

2016 Edexcel AS Economics Paper 1 Microeconomics Paper

Model Answers

This document is helpful for longer essay questions/responses. Please reference the Mark Scheme for answers to Multiple Choice questions.

The following outstanding candidate responses are published in the Edexcel exam board's Examiners' Report. Please note these responses are for reference study only, and Qurious Education Ltd. does not claim any copyright to the materials Pearson Education publishes. We only extracted them for educational purposes and to make their public resources more accessible. Please visit their website for the full version of the Examiners' Report.

Examiners' Report

June 2016

GCE Economics 8EC0 01

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.

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

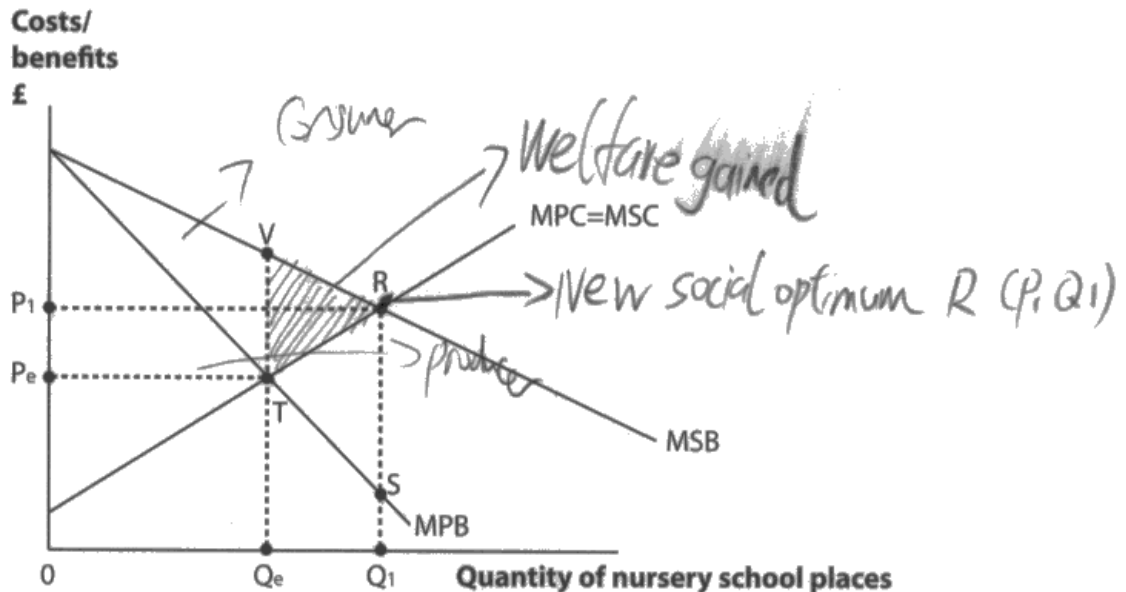
The mark scheme accommodates a range of accurate economic definitions for 'external benefits'. Concise accurate answers for 1 mark are the best approach.

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 Q1 with an arrow indicating the new social optimum. Variations on this were also allowed with just shading VRT and circling R, S, P1 or Q1. 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.

Diagram A



- (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.

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 ~~an~~ 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 then 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.

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.

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>)

(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 $\left(\frac{\% \Delta Q_d}{\% \Delta P}\right)$

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

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

Petrol 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 the 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.

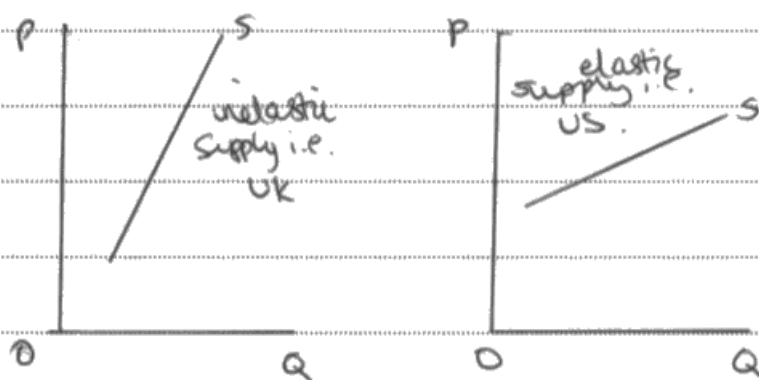
Question 6 (a)

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 ($\frac{\% \Delta QS}{\% \Delta P}$). 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. Fewer 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).

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.

