2	**QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** **A** is not correct because the maximum price is below the equilibrium so resulting in excess demand, not excess supply **B** is not correct because the maximum price is below the equilibrium so resulting in excess demand, not excess supply **C** is not correct because the higher price results in a contraction of demand and an extension of supply so excess demand decreases	**(1)**

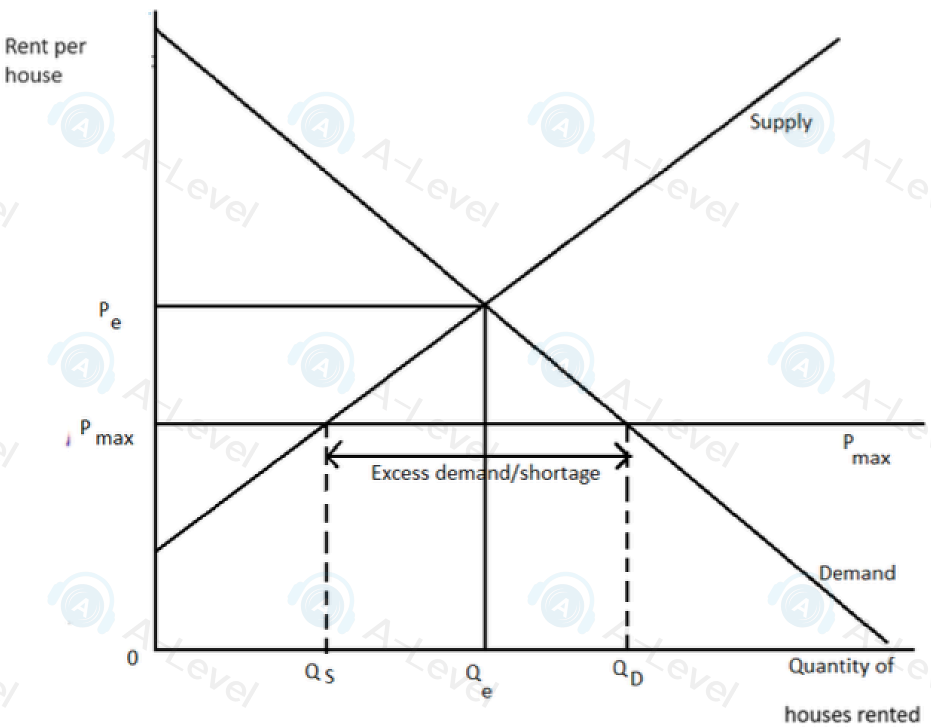
3	–	A	**(1)**

Question Number	Quantitative skills assessed	Answer	Mark
1		**The only correct answer is B** ***A*** *is not correct as this is successful government intervention* ***C*** *is not correct as this is market failure* ***D*** *is not correct as this is market failure*	**(1)**

5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** **B** is not correct because the government intervention causes the net welfare loss not the market **C** is not correct because this is positions above the PPF **D** is not correct because this is when consumers do not have the energy to find better deals	**(1)**

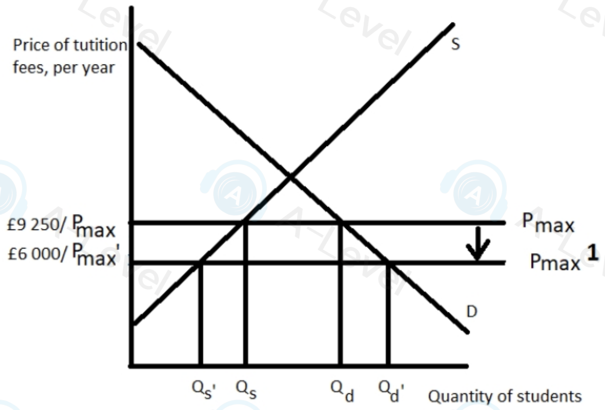
3	–	**The only correct answer is A** **B** is not correct because this is a function of the price mechanism **C** is not correct because this is government failure **D** is not correct because this is the government correcting the market failure	**(1)**

