

OXFORD CAMBRIDGE AND RSA EXAMINATIONS
Advanced Subsidiary GCE

ECONOMICS
MARKET FAILURE AND GOVERNMENT INTERVENTION

2882

Revised Specimen Mark Scheme

General Instructions

- 1 The paper is to be marked to AS standard.
- 2 Marking should be positive: marks should not be subtracted for errors or inaccuracies.
- 3 In assessing quantitative answers, the 'own figure rule' (OFR) must be applied, i.e. a candidate must be given credit for calculations which, though wrong, are consistent with an earlier error.
- 4 Mark Scheme refers to possible issues/content that candidates might use. These suggestions are neither exhaustive nor necessarily required.
- 5 The quality of written communication will be assessed in the answer to the final part question.

A Levels of Response mark scheme is used for the marking of this part question so the following Quality of Written Communication Levels are related to the appropriate levels of response and mark ranges within the mark scheme for the final part as follows:

Quality of Written Communication Level	Embedded Mark	Levels of Response	Mark Range
4	3	3	7-12
2/3	2	2	4-6
1	1	1	1-3

These levels of the quality of written communication are defined as follows:

Level 4

Complex ideas have been expressed clearly and fluently using a style of writing appropriate to the complex subject matter. Sentences and paragraphs, consistently relevant, have been well structured, using specialist technical terminology where appropriate. There may be few, if any, errors of spelling, punctuation and grammar.

(3 marks representing the appropriate level of written communication are embedded in this level of response.)

Levels 2 and 3

Relatively straightforward ideas have been expressed clearly and quite fluently, using an appropriate style of writing. Arguments are generally relevant, though may occasionally stray from the point and are broadly logical and coherent. There will be some errors of spelling, punctuation and grammar, but these will not be intrusive or totally obscure the meaning.

(2 marks representing the appropriate level of written communication are embedded in these levels of response).

Level 1

Simple ideas have been expressed, generally in a style lacking clarity and fluency. Arguments will have limited coherence and structure, often being of doubtful relevance to the main focus of the question. There are errors of spelling, punctuation and grammar, which will be noticeable and intrusive. Writing may lack legibility.

(1 mark representing the above level of written communication is embedded in this level of response).

Exceptionally, answers which are assessed as Level 1, Level 2 or Level 3 from the individual unit mark scheme criteria may be awarded an additional mark for the quality of their written communication in any particular and appropriate question, if the standard attained falls outside the embedded criteria for the Quality of Written Communication stated above. This flexibility is available where the Quality of Written Communication is linked to a Levels of Response mark scheme only.

No additional QWC marks can be awarded if the initial mark is zero.

(a) (i) Define the term 'externality'. [2]

Externality exists when a third party is affected by the actions of others – i.e. a spill-over effect (up to 2 marks).

A divergence between social and private costs or benefits (2 marks).

1 mark for a suggestion that an action affects wider society/others.

1 mark for an appropriate exemplification. **Maximum of 2 marks.**

(ii) From the article, identify two examples of a negative externality. [2]

Several possibilities exist in the passage that are worthy of a mark: pollution, global warming, destruction of peatlands, leaks from water pipes, destruction of the countryside, greenhouse gas emissions, congestion from fuel protests.

1 mark for each accurate example. **Maximum of 2 marks.**

(iii) From the article, identify two examples of a positive externality. [2]

Various possibilities can qualify here: jobs/employment, skills, reduced pollution, reduced water leaks, reduced global warming, preserving the countryside.

1 mark for each accurate example. **Maximum of 2 marks.**

(b) The newspaper article talks about a large increase in fuel prices (lines 4-9).

(i) Give one group who might suffer financial hardship due to a large rise in fuel prices. Explain the reasons for your answer. [4]

1 mark for identifying lorry drivers or farmers (or other major fuel users such as car users).

1 mark for simply stating that more has to be spent or that costs have increased.

Up to 2 further marks for a full explanation of economic implications.

4 marks maximum.

- (ii) Give one type of transport business that might benefit through a large increase in fuel prices. Explain the reasons for your answer. [4]

1 mark for identifying an alternative to car transport: railways are the most obvious, but buses and coaches would be possibilities.

1 mark for simply stating that the business identified is now cheaper.

Up to 3 further marks for explaining that the increase in the cost or price of car travel would lead to the use of now relatively cheaper alternatives/substitutes. Demand will rise.

4 marks maximum.

- (c) (i) State two characteristics of 'public goods'. [2]

There are two distinct characteristics that are given in the specification for this unit: non-rivalry and non-excludability. Anything which states these or gives the right description of them gains credit. 'Good not provided by the market' is a further possible characteristic.

