in price.}}$$

~~The reason is~~
One possible reason is that the resources ~~that~~ ^{are} able to use (such as construction workers, material etc.) is greater than other countries ~~in the USA~~. Therefore, USA's market are able to adjust their supply to fit the needs of the economy.

One possible reason could be that in the short term, some countries can use resources efficiently or they have enough resources (such as construction workers) while ~~the~~ other countries can't use the resources efficiently, so ~~there~~ they can't increase the supply efficiently.



ResultsPlus Examiner Comments

2 out of 5 marks awarded.

The candidate defines PES and provides a formula (either can be awarded 1 Knowledge mark). The candidates crossed out work cannot be awarded as they have replaced it. It may have achieved an extra mark as it is more clearly applied to USA. The last paragraph receives 1 analysis mark for construction workers as a factor affecting PES, unfortunately it is not clearly worded to receive an additional mark for linked analysis.



ResultsPlus Examiner Tip

While candidates will be keen to move forwards to the longer mark responses they still must ensure clarity in explaining their economic ideas in all answers. Try and add value by making clear what the reason identified means for relative elasticity for a specific country given the numerical value of its PES in this case.

Question 6 (b)

The question required candidates to assess the impact of the Help to Buy scheme on the market for rented properties in the UK, with reference to Extract A. It proved to differentiate effectively between the quality of responses particularly at the top and lower end of the mark range. Typical responses carefully used the data to identify that this was a subsidy and would make home ownership more attractive thus reducing demand for rented properties as a substitute. Level 2 responses tended to limit themselves to the impact on the price ignoring the broad elements of the question associated with the market for rented properties. The more able responses, which were able to access Level 3, then moved on to identify there was a negative cross price elasticity of demand or make use of a diagram for the rented sector looking at the impact on the price for those renting and how landlords would be affected. Typically this then allowed them to question how close a substitute rented properties were or question the size of the assistance provided or long term availability of the Scheme as mentioned in Extract A. However a few answers mainly provided an answer on the impact on the housing market or when explaining the impact on the rented sector did not move on to evaluate this. Responses which provided thin evaluation by just mentioning magnitude or time scale only achieved a Level 1 evaluative award.

(b) With reference to Extract A, assess the likely impact of the Help to Buy scheme on the market for rented properties in the UK.

(10)

The Help to Buy scheme is likely to cause an ~~increase~~ decrease in the demand for rented properties in the UK. The Help to Buy scheme subsidises the mortgage needed to buy a property with first time buyers needing as little as 5% of the deposit to qualify. As rented properties is likely to be a substitute for buying houses, it is likely that they are going to have a positive cross elasticity of demand. Cross elasticity of demand is calculated as: $XED = \frac{\% \Delta \text{ in QD of good X}}{\% \Delta \text{ in P of good Y}}$. This means that, if it assists for first

time buyers to get a mortgage, and therefore buy a house, it is likely that demand for rented properties will fall as consumers switch their demand from rented properties to buying a house as it is cheaper.

However, in evaluation, the extent to which demand for rented properties will fall will depend upon how close of a substitute rented accommodation is to actually bought accommodation.

If the cross elasticity of demand for rented accommodation is relatively elastic, then there will be a much bigger fall in demand for rented accommodation.

Also, it will depend upon how many consumers qualify for the subsidy. If many consumers don't qualify for help under the scheme, then it is unlikely that it will cause a huge fall in demand for rented properties as it will mean that it won't become cheaper to buy a house for those who don't qualify.

Also, the Help to Buy scheme is unlikely to affect the demand for rented accommodation in short run as much as consumers who are currently in rented accommodation may have to wait for their contract to expire before they can stop renting and switch to buying a house.



ResultsPlus

Examiner Comments

10 out of 10 marks awarded.

The candidate achieves all 6 Knowledge, Application and Analysis marks available by securely achieving top Level 3 (L3KAA). They immediately answer the question by saying there would be a fall in demand for rented accommodation. They link their knowledge of Help to Buy acting as a substitute by applying the data in a relevant and well-focused way, by how it will make housing more attractive and thereby reduce demand for the rental sector. The candidate then demonstrates their understanding of the concept of cross price elasticity of demand as the core concept in the question. The definition of cross elasticity of supply is accurate and in depth by identifying it is positive indicating home ownership and rented properties substitutes. The next page includes evaluative comments. The evaluation is well balanced against the initial arguments, explained in depth and in context.



ResultsPlus

Examiner Tip

Make sure you develop key knowledge with concise explanations and precise use of data. This response was very theoretical whereas other high scoring responses focused more on the impact on landlords and those renting; either approach is to be welcomed. Similarly well balanced evaluation will also be well explained and in context as in this example; albeit perhaps not so extensive given time constraints.

(b) With reference to Extract A, assess the likely impact of the Help to Buy scheme on the market for rented properties in the UK.

(10)

Extract A first mentions has a "Help to Buy" scheme designed to help people buy a home. A subsidy is defined as a grant given by the government to lower the costs of production. The likely impact of the "Help to Buy to Scheme" is that the current climate referred to as a "runaway train"; means first time ~~of~~ buyers have a better opportunity of purchasing a house. The Housing Bubble for instance, where demand swells but supply cannot keep up with the demand, leads to higher prices and increased speculation. The extract goes on later to say "it has made significant inroads in the short-term to boost access at the lower end of the property market."