1	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is D** **A** is not correct because this illustrates that the market is functioning correctly **B** is not correct because this is an example of market failure **C** is not correct because this is government intervention succeeding in eliminating the market failure	**(1)**

Question	With reference to the house rental market in Brisbane, draw a diagram to illustrate the introduction of a maximum price for renting a house. **Answer**	Mark
7	**Knowledge 1, Application 3** Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for showing knowledge on diagram • Original supply and demand with correctly labelled axes **(1)** **Application** Up to 3 marks for the following information included on diagram: • Maximum price below equilibrium price **(1)** • Q_D and Q_S at maximum price **(1)** • Excess demand/shortage **(1)**  **N.B. The market equilibrium is not necessarily required**	**(4)**

Question	Explain **one** microeconomic reason why people might have unnecessary operations in the USA. **Answer**	**Mark**
9	**Knowledge 1, Application 1, Analysis 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for understanding e.g.: • Asymmetric information- where one economic agent has more information than another/ where the producer has more information than the consumer **Or** • Information gap- where information is not available to the consumer **Application** 1 mark for applying to unnecessary operations e.g.: • $200 billion per year spent on unnecessary operations **(1AP)** **Analysis** up to 2 marks for linked expansion • Doctors use their superior knowledge **(1AN)** to recommend surgeries/operations that the patient may not need **(1AN)** • Consumers are not aware of whether they need the operations **(1AN)** as they do not have medical training **(1AN)** • The private health insurance model in the USA provides an incentive to complete unnecessary operations **(1AN)** as it is an insurance company, not the patient who will pay/ which will increase revenue for the health provider **(1AN)** • Consumers may be more willing to have operations **(1AN)** as their insurance provider is paying **(1AN)** **NB moral hazard is a reason for people taking more risks leading to more operations and not more unnecessary operations**	**(4)**

Question Number	Answer	Mark
9	**Knowledge 1, Application 1, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for knowledge of moral hazard • Situation where one party gets involved in a risky event knowing that it is protected against the risk/ • Another party will incur the cost of a decisions **(1)** **Analysis** Up to 2 marks for explaining the concept of moral hazard linked to health insurance, e.g.: • The citizens are insured so take more risks **(1)** as they know that they will be covered by the insurer if they attend hospital **(1)** • The risk is transferred from the individual to the insurer **(1)** which may mean individuals are more willing to take risks/which increases the risk of injury **(1)** **Application** 1 mark for applying to the stem, e.g.: • 10 000 Insured citizens had more hospital admissions/emergency department visits than the 45 000 without insurance **(1)**	**(4)**

Question	Draw a diagram to illustrate the impact of a decrease in the maximum price of university tuition fees in the UK. Answer	Mark
7	**Knowledge 1, Application 3** Quantitative skills assessed: **QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** • 1 mark for drawing a supply and demand diagram showing the original maximum price below the equilibrium price. **Application** Up to 3 marks for the following information included on diagram: • 1 mark for drawing a new maximum price below the original maximum price • 1 mark for showing new quantity supplied and quantity demanded (May be offered in written explanation) • 1 mark for the impact on excess demand (rises)/ shortage increases (May be offered in written explanation)  	**(4)**

Question	Explain why this tax on imported cars is an example of government failure. **Answer**	Mark
9	**Knowledge 1, Application 1, Analysis 2** **Knowledge** 1 mark for defining government failure, e.g.: • where government intervention leads to a net welfare loss/misallocation of resources Or for identifying the type of government failure • This is government failure as it is an unintended consequence **(1)** **Application** Up to 1 mark for applying to the government failure in the stem, e.g.: • Government seized smuggled cars / removed 800 smuggled cars in July 2018 **(1)** • Calculation of a relevant tax payable on a car / the calculation must be for a car worth \$74 000 or above **(1)** **Analysis** Up to 2 marks for explaining how this is an example of government failure e.g.: • The 50% tax on imports of cars over \$74 000 is substantial **(1)** meaning consumers may try to avoid the tax and smuggle cars **(1)** • The tax on a car valued at \$74 000 is excessive at \$37 000 **(1)** creating an incentive for people to smuggle cars **(1)** • To avoid the tax consumers will smuggle cars **(1)** meaning the Government will lose tax revenue **(1)** • There will be more unregistered cars on Philippine roads **(1)** owners will not pay for road taxes **(1)** • Owners of smuggled cars will struggle to find people to maintain unregistered cars **(1)** compromising safety of other drivers **(1)**	**(4)**