1 mark for each characteristic [2 marks maximum]. No description or explanation required.

- (ii) How far does the 'right to roam' (line 14) make the countryside more like a public good? [5]

A good becomes more like a public good the more that it develops the attributes or characteristics of a public good. The right to roam legislation clearly means that the countryside becomes less excludable. This makes it more like a public good. It could also mean more people visit the countryside. This could lead to greater crowding or rivalry. To this extent, it could be argued that the countryside becomes less like a public good.

1 mark for the judgement that it is [or is not] more like a public good.

Up to 4 further marks for a clear understanding of how the right to roam develops one of the characteristics of a public good and thus makes the countryside more like a public good (or possibly less like a public good).

Up to 3 marks for simply stating that the countryside is now non-excludable. Up to 3 marks also for simply stating that the countryside could be more crowded/rival. Some exemplification in both cases needed for the additional mark.

1 mark for saying that the public can/will use the countryside more.

5 marks maximum.

- (d) (i) Define the term 'subsidy'. [2]

2 marks for stating that it is a payment by the government (or another organisation) to a business for producing or doing something.

1 mark for saying it is a payment by the government.

- (ii) Using a diagram, explain how a government subsidy paid to the renewable energy industry might increase the consumption of renewable energy. [10]

The expected diagram is shown below as Diagram 1. A supply and demand diagram is acceptable to gain marks. This could also be expressed through a more complex costs and revenue diagram that illustrated the same principle.

In Diagram 1:

1 mark for labelling the axes.

2 marks for correct initial supply and demand schedules.

1 mark for correct rightward movement of the supply schedule.

1 mark for indicating reduced price and increased quantity.

Up to 3 further marks for explaining that a subsidy payment is the equivalent of a cut in the costs of production thus shifting the supply schedule to the right.

Up to 3 marks for explaining that the lower cost and rightward move of the supply schedule will cause a fall in the selling price.

Up to 3 marks for explaining that the fall in the selling price will cause an increase/extension in demand and thus lead to higher consumption of renewable energy. Up to 2 marks for an attempt at each of the above points that is not a full explanation.

10 marks maximum.

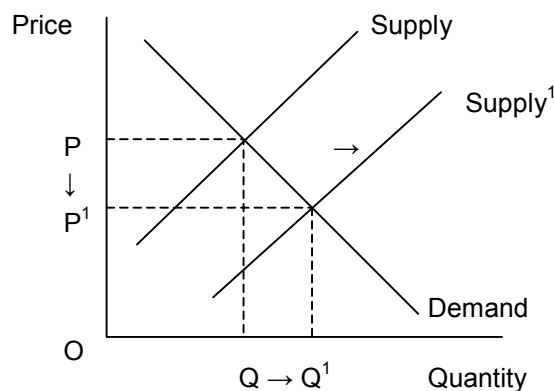


Diagram 1

(e)* Discuss the advantages and disadvantages to the government in using taxes to improve the quality of the environment. [12]

Advantages of this policy could include:

- It raises finance for the government;
- It can achieve a reduction of the consumption of environmentally damaging products;
- It can work with the market. Price can be affected rather than direct regulation of the industry taking place;
- The optimal level of production could be achieved if the tax is set at the right level.

Disadvantages of the policy could include:

- It will have a distributional effect (e.g. taxing fuel);
- It is very hard to set the tax at the right/best level to ensure optimum consumption;
- It increases prices (possible inflationary effect);
- It may be politically very unpopular (fuel taxes);
- Inelastic demand may mean that the policy does little to reduce consumption of environmentally damaging products (fuel).

Level 3 A discussion (possibly including an evaluative judgement) of some relevant advantages and disadvantages (both are required explicitly to gain top level 3).
(7-12 marks)

Level 2 An explanation of some of the relevant advantages and disadvantages.
(4-6 marks)

Level 1 An identification of some of the relevant advantages and disadvantages.
(1-3 marks)

12 marks maximum.

***The Quality of Written Communication will be taken into account in this question.**

	(a)(i)	(a)(ii)	(a)(iii)	(b)(i)	(b)(ii)	(c)(i)	(c)(ii)	(d)(i)	(d)(ii)	(e)	TOTAL
AO1 Target: 13-14	1	1	1	1	1	2		2	5		14
AO2 Target: 13-14	1	1	1	2	2		3			3	13
AO3 Target: 9				1	1				5	3	10
AO4 Target: 9							2			6	8
	2	2	2	4	4	2	5	2	10	12	45
Subject Content Reference	5.2.2	5.2.2	5.2.2	5.2.2	5.2.2	5.2.2	5.2.2	5.2.3	5.2.3	5.2.3	

*Quality of Written Communication is assessed in part (e).