However, in the long term would not be able to keep interest rates low in the long term. Banks who give

loans to ~~businesses~~ businesses will expect a higher rate of repayment if interest rates were increased. Low interest rates could lead to more borrowing from consumers and possibly importing goods from other countries instead of buying domestic ~~products~~ goods and services.



ResultsPlus
Examiner Comments

1 out of 10 marks awarded.

This candidate does not answer the question. They are awarded a low Level 1 response (1 mark) for identifying Help to Buy as a subsidy but the information provided is irrelevant to answering the question. Evaluation cannot be awarded as they are not answering the question.



ResultsPlus
Examiner Tip

It is essential that candidates take the time to carefully understand the demand of the question. In this case identifying the cause (Help to Buy making home ownership more attractive) and the effect (impact on rented market); then identifying what the question is asking you to focus on, i.e. evaluating the effect on the market for rented properties in the UK, with reference to Extract A.

Question 6 (c)

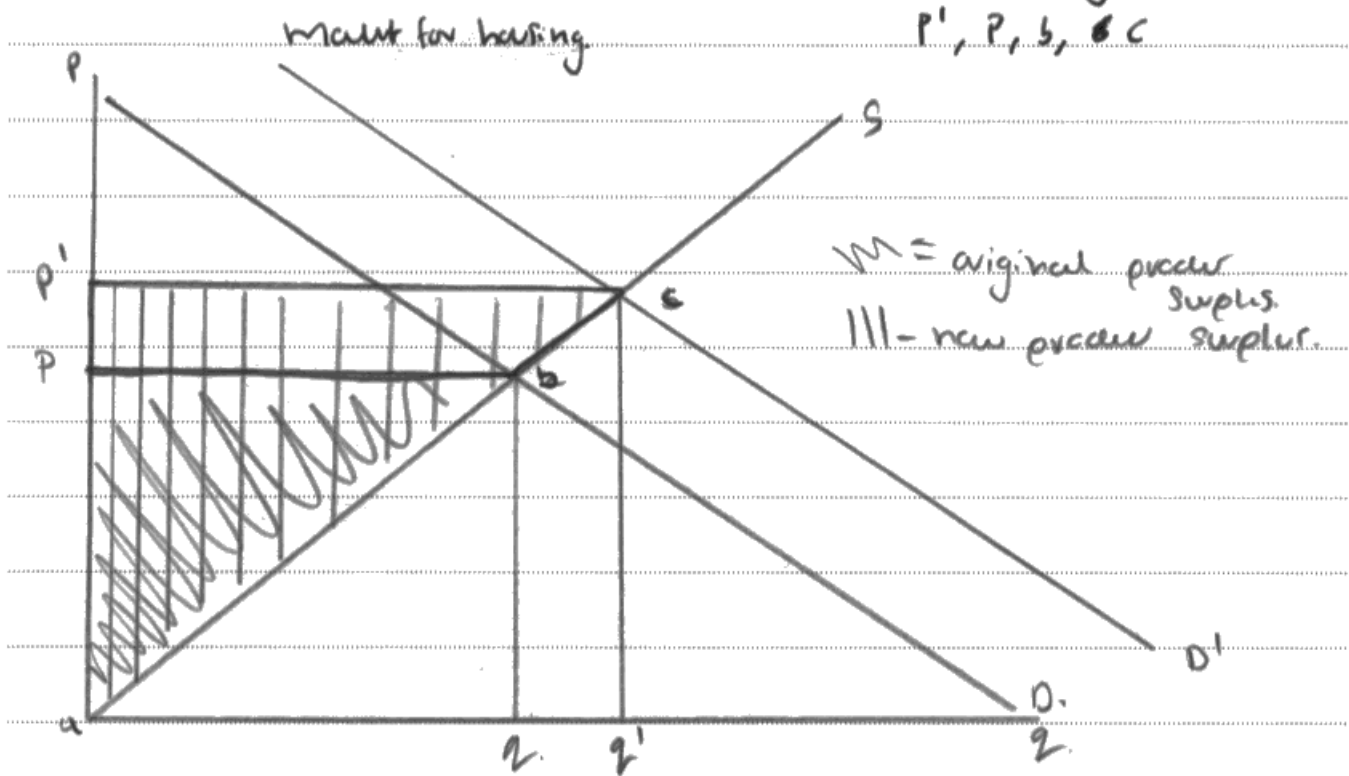
The question on explaining the likely impact on producer surplus of an increase in the demand for housing was awarded as a low cognitive question balanced against the challenge questions asked elsewhere. Candidates were asked to draw a diagram to illustrate their answer. The more able responses could to quickly access full marks by defining producer surplus and then using a carefully labelled diagram explain how the increase in demand resulted in a change in producer surplus in the housing market. Less able responses provided poorly labelled diagrams and often were not confident in identifying what producer surplus was.

(c) Explain the likely impact on producer surplus of an increase in the demand for housing. Use a diagram to illustrate your answer.

(6)

Producer surplus is the price difference between the price he is willing to supply to or what the price which he actually receives.

An increase in the demand for housing will increase producer surplus from P, Q, a to P', Q', a . The change would be P', P, b, c



Producer surplus would rise as the producer is getting more for a higher price than he supplied to at, as there is more demand in the market.



