

Question	<p>Many consumers do not buy travel insurance before going on holiday abroad despite substantial costs if they need medical care.</p> <p>Many car drivers do not provide complete and accurate information to car insurance companies when insuring their cars.</p> <p>Evaluate the microeconomic effects of imperfect information on insurance markets.</p> <p>Indicative content</p>	
14	<p>Quantitative skills assessed</p> <p>QS4: Construct and interpret a range of standard graphical forms</p> <p>QS9: Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p>Indicative content guidance</p> <p>Answers must be credited by using the level descriptors (below) in line with the general marking guidance.</p> <p>The indicative content below exemplifies some of the points that candidates may make but this does not imply that any of these must be included. Other relevant points must also be credited.</p> <p>Knowledge, application and analysis (12 marks) – indicative content</p> <ul style="list-style-type: none"> • Information failure- where economic agents lack the information to make optimal decisions • Asymmetric information- where economic agents have different levels of information • Market failure- where the market leads to an inefficient allocation of resources • Many consumers holiday abroad without travel insurance despite substantial costs when they need medical care e.g. many are unaware of the possible large costs if they need to be returned home in an emergency • This results in underconsumption of travel insurance • When taking out health insurance policies many consumers fail to declare all information. This means the policy offered does not take account of the risks for the individual- it means that the insurance company may end up paying out more in claims • Incomplete information may result in claims being rejected • For example, on medical or health insurance they may not declare they smoke or drink alcohol regularly which increases the risk of a claim • Car drivers don't tell the whole truth on applications- meaning that the driver is a higher risk and therefore more likely to claim • When making claims the consumer may leave information out that would result in a lower or no payout- for example, they left the car or house unlocked or without the security alarm set • Imperfect information results in insurance companies making larger payouts increasing costs • These higher costs result in consumers having higher premiums / paying more for their insurance policy 	
Level	Mark	Descriptor
	0	No rewardable material.

Level 1	1–3	Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models. Use of generic material or irrelevant information or inappropriate examples. Descriptive approach, which has no chains of reasoning.
Level 2	4–6	Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models. Limited application of knowledge and understanding to economic problems in context. A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.
Level 3	7–9	Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. Analysis is clear and coherent. Chains of reasoning in terms of cause and/or consequence are evident but they may not be developed fully or some stages are omitted.
Level 4	10–12	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using appropriate examples which are fully integrated to address the broad elements of the question. Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.

Evaluation (8 marks) – indicative content

- Market failure may be reduced as the insurance company can gain permission to find medical records/ contact doctor
- Information can be provided about costs of medical evacuation so consumers can take account of these costs
- Consumers may have the information but with the chance of it happening being so small they calculate that is a risk worth taking not having the insurance
- Consumers not taking out medical/ health insurance may be because they cannot afford the premium
- The internet may help close the information gap that results in the market failure
- Market failure in insurance markets may be the result of irrational behaviour rather than the result of imperfect information (habitual behaviour, inertia, herding and calculation problems)
- Insurance companies may share information on consumers who may say they have not claimed in 5 years. This can be checked by the insurance company

Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–3	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	4–6	Evidence of evaluation of alternative approaches.

		Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	7-8	Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.