4	**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 A** **B** is not correct because this is the area of consumer surplus **C** is not correct because the area the government will spend is GHKJ **D** is not correct because this is the total revenue to farmers	**(1)**

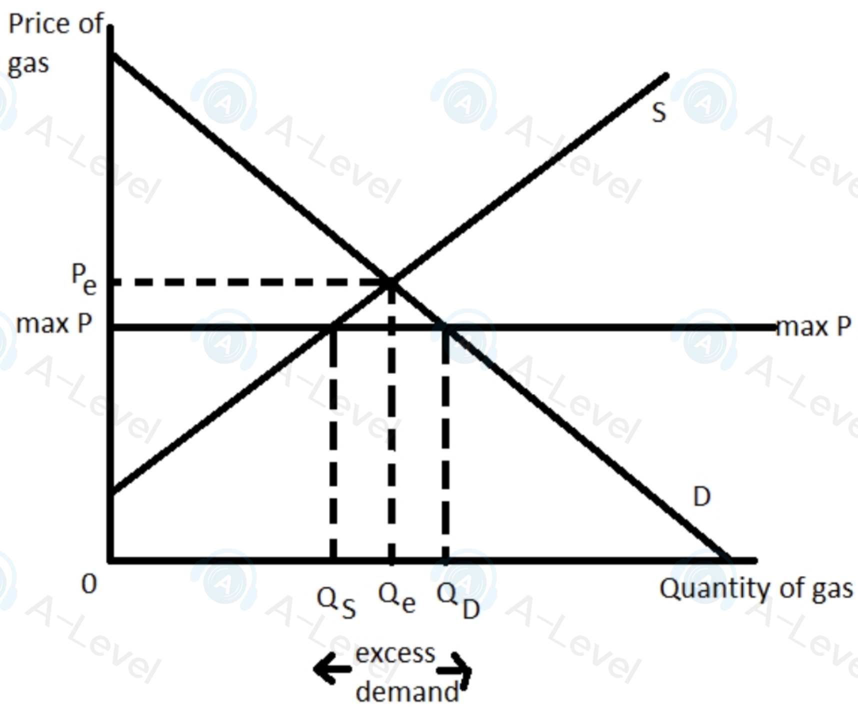
Question Number	Quantitative skills assessed	Answer	Mark
1		**The only correct answer is B** ***A*** *is not correct as this is successful government intervention* ***C*** *is not correct as this is market failure* ***D*** *is not correct as this is market failure*	**(1)**