ResultsPlus

Examiner Comments

6 out of 6 marks.

The candidate has provided a secure understanding of the theory and applied the diagram well to the question. Knowledge marks are secured with an initial accurate definition of producer surplus and a diagram, which is well annotated and explained, showing the original equilibrium and producer surplus. The candidate is then able to analyse through explaining their diagram, the increased producer surplus resulting from demand shifting out. For application marks they pick up the 2 marks by applying the diagram to illustrate there is an increase in prices and producer surplus as demand for houses rises. The answer is a full and accurate response and as a result deserves full marks. Application can be secured through applying theory and diagrams to answer questions but has in Economics more traditionally been associated with application of data and context. To guarantee full marks candidates are still to be encouraged to write in context and to try to use data when available. In this case there was the opportunity to explain house builders would extend supply by building new houses up to the new market prices of new houses at P2. The technical nature of existing housing stock not being referred to as increasing producer surplus, as the seller still has to find a home to live in, meant that application was more theoretical in this question.



ResultsPlus

Examiner Tip

Secure application marks can be obtained by applying theory, diagrams and data to the context of the question.

Question 6 (d)

The question was one requiring use of quantitative skills question and provided an accessible question asking candidates to calculate the percentage change in house prices between the first quarter of 2009 and the first quarter of 2015. Nearly all candidates were able to obtain at least 1 mark by locating the data. Where marks were lost was an inability to identify the correct formula to perform the calculation. Where the correct formula and calculation was completed resulting in a mistaken answer this was awarded 3 marks, for example in identifying prices had fallen. Answers which simply wrote down an acceptable accurate response, 23-25%, were awarded full marks but were rare to find indicating good exam technique by the overwhelming majority of candidates.

- (d) With reference to Figure 2, calculate the percentage change in house prices between the first quarter of 2009 and the first quarter of 2015. You are advised to show your working.

(4)

$$2009 (Q1) = 300$$

$$2015 (Q1) = 375$$

$$375 - 300 = 75 \rightarrow \text{the difference}$$

$$\frac{75}{300} \times 100 = 25\% \text{ change}$$



ResultsPlus Examiner Comments

4 out of 4 marks awarded.

1 mark for data located accurately and easy to follow with year references 375 (2015) and 300 (2009). Correct formula used (1 mark) and data substituted accurately (1 mark). Without the correct answer identified this would achieve 3 marks. The correct calculation is made, a 25% change, which makes the overall score 4 marks. In isolation writing '25%' change would have received full marks but this candidate has clearly shown their working in a concise manner in case they did make a computational error.



ResultsPlus Examiner Tip

Ensure you understand what Index numbers mean, some candidates added pound signs and zeros i.e. 2008 house prices were £300,000 which is inaccurate. Despite this error full marks could still be achieved for identifying the correct percentage change. Accurate working will always receive credit and candidates are strongly advised to show their working in case they make a computational error with the final answer.

(d) With reference to Figure 2, calculate the percentage change in house prices between the first quarter of 2009 and the first quarter of 2015. You are advised to show your working.

(4)

index of 2009 = 300

index of 2015 = 370



ResultsPlus

Examiner Comments

1 out of 4 marks awarded.

This answer clearly locates the data for 2009 and 2015 and uses the key to identify that they are Index numbers (1 Application mark). Unfortunately they do not then apply the data to calculate the percentage change (1+0 Application marks). They do not know how to work out a percentage change so receive no knowledge marks.



ResultsPlus

Examiner Tip

Make careful use of data in a Figure you are asked to look at, spending time to see what the data is showing, there are always marks for doing this. Being aware of how to calculate percentage changes accurately is a useful tool for economists.

Question 6 (e)

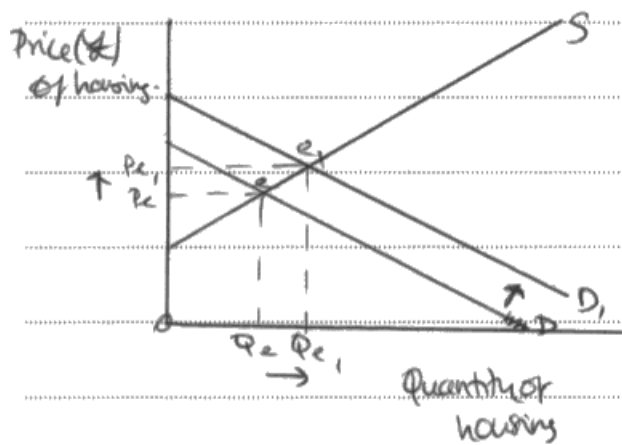
The question invited candidates to discuss the functions of the price mechanism in allocating housing using Figures 1 and 2 and their own knowledge. There was much evidence of candidates using Figure 2 Index of UK house prices as calculated in question 6(d) to explain using a housing market diagram the functions of signalling, incentive and rationing. More able candidates used the opportunity to link knowledge and understanding in context using relevant and focused examples by using logical and coherent chains of reasoning. Some candidates were able to provide an in depth focus on different types of functions with incentives, for example covering consumers contracting demand and housing firms extending their supply separately. The question gave candidates an opportunity to analyse and evaluate the functions of the price mechanism but there was a lack of confidence in this area for some candidates although those that engaged with how the price mechanism operates were normally able to achieve at least Level 2 responses. Less able candidates provided an almost textbook coverage of the price mechanism without applying it to housing or made no attempt. Evaluation here drew on candidates' awareness of the speculative demand nature of the housing market which may result in housing booms and crashes. Equally, careful evaluation linked inequality, with those being priced out of the housing market, to homelessness. An alternative common type of effective evaluation was to link the UK's price inelasticity of supply preventing the price mechanism functions from operating effectively given lack of land space, profiteering and regulations. Evaluation that was in depth and context whilst offering balanced and considers the broad elements of the question was typically completed within two separate evaluative points.