Question	Define the term 'base rate of interest' (Figure 1). Answer	Mark
12(a)	**Knowledge 2** Up to 2 marks for defining base rate of interest • Cost of borrowing / Return received for saving money **(1)** that the central bank charges / pays commercial banks **(1)** • Set by the central bank **(1)** to commercial banks **(1)**	**(2)**

Question	With reference to Figure 2, explain the term 'recession'. Answer	Mark
12(b)	**Knowledge 2, Application 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** Up to 2 marks for offering a definition of recession • Two consecutive quarters **(1)** of negative economic growth / negative real GDP growth **(1)** **Application** Up to 2 marks for reference to Figure 2 for example: • Recession starts Q4 2015 -1.2% to -0.2% Q1 2016 **(1)** • Growth fell from -0.2% Q1 2016 to -2.1% Q2 2016 **(1)** • Growth fell from -1.2% Q4 2015 to -2.1% Q2 2016 **(1)** • Argentina was in recession between Q4 2015 and Q2 2016/ Q4 2015 and Q1 2016/ Q1 2016 and Q2 2016 **(1+1)**	**(4)**

Question	With reference to Extract B, analyse **one** possible impact of the fall in the value of the peso on Argentina's current account on the balance of payments. Answer	Mark
12(c)	**Knowledge 2, Application 2, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge & Analysis** Up to 2 marks for knowledge and up to 2 marks for analysis • The exchange rate is the external value of a currency **(1K)** the current account measures the total value of exports minus the total value imports **(1K)** • The current account records the payments for goods and services, plus investment income and transfers, between an economy and the rest of the world **(1K)** • Reward identification/definition of depreciation: a fall in the value of one currency against another currency **(1K)** • The fall in the value of the peso make imports more expensive **(1K)** this may lead to fall in consumption of imports **(1An)** improving the current account balance **(1An)** • The fall in the value of the peso causes a decrease in the price of commodity exports **(1K)** this may lead to an increase in the consumption of exports **(1An)** improving the current account balance **(1An)** • Argentinian exports become more price competitive **(1K)** increasing demand for Argentinian exports **(1An)** leading to an improvement in the current account **(1An)** • Demand for certain exports is inelastic **(1An)** causing a decrease in the current account **(1An)** **Application** Up to 2 marks for reference to the data. • The current account balance has fallen into deficit **(1)** • Importing goods from America is very expensive **(1)** • The peso fell by 12 percentage (points) against the dollar **(1)** • Decrease in the value of commodity exports from Argentina **(1)** **Reward the use of relevant diagram**	**(6)**

