

AS Economics Units 2 Markets - why they fail 04 June mark scheme

Q 1(a) (i) Distinguish between the private benefits and the external benefits of university education. Illustrate your answer with a diagram. 8 marks

Private benefits are those derived by an individual from consumption (or production) of a product or service (1 mark).

Private benefits of university education include: higher paid, more interesting job (1 mark for one example).

External benefits are the difference between social benefits and private benefits and accrue to third parties who were not part of the transaction (2 marks).

External benefits of university education: better educated workforce, higher productivity, higher level of economic growth (1 mark for one example).

3 marks for diagram and explanation (include reference to university education).

1 mark for basic diagram 2 marks for diagram including reference to private and external costs equal to social costs Third mark for reference to context (either on diagram or in text)

(a) (ii) Apart from external benefits, analyse the case for a 'universal, state financed higher education.' (Extract 1, line 1)

Key points:

Asymmetric information.

Inequality of income.

Monopoly/oligopolistic market structure.

Allow credit for merit goods.

2 marks for identification or for definition of quotation, 2 marks for application which explains why the state should finance higher education and 2 marks for explanation.

Up to 4 marks could be awarded for identification, application and explanation of any one point.

Maximum 4/6 if not related to university education.

(b) With reference to Figures 1 and 2, outline two reasons which might explain why "Britain's universities are broke, lecturers are ill-paid and courses are over-crowded." (Extract 2, line 1)

Possible reasons include:

Dramatic increase in student numbers.

Funding limited by ability of government to raise taxes.

Wages of lecturers not determined by market forces.

2 marks for identification, 2 marks for specific data reference and 2 for explanation.

(c) Define what is meant by 'government failure'

Government intervention which leads to a net loss in economic welfare.

or Government intervention which distorts market forces and causes a misallocation of resources. 2 marks

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(c) (ii) To what extent does the current state of Britain's universities illustrate government failure ?

Reference to factors such as:

Under funding limiting money available for research or for student places.

Poor pay of university lecturers causing brain drain.

Over-crowded courses - perhaps leading to lower quality.

Universities not responsive to market forces e.g. in types of courses offered.

Evaluation points might include:

Reference to expansion of higher education

High regard with which degrees from UK universities are held

Access to universities not necessarily dependent on incomes

External benefits of higher education. 1 mark for identification

3 marks for explanation and analysis of any two points.

4 marks for any two evaluation points i.e. giving reasons to support argument; coming to a conclusion. (2+2; or 3+1 or 1+3 marks) 8 marks

(d) With reference to Extract 2, assess any two of

the options for funding universities.

Outline of two options: 2x3 marks.

First option: Basic fee and student loans

Universities get money immediately.

Students make more rational choices. but

Could deter the poor.

Students could leave universities with large debts.

Little extra money for universities.

Second option: Graduate tax

No initial payments.

Simple system.

Could raise a large sum of cash. but

Gap before government receives money.

Assumes graduates will get good jobs.

Penalises high income earners.

Third option which increases role of market forces:

To increase efficiency.

To avoid government failure.

To increase responsiveness of universities to demand.

To enable wages to rise to avoid the brain drain. but

Creates a premier league of universities.

Students could end up with heavy debts.

Mark each option separately, namely: 1 for knowledge (basic idea of policy) 2 for explanation

2 for evaluation 10 marks

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Q. 2 (a)i Define the term 'external costs'.

These are the difference between social costs and private costs and are paid by third parties who were not part of the transaction. 2 marks

ii How do the external costs of waste disposal differ from the private costs? Illustrate your answer with a diagram.

Private costs: are those paid by an individual from consumption (or production) of a product or service (1 mark).

These would be zero for most household rubbish; some petrol costs for taking rubbish to reclamation centres (1 mark for any example).

External Costs of waste disposal: These include pollution; loss of countryside; environmental damage (1 mark for any example).

2 marks for making clear distinction between private and external costs which could be in written explanation. If only shown in diagram 1 mark.

1 mark for basic diagram

2 marks for diagram with reference to $X+Y$

Third mark for reference to context (either on diagram or in text) 8 marks

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(b) Analyse *two* factors *which might* explain the

increase in UK waste levels.

Possible factors include:

Increase in incomes

Shorter product life cycles

Growth in pre-packaged goods

More households

Population growth/immigration.

2 marks for identification; 2 marks for application and 2 marks for explanation. To gain 2 application marks candidates could explain how the factors identified could increase the quantity of waste. Up to 4 marks could be awarded for identification, application and explanation of any one point.

With reference to Figure 1, outline two factors which might explain the differences in methods of waste management between the UK and one other country shown.

Possible factors include differences in: o Legislation.

Taxes on waste disposal.

Cultural factors.

Relative cost of alternatives.

Geographical factors.

Availability of recycling facilities.

2 x 3 marks: 2 marks for identification, 2 marks for specific data 6 marks reference and 2 marks for explanation.

(c) Examine the likely economic effects of a landfill

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tax.

Landfill tax increases local authority costs; incentive to reduce amount of waste and to adopt alternatives e.g. recycling; thermal treatment. Candidates might well include a supply and demand diagram as part of their analysis.

Allow credit for interpretation of a landfill tax as a tax on firms or individuals.

Evaluation: effectiveness will be reduced if local authorities can raise taxes easily to pay the tax; amount of tax increase will be significant in determining impact.

Also, revenue raised could be used to clean up the environment or for other purposes.

1 mark for identification

3 marks for explanation and analysis; 4 marks for any two evaluative points (3+1 or 1+3 or 2+2). 8 marks

(d) A government agency offers to buy waste paper at a minimum guaranteed price. Evaluate the implications of such a scheme, assuming that it leads to a significant increase in the quantity of waste paper supplied for recycling.

Evaluative points include: amount of surplus will depend on elasticities of demand and supply; how far minimum price is above the free market price; the extent of the increase in supply, cost to the government

of operating the scheme..

2 marks for diagram or a definition of a minimum guaranteed price system. 4 marks for application and explanation; 4 marks for any two evaluative points (3+1 or 1+3).

1 mark for identification

3 marks for explanation and analysis; 4 marks for any two evaluative points (3+1 or 1+3 or 2+2). 8 marks