(e) With reference to Figures 1 and 2 and your own knowledge, discuss the functions of the price mechanism in allocating housing.

(15)

The price mechanism is used to allocate resources between competing uses in an economy and includes, the rationing, signal and incentive functions.

In Figure 1, the supply of housing in ^{Great Britain} ~~the world~~ is fairly price inelastic and therefore, ~~an~~ ^{demand} increase in ~~supply~~ for housing should provide a signal for house building firms to produce more housing to supply to the market. This could be due to the Help to Buy government scheme. The signalling function acts to influence producers in the market to supply more or less. However, due to the inelastic nature of supply of housing in Great Britain - around 0.4% - this is difficult. There is a time-lag involved between rising demand and an increase of supply due to the time it takes to train labour and to actually build a house, thus at any point in time, the supply of housing is fixed.



A shift towards of the demand curve to D_2 , could have been caused by a rising population or government schemes thus rising the price to P_c .

However, the housing market is more elastic in the long-run than it can ~~vary~~ when all factor inputs are variable as opposed to just one in the short-term. Also, spare capacity should be available in the form of unemployed workers who could be used to react to the signalling, or indeed, incentive function to produce more. The incentive function causes producers to want to produce more, for example with a rise in price due to neo-classically wanting to maximize profits. Also, consumers will want to purchase more at a lower price as their consumer surplus and welfare has increased, increasing their utility gained from consuming a product.

In Figure 2, the rise in price ^{of housing} by 24% from the first quarter of 2009 to the first quarter of 2015 ~~to~~ will act as a signal to supply more housing and as an incentive to do so too. However, at this price prices could have risen due to a shift inwards of the supply curve to the left due to expensive imports or an increase in wage costs, for example. ^{This will cause quantity supplied to fall.} Therefore, a rationing function will instead take place where those who are willing and able to purchase a house will do. This higher price however will affect price lower-income groups out of the market due to the rationing function. ~~Therefore~~ Therefore, a disadvantage is that inequality could

increase due to the lack of affordable housing, the price mechanism can sometimes lead to market failures whereby the initial allocation of resources, for example there could have been external costs to society such as increased homelessness as a result of a shift in the supply curve and rises in price.



ResultsPlus

Examiner Comments

15 out of 15 marks awarded.

A confident start is made by accurately identifying the functions of the price mechanism. This is then followed by a well-structured paragraph on the signalling function making use of Figure 1, as requested in the question. (Level 3 KAA). The chain of reasoning is then well balanced with Level 3 evaluation explaining the time lag problems faced in the housing market. The diagram is accurate, fully labelled and explained a little. The incentive function is then addressed from the perspective of profit and consumer surplus. It is theory rich but could do with application to context here (L3KAA-), although there is plenty of context elsewhere in the response. The final paragraph addresses the rationing function carefully linking to Figure 2 and the context (L3KAA+). This is then carefully balanced against well explained evaluation using the concept of inequality (L3e). Overall it achieves top Level 3 KAA marks and Level 3 evaluation as they provide sufficient evidence of the top level descriptors, these level based awards are not determined as an average.



ResultsPlus

Examiner Tip

A good way of extending an answer is to link knowledge and understanding in context using relevant and focused examples which are fully integrated. Revising across the specification will make you more confident to use economic ideas and apply them appropriately to the chosen context. Base your response on the question; in this case applying two separate functions to the two separate figures and then moving on to evaluation in each worked well.

(e) With reference to Figures 1 and 2 and your own knowledge, discuss the functions of the price mechanism in allocating housing.

(15)

Price mechanism helps to allocate resources in the free market economy, which is controlled by the state and does not include any state intervention. The functions of the price mechanism are rationing device, i.e. that it ensures that the amount demanded by buyers is met by amount supplied by sellers in the market, incentive device, i.e. that it acts as an incentive eg. for suppliers to supply more if there will be likely a rise in demand which will bring more profit to suppliers, as well as signaling device, when eg. supplier reallocate his production if there will be any weather destruction like flood so he will not lose any stock or face rapid rise in costs of production. On the one hand the price mechanism will ensure that the amount of housing supplied by the govt i.e. 10,000 houses will be met by the same amount of potential buyers. So after building the first 10,000, the govt. is likely to see



ResultsPlus

Examiner Comments

6 out of 15 marks awarded.

The initial sentence is a little confused. The candidate then displays sound knowledge by identifying the rationing, incentive and signalling functions. Unfortunately they do not address themselves to the broad elements of the question as applied to housing; thus obtaining a Level 2 response. Application is then brought in at the end; indicating how the price mechanism functions may help clear the market. As a result they obtain top Level 2 KAA (6 marks) as there is an overlong chain of reasoning and the answer lacks balance, perhaps as a consequence. There is no attempt to evaluate, the reference to 'On the one hand' may have indicated that they were considering evaluation but did not move on to this.