Question	With reference to the information provided, examine the likely impact of inflation on the economy of Argentina. Indicative content	Mark
12(d)	**Knowledge 2, Application 2, Analysis 2, Evaluation 2** **Knowledge 2** Up to 2 marks for knowledge of inflation; • The rise **(1)** in the average price level **(1)** • Inflation increases firms' costs/ increases the prices for consumers **(1)** can be measured using the CPI **(1)** **Application 2** Up to 2 marks for reference to the given sources, e.g.: • Inflation remains a significant issue for Argentina **(1)** • Inflation was between 30%-40% per year **(1)** • In 2017 inflation was 25% **(1)** • Inflation is damaging to firms and reduces investment **(1)** **Analysis 2** Up to 2 marks for linked explanations • High inflation reduces investment **(1)** firms are unsure of future prices reducing the incentive to invest reducing AD **(1)** • Negatively impacts those on a fixed income as incomes don't rise with inflation **(1)** reducing standards of living **(1)** • Labour demands higher wages to maintain real incomes **(1);** increase cost-push inflation **(1)** • Fall in competitiveness of Argentinian goods **(1)** leading to a fall in exports and deterioration in the current account **(1)** • Increase in unemployment **(1)** due to the fall in competitiveness/ rising wage costs **(1)** • In an attempt to reduce the rate of inflation the base rate of interest was increased to 40% **(1)** likely to reduce borrowing and consumption **(1)**	
	Evaluation 2 Up to 2 marks for evaluative comments, e.g.: • It depends if incomes increase **(1)** if incomes increase at the same rate as inflation then standards of living will remain constant **(1)** • If business confidence is high firms will invest (**1**) increasing the level of AD in Argentina **(1)** • High levels of imported inflation may reduce the demand for foreign goods **(1)** improving the balance of payments on current account **(1)** • Demand-pull inflation may stimulate more aggregate supply **(1)** increasing economic growth **(1)** • The negative impact on the standards of living is likely to be significant **(1)** as real wages have decreased **(1)**	**(8)**
	• The central bank is raising the base rate of interest **(1)** which is likely to reduce the negative impact of inflation **(1)** • The government has cut spending reducing AD **(1)** which is likely to reduce the negative impact of inflation **(1)**	

Question	Using the information in Extracts A and B, discuss policies that the Argentinian Government could use to increase consumption. Indicative content
12(e)	**Indicative content guidance** Answers must be credited by using the level descriptors (below) in line with the general marking guidance. 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. **Knowledge, Application and Analysis (8) – indicative content** • Consumption is the total household expenditure in the economy • Identification of supply and demand side policies • Subsidies to businesses to lower prices • Reduce tax, such as income tax to increase disposable income leading to higher consumption • Further increasing government spending would increase consumer confidence, encouraging more consumption • Government spending on infrastructure may increase employment, increasing incomes and consumption • Government could stop cutting spending, and increase welfare payments. Those on a fixed income would be able to purchase more goods and services

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. Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer. 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 3	7–8	Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models. Ability to link knowledge and understanding in context using relevant 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 (6 marks) – indicative content • Consumer confidence may remain low due to high inflation • If interest rates don't change, consumers may choose to save their income • Increased government spending will further increase the government budget deficit • More demand will further increase inflationary pressure • Spending on infrastructure may only increase employment levels by a small amount • Magnitude of changes in tax/spending • Time lags of changing tax/spending	
Level	**Mark**	**Descriptor**
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.

	Evaluation (6 marks) – indicative content • Magnitude of tax. Just €0.04 in Greece so may not have a large impact • The €0.04 tax resulted in 75% decrease in use of plastic bags • Denmark the tax was €0.27 causing reduction from 800 million to 400 million- lower tax may not have such an impact • Denmark only raised 0.03% of total tax revenue in 1994 from the plastic bag tax and 0.02% of tax revenue in 2014 with a higher tax, with just €0.04 tax likely even smaller impact/ Denmark only raised €24 547 in 2014 • Measurement – it is hard to measure the size of external costs to decide what the ideal indirect tax should be • May create government failure as reusable bags may be damaging/ resources wasted in administration of tax • May be better to decrease consumption by giving information on the external

	costs associated with plastic bags • Incidence of tax depends on the price elasticity of demand. If inelastic consumer incidence will be bigger/ if elastic producer incidence will be higher • In Denmark consumers at supermarkets seem to have more inelastic demand hence charged (i.e. consumer pays) whereas clothing shops consumers have more elastic demand and are not charged for bags (i.e. producer pays) • PED might change over time and / or if the tax is increased	
Level	Mark	Descriptor
	0	No rewardable material.
Level 1	1–2	Identification of generic evaluative comments. No supporting evidence/reference to context. No evidence of a logical chain of reasoning.
Level 2	3–4	Evidence of evaluation of alternative approaches. Some supporting evidence/reference to context. Evaluation is supported by a partially-developed chain of reasoning.
Level 3	5–6	Evaluation recognises different viewpoints and/or is critical of the evidence. Appropriate reference to evidence/context. Evaluation is supported by a logical chain of reasoning.