Question 6 (c)

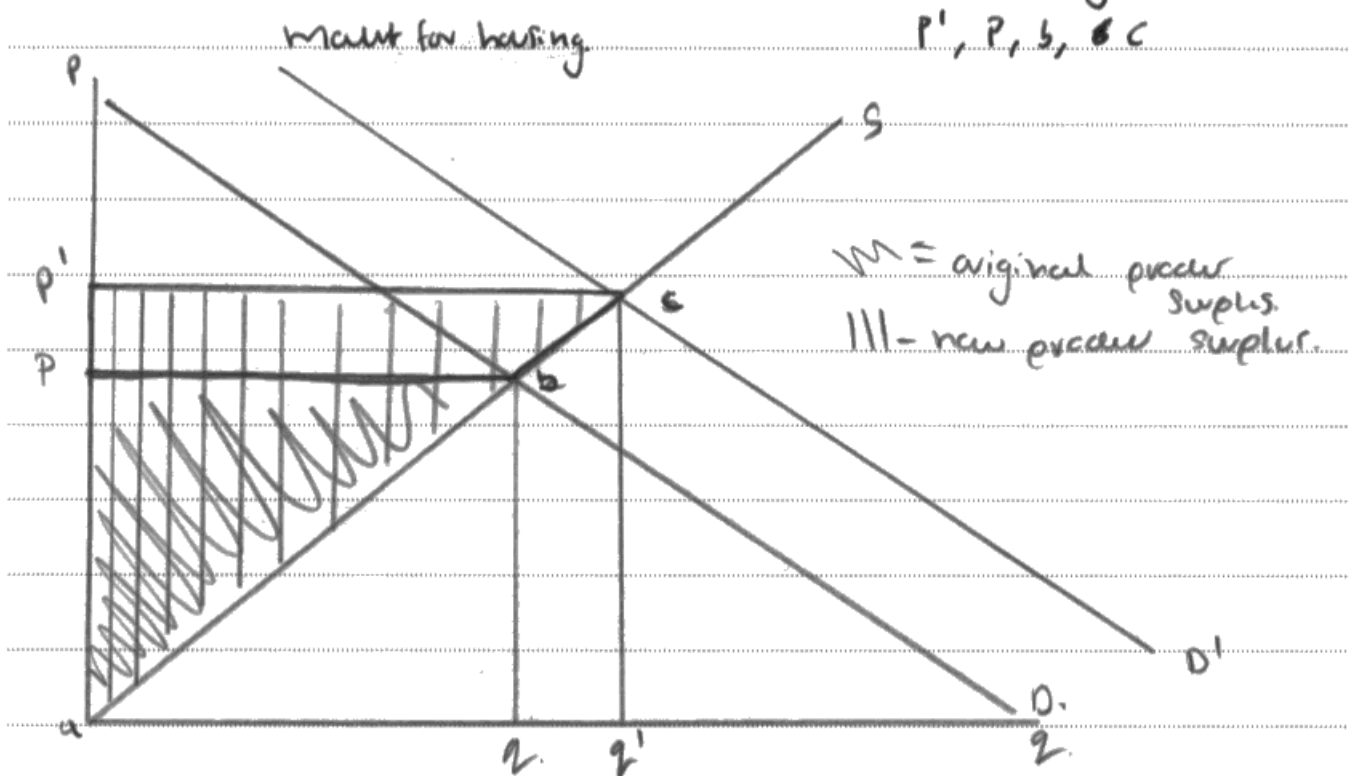
The question on explaining the likely impact on producer surplus of an increase in the demand for housing was awarded as a low cognitive question balanced against the challenge questions asked elsewhere. Candidates were asked to draw a diagram to illustrate their answer. The more able responses could 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 us and 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

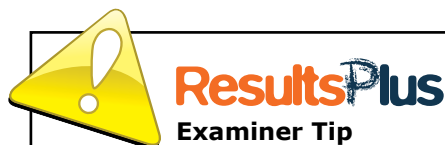


Producer surplus would rise as the producer is getting more for a higher price than he supplied to us, as there is more demand in the market.



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.



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)

$$\begin{aligned} 2009 (Q1) &= 300 \\ 2015 (Q1) &= 375 \\ 375 - 300 &= 75 \rightarrow \text{the difference} \\ \frac{75}{300} \times 100 &= 25\% \text{ change} \end{aligned}$$



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.