ResultsPlus

Examiner Tip

Consider offering separate paragraphs for each separate point (price function). These paragraphs need to be well structured with short sentences that offer a chain of reasoning. Integrating context (allocating housing) throughout your answer rather than generic theory is the best approach. An overlong sentence can be difficult to follow for the reader and is unlikely to offer good theoretical depth. Practice re-working the above response to turn into a Level 3KAA response.

Question 6 (f)

The question required candidates to evaluate the likely microeconomic effects of government intervention in the UK housing market. Candidates were expected to draw on their own knowledge of the housing market, a significant market in the UK, or make use of the data to access the top level responses. The main methods of government intervention covered were usually subsidies (Help to Buy), regulating mortgage providers, regulating landlords, direct government provision (building homes) or rent controls. Top Level 4 or 3 responses provided an in depth coverage of the microeconomic effects, this was possible to achieve with one type of government intervention but was usually undertaken by looking at two or three separate measures and evaluating them in depth in turn. Level 4 answers often drew, in a sophisticated manner, from the broad Theme 1 specification to provide logical chains of reasoning. A key differentiator was the quality of knowledge and understanding of microeconomic effects often making effective use of a diagram and carefully applied through logical and clear chains of reasoning. Level 2 answers tended to use a basic and generic supply and demand diagram focusing on one effect such as price; thus not being able to address the broad elements of the question and offer balance.

Evaluation took various forms, with many candidates considering the unintended consequence of fuelling a housing boom affecting affordability and inequality. Alternative common evaluative points considered shortages of affordable rented property after carefully analysing the implementation of the scheme and who it would benefit. Where the former was missing this was often seen as analysis offering a negative effect of government intervention. The effectiveness of the government interventions was another popular issue raised with careful consideration of the data and other more significant factors resulting in the awarding of L3ev rather than a thin L1ev coverage of magnitude or opportunity cost. Best uses of substantiated judgement were sustained throughout in candidates' responses as they made effective use of positive economics to make judgement calls answering the question by weighing up the significance of the effects as to what extent they were positive or negative.

Answer EITHER

(f) Evaluate the likely microeconomic effects of government intervention in the UK housing market.

(20)

OR

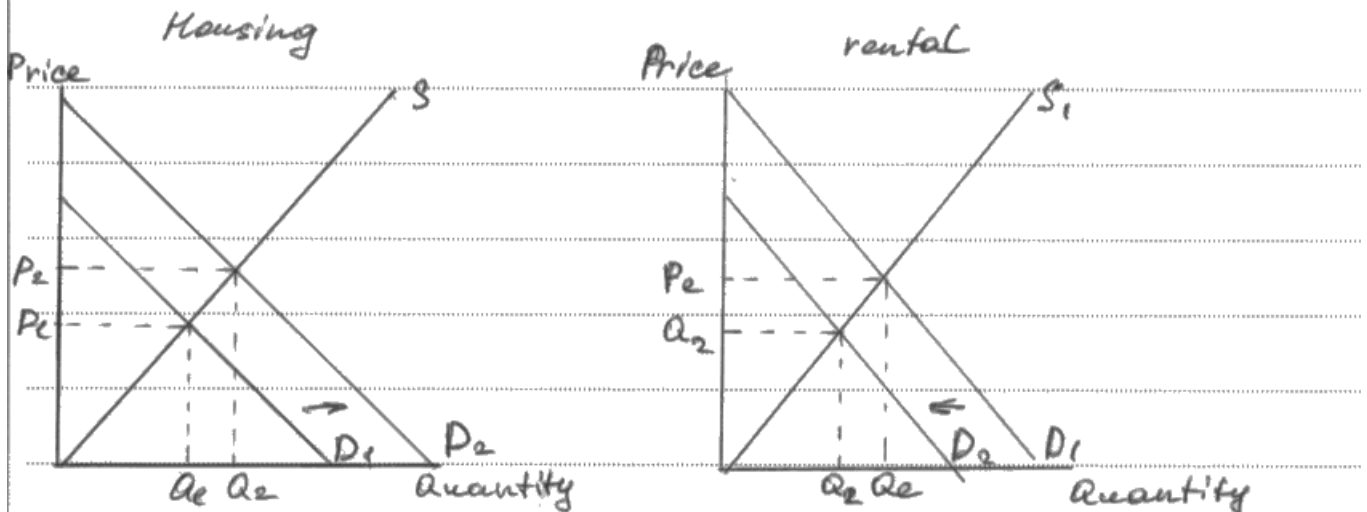
(g) Evaluate the case for government provision of goods and services such as flood defence schemes or housing.

(20)

Indicate which question you are answering by marking a cross . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 6(f) Question 6(g)

Write your answer here:



First of all, by introducing new Help to Buy scheme government make houses more affordable for people. This means that standard of living of the population will increase and the utility increase as more people will buy a house. ~~This would~~ However, as demand for houses will increase, ~~the price will increase~~ also decrease inequality in the society. However, cheaper mortgages for houses will increase demand for housing as a result price may increase. even this is

Because houses in Britain ~~to~~ are price inelastic due to govt. regulations like green belt. As a result ~~shift~~ in demand will cause significant increase in price, as shown on the diagram.

Secondly, the higher demand for houses and higher prices will incentivise producers to increase supply in order to make more profit.

This means that building of new houses will ^{create a lot of new jobs.} ~~decrease level of unemployment in the country.~~ As a result unemployment level will decrease, which leads to a better living standard of living & higher incomes for workers.

On the other hand, the increase in demand for houses leads to a decrease in demand for its substitute - rental properties. This leads to a ~~same~~ decrease in prices for rental properties ~~and higher unemployment in the industry, because~~ ~~then~~ and as a result lower profit for owners.

Lastly, the scheme will run just until 2017, which means that after that all problems will return. In addition, there are opportunity costs of Help to buy scheme such as NHS, ~~etc~~.

In ~~in~~ conclusion, the scheme causes more damage than benefits. To ~~even~~ make housing affordable for a few years, they spend a lot money, which

could be used more wisely, and damage other industries.



ResultsPlus

Examiner Comments

16 out of 20 marks awarded.

Two clear and carefully labelled diagrams provides a good start indicating a possible Level 3 or above response which is then confirmed as they are repeatedly used on the next page. To obtain Level 4 a more precise use of the diagrams with more integration would have been helpful. The candidate identifies the effect of Help to Buy as affordability and links this to utility and other effects, obtaining Level 3. They then move on to evaluate this by analysing the effect on demand and offering substantial judgement by indicating the significant increase due to price inelasticity of supply caused by 'government regulations like green belt'. This is worthy of Level 3 evaluation but needs another evaluative point to secure 6 marks and thus offer balance. The incentivised house builders is the next effect and the unemployment reference is allowed as a micro reference as they appear to be looking at the housing market (Level 3). The incentivised house builders is then well evaluated with a link to the disincentivised landlords (Level 3e). The time limit and opportunity cost evaluation is relevant but limited to Level 2 evaluation. Finally the candidate provides a conclusion which offers a clear substantiated judgement consolidating the time scale and opportunity cost issues (L3e). Overall they achieve Level 3+ KAA (10 marks) plus L3+ Ev (6marks) = 16/20.



ResultsPlus

Examiner Tip

Be prepared to offer a suitable diagram even when not prompted by the question. The candidate is successful in applying two relevant diagrams to the context. To obtain Level 4 a more precise use of the diagrams making use of the labels with more integration to micro-effects, such home-owners consumer surplus or property developers' revenue would have been helpful. There was an opportunity here to offer sophistication, linking the house builders as providing properties for sale or to rent which the candidate came close to.

Answer EITHER

(f) Evaluate the likely microeconomic effects of government intervention in the UK housing market.

(20)

OR

(g) Evaluate the case for government provision of goods and services such as flood defence schemes or housing.

(20)

Indicate which question you are answering by marking a cross in the box . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 6(f) Question 6(g)

Write your answer here:

Producers will benefit from the govt intervention because the subsidy on mortgage loan will increase their revenue because more consumers have revenue to buy houses. This would likely cause producer to increase supply to increase profit. It would also lead to more industries entering the housing market because the price mechanism signals that profit can be made with higher prices. However producer could become over-reliant on the subsidy which would reduce efficiency and quality of housing when the subsidy is removed in 2017. This would cause the demand in the housing market to decrease which could lead to lower profits being made.

For Consumers government intervention in the housing market would give them more income to purchase a house. This would be at a lower cost since they only have to pay a 5% deposit into the house. This would increase demand and confidence among consumers. It would also mean more consumers can use their income saved to consume other goods in the economy which would cause economic growth in the economy.

For the Government intervention would increase tax revenue because consumers are spending more on other goods this is because they would be paying less rent. However government intervention would lead to market failure in the market for rented properties because there will be excess supply and little demand. Also there will be an opportunity cost for the government if the intervene, because to support housing some of their other objectives would suffer such as education or health care which would be damaging for consumers and producers. It would also increase cost to the government.

because they are paying more money.
The ~~government would~~ The economy
would also experience a decline in tourism
because more houses could be supplied
this would crowd out the environment
leading to a decrease in VAT Tax
by the government.



ResultsPlus Examiner Comments

12 out of 20 marks awarded.

Producers benefiting from the subsidy on mortgage loans is well covered and in context (Level 3- KAA). This is then carefully evaluated using a data reference and theory (level 3 Ev). The candidate then moves on to considering the effect on consumers with a clear understanding and application but this is not evaluated (Level 3 KAA). Finally they consider the micro effect on government which is allowed since it is linked to rent (Level 2) and then well evaluated using theory (Level 2 Ev). The opportunity cost evaluation then offered is well explained (Level 2Ev). The crowding out argument has potential but is not explained carefully enough to obtain Level 3 evaluation. Overall the candidate achieves a low Level 3 response for KAA (8 marks). They just escape two-stage chain reasoning but would benefit from a slightly wider use of the economic concepts. For evaluation they achieve Level 2 evaluation (4 Ev marks) as the Level 3 evaluation initially offered is not balanced with a similar attempt. In addition there is a lack of substantiated judgement.



ResultsPlus Examiner Tip

Offer at least two evaluative points with substantiated judgements on 20 mark base essay questions. This promising response is limited by having just one substantial piece of evaluation.