Question 6 (e)

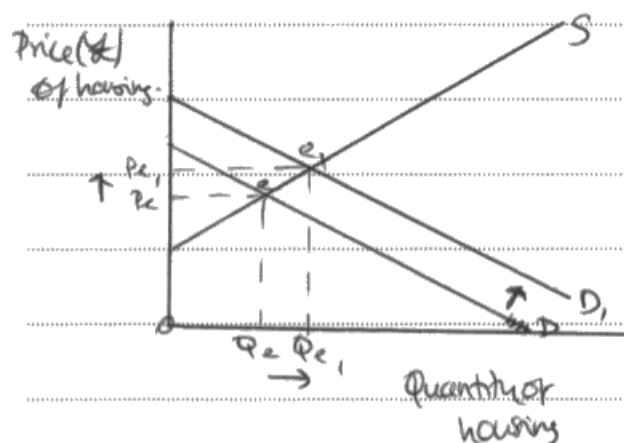
The question invited candidates to discuss the functions of the price mechanism in allocating housing using Figures 1 and 2 and their own knowledge. There was much evidence of candidates using Figure 2 Index of UK house prices as calculated in question 6(d) to explain using a housing market diagram the 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, signalling and incentive functions.

In Figure 1, the supply of housing in ^{Great Britain} ~~the United Kingdom~~ is fairly price inelastic and therefore, ~~an~~ ^{demand} increase in ~~market~~ 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 an rising population or government schemes thus rising the price to P_2 .

However, the housing market is more elastic in the long-run than it can ~~vary as~~ 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 by 24% ^{of housing} 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 high price however will act to 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 failure 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 rise 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.

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 micro-economic 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.

Question 6 (f)

Answer EITHER

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

(20)

OR

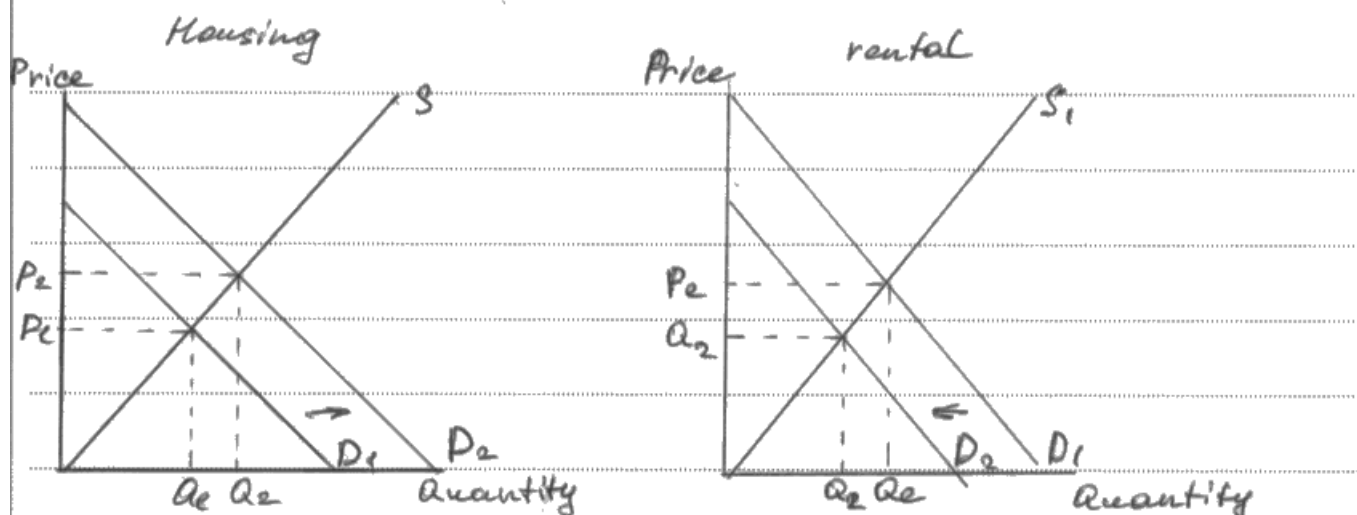
- (g) Evaluate the case for government provision of goods and services such as flood defence schemes or housing.

(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:



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. ~~How~~ 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 of 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.

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.

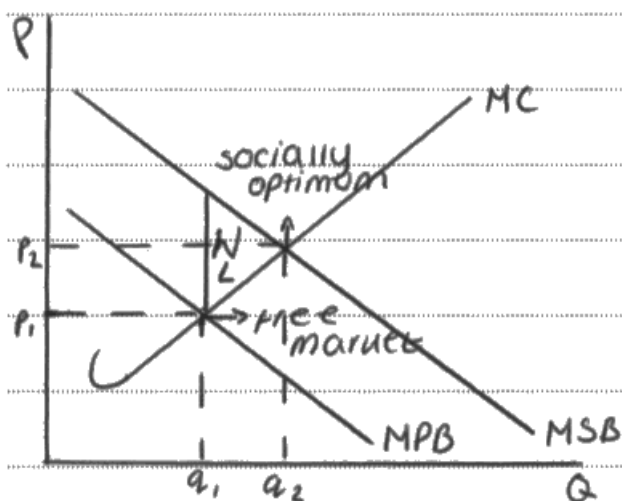
(20)

Indicate which question you are answering by marking a cross 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:

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.