Question 6 (g)

The question invited candidates to discuss the case for government provision of goods and services such as flood defence schemes or housing. In suggesting flood defence scheme or housing candidates could draw on the data available and their own knowledge but were also free to discuss the provision of other goods or services by government and a minority did so.

There was much evidence in the data which gave candidates an opportunity to analyse and evaluate possible cases. As with 6(f) it proved to be another question which differentiated well between the quality of responses with the mean score being 10.70 from a total of 20 marks. . High Level awarding was available for those able to structure their answer and make effective use of the information. The most popular case was missing market associated with public goods and the associated free rider problem. Affordability and wider economic cases were made for intervening in the housing market. The most able responses evaluated effectively, in particular, by questioning the effectiveness of government intervention or the law of unintended consequences. Effective sustained judgement balanced government failure against market failure and attempted to use positive economics to make the judgement call.

Answer EITHER

- (f) Evaluate the likely microeconomic effects of government intervention in the UK housing market. (20)

OR

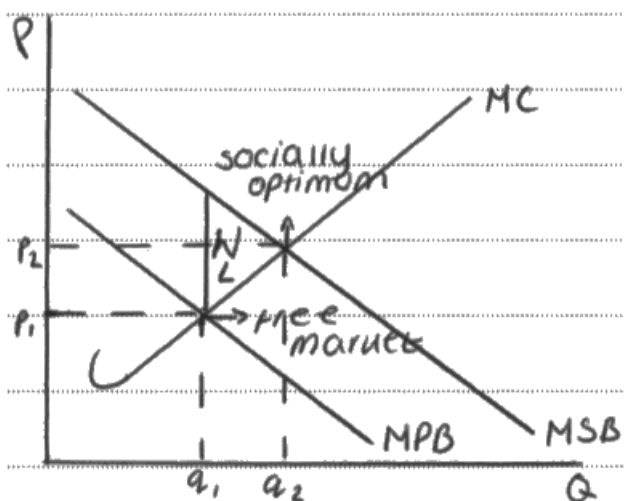
- (g) Evaluate the case for government provision of goods and services such as flood defence schemes or housing. (20)

Indicate which question you are answering by marking a cross . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 6(f) Question 6(g)

Write your answer here:

The government provides goods and services for flood defence and housing as they have social benefits and are underprovided by the market mechanism.



By investing into ~~the~~ flood defence '300,000 homes will be better protected' and over '£30 billion of economic damage prevented'. Flood defence is a public good, therefore

there is non-rivalry and non-excludability, so when left to the free market it would not be provided. This is because firms would not make a profit from it, leading to market failure. However, flood defence has positive externalities as it is a merit good, so the government has to intervene as it's being ~~over~~ ^{under} provided. In the long run it is saving '£30bn of economic damage' which means the people living in those houses will not have to pay out to fix their houses when it is flooded, leaving them to be able to spend that money in the economy as there's no longer an opportunity cost. This in turn will increase revenue for the businesses and promote economic growth, having a positive impact to those who are not part of the initial transaction.

Also, by intervening in the housing market, it will help the government achieve their macroeconomic objective of reducing inequality by 'planning, building and selling homes' it provides certainty for builders as the demand for them is derived from the demand for houses. With the development of '100,000 homes' the building industry will know that they'll have work so their ^{future} prospects will be good. This will lead them to invest in their equipment and technology, making them more efficient and competitive and efficient in the market. As a result, their business ~~will~~ can remain ⁱⁿ the market and will not have to leave having a positive effect for the workers. Also, with the quantity of houses being supplied increasing, it will create employment in the economy shown from the increase in q in the diagram from q_1 to q_2 . This prevents as much government spending on the welfare state in the form of job seekers allowance so more money can be spent elsewhere such as education and the NHS, therefore having a positive effect on these industries.

However, the initial cost for the government is high, with '£2.3 billion of investment in flood defences' alone. This will add to the government's budget deficit and in turn an opportunity cost to other areas which could actually lead to negative externalities. As a result despite their benefits in one industry there is costs to another, therefore cancel each other out.

Also, it is hard for the government to place a monetary value on the size of the externality, therefore may have overprovided the goods and services or possibly still remain underprovided. Therefore, it would not be working at the socially optimum equilibrium and so the external benefits would not be at its highest.

In conclusion, there would however be no impact in the short run as the consumers and producers are not given time to adjust to the changes. Although, in the long run, they would be able to adapt, therefore showing the positive externalities and effects of the government provision.



ResultsPlus

Examiner Comments

18 out of 20 marks awarded.

The candidate develops their first case on the under-provision and non-provision of goods and services if left to market forces. They use an accurate positive externality diagram, albeit missing a divergent MPB and MSB, to make the case for under provision and link it to the data provided. For public goods they again place in context and link to the wider benefits of government provision in this case. The second case is certainty for builders, as derived demand, encouraging them to invest. The third linked case is employment in the housing market linking back to the initial diagram. It would have been good to see more use of the diagram but there is precise use of theory and focus on context fully integrated here to earn top Level 4 (14 KAA). Evaluation was then separately addressed coming in the form of: the opportunity cost carefully explained (L2e); difficulty in measuring negative externalities (L2e+) which if they had linked back to the diagram may have obtained L3e and time lags (L2e). Since all evaluative comments are at Level 2 the candidate is awarded 4 evaluative marks not 6. Overall they achieved L4 KAA (14) and L2e (4) = 18/20.



ResultsPlus

Examiner Tip

Some candidates do say they find it easier to complete their knowledge, analysis and application first and then move on to the evaluation. The risk with this is that the evaluation may lack the sufficient depth, application and sustained judgement that can be offered against each case made. For sustained judgement by immediately evaluating the evaluative comments they are able to weigh their arguments using positive economics.

This is a sophisticated approach to developing a coherent argument.

Answer EITHER

(f) Evaluate the likely microeconomic effects of government intervention in the UK housing market.

(20)

OR

(g) Evaluate the case for government provision of goods and services such as flood defence schemes or housing.

Public good

Private good

(20)

Indicate which question you are answering by marking a cross . If you change your mind, put a line through the box and then indicate your new question with a cross .

Chosen question number: Question 6(f)

Question 6(g)

Write your answer here:

* A public good is a good which can be used by everyone, it is non-excludable and non-rivalrous. A public good is private good can ~~not~~ only be consumed by those willing or able to pay for it. * Government intervention is when the government allocate resources so they are fully and efficiently used.

The government provision of flood defence scheme is a public good. This means it is non-excludable ~~to~~ ^{so} everyone will be able to use even if they don't pay for it eg through taxes. The £2.3 billion investment will also be non-rivalrous therefore.

The government will also provide housing which is a private good. This is excludable because only to the person who pay for it can use it. Also, it is ~~non-rivalrous~~ rivalrous as once someone has consumed it, only they ~~to~~ can use it.

A problem with public goods is the free rider problem. This is where people who don't pay for a good are still able to use it. Therefore the people who don't pay taxes will not be contributing to the flood scheme which includes 1400 flood defence projects.



ResultsPlus
Examiner Comments

6 out of 20 marks awarded.

The candidate considers public goods by defining the concept on the first page and using the data but does not clearly make the case for government provision thus achieving a low Level 2 for knowledge, analysis and application (L2-KAA = 4). They then go on to identify a problem with public goods and seem to link it to the government provision but the response could do with further development (Level 1 evaluation = 2e). Overall they achieve L2-Kaa (4 marks) plus Level 1 evaluation (2 ev) = 6/20.



ResultsPlus
Examiner Tip

It is essential in using theory and data to ensure you are directly answering the question and linking evaluation back to the question.

Paper Summary

Based on candidate performance on this paper, the following advice is offered:

Section A: multiple choice and short questions

- Practice timings for Section A with a sharp focus on concise applied 3-mark responses with linked development.
- Ensure you have revised the full specification for Theme 1 thoroughly, including functions of money in Q1(b).
- Accurately define the key economic term(s) used in each question, for example, specialisation and diminishing marginal utility.
- Be prepared to annotate the diagrams presented in the questions, for example, welfare gain/loss and social optimum in Q2(c).
- Be prepared to draw diagrams when relevant to the question and make sure these are properly labelled and explained in the text, for example, changes in total revenue resulting from a price cut given a price inelastic demand curve in Q5.
- Always refer to the information provided, for example, "all you can eat buffet for £8.99" in Q4.
- Read the question carefully, for example, Q5 required candidates to explain the change to total revenue rather than define price elasticity of demand.
- Always show the workings involved in calculation questions as marks are available for this, for example, calculating price elasticity of demand in Q4.

Section B: data response questions

- Read the question instructions very carefully to make sure your answer remains relevant to the context throughout and makes full use of the data. All too often answers strayed from the questions set as revealed in 6(b) ignoring the impact on rented properties, 6(c) on the impact on producer surplus, 6(e) in 'allocating housing', 6(f) on 'microeconomic effect' and 6(g) on the case for government provision when candidates covered the definition of public good without linking to the case. For 6 (a) a common error was to define PES and then answer entirely using PED, an area which causes significant difficulty after just one year of economics study.
- Always note you are advised to show the workings involved in calculation questions as marks are available for this, for example, calculating the percentage change in 6(d) to the geographical mobility of labour.
- Ensure diagrams are accurately drawn and used to answer the questions set. For example, in answering 6(c) the producer surplus diagrams when answered well were very well labelled, drawn and referenced to show the change in the size of the producer surplus explicitly; whereas in 6(e) the essay diagrams were drawn but poorly labelled and explained. By focusing on fully labelled diagrams this will encourage candidates to draw Level 3 diagrams which may indicate market forces, market failure, size of government subsidies, benefits to producers or consumers, welfare losses and so on rather than basic Level 2 diagrams or inaccurate Level 1 diagrams.
- Focus on logical chains of reasoning that explain your knowledge and evaluation whilst applying theory and data in the level based questions. Quite often candidates move from definitions and a brief explanation of an economic issue straight into thin evaluation. This, and a lack of structure was mostly evident in the essays and may be due to time constraints. The need to practice full papers under timed conditions is essential in planning schemes of work.
- Offer continuous judgement making extensive use of positive economics as you respond to the essay-based optional question.
- Clearly identify which essay you have chosen by placing a cross in the correct box.

Grade Boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<http://www.edexcel.com/iwantto/Pages/grade-boundaries.aspx>

Ofqual



Llywodraeth Cynulliad Cymru
Welsh Assembly Government



Pearson Education Limited. Registered company number 872828
with its registered office at 80 Strand, London WC2R 0RL.