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

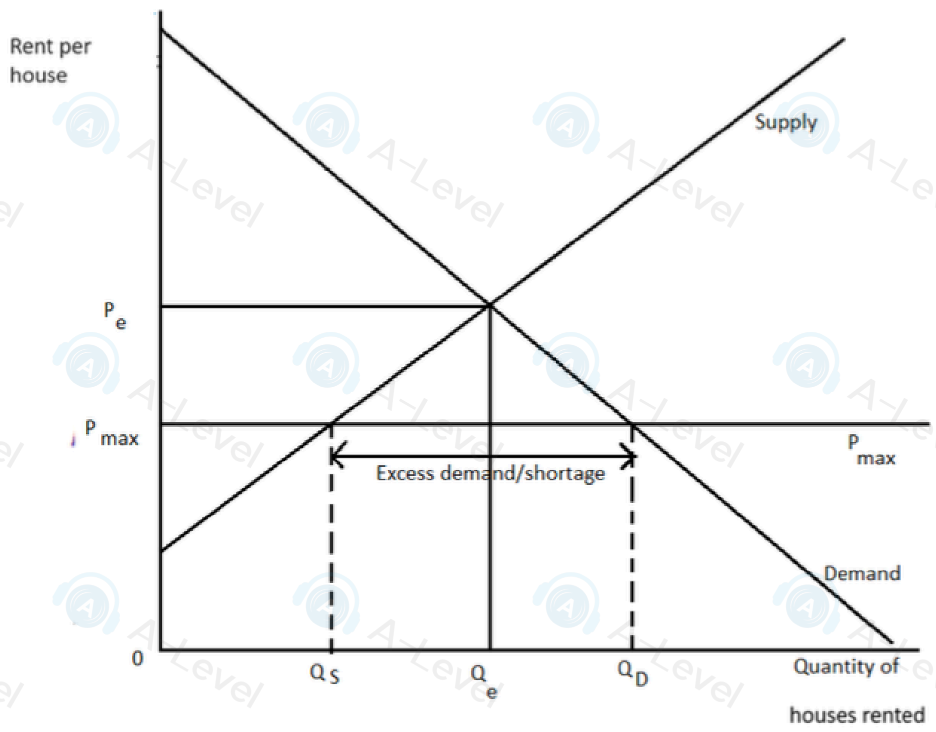
3	–	D	**(1)**

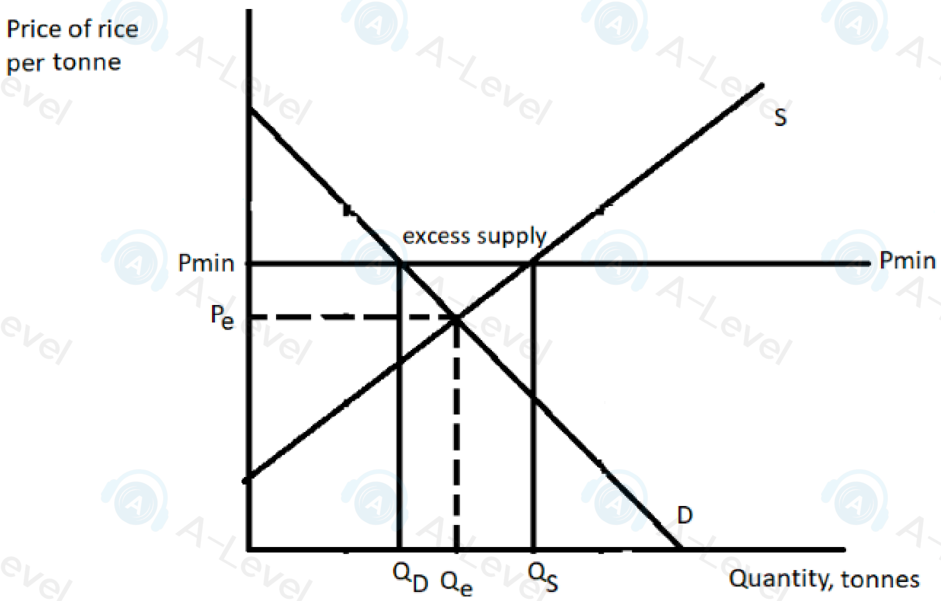
3	–	B	**(1)**

2	**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 is market failure **B** is not correct because this is market failure **C** is not correct because this is market failure	**(1)**

Question Number	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 the diagram: • Supply and demand curves drawn accurately with equilibrium quantity and price **(1)** **Application** 1 mark for the following included on diagram: • Maximum price below the equilibrium price **(1)** 1 mark for either of the following: • New quantity supplied (Q_S) and new quantity demanded (Q_D)/ Demand extends and supply contracts **(1)** 1 mark for identifying the overall impact: • Excess demand/ shortage identified on diagram **(1)**	
	 	**(4)**

Question	With reference to the Hong Kong housing market, explain what is meant by a 'market bubble'. **Answer**	Mark
8	**Knowledge 2, Application 2** **Knowledge** 2 marks for defining 'market bubble.' • A bubble is created by speculation/expectations of further price increases **(1)** • To a level which is overinflated/above expected prices/increase to extreme levels/increasing constantly **(1)** • Price is unsustainable/value is higher than true/real value **(1)** • A market bubble is an example of a market failure **(1)** **Application** 2 marks for applying to the Hong Kong housing market e.g.: • In Hong Kong the house prices have increased by 10% per year between 2012 and 2018 **(1)** • House prices may be at risk of falling/ the housing price bubble may be at risk of bursting/ demand may fall when potential buyers can no longer borrow money/ loss of confidence about future price rises **(1)**	**(4)**

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	Draw a diagram to illustrate the impact of the introduction of this minimum price for rice. **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 **(1)** **Application** Up to 3 marks for the following information included on diagram: • Minimum price above equilibrium price **(1)** • Quantity demanded and supplied at minimum price **(1)** • Excess supply/surplus **(1)**  	**(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 Number	In 2019, the price of a litre of diesel was 65% higher in Thailand than in Malaysia. The price difference was because of higher taxation on diesel in Thailand. This led to illegal smuggling. For example, on one night, Thai authorities seized 300 000 litres of diesel that was illegally imported from Malaysia. Evaluate possible causes of government failure in a market of your choice. Indicative content
13	**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 (12 marks) – indicative content** • Government failure– where government intervention leads to a net welfare loss Possible causes of government failure include: • Information gaps- where the government lacks perfect information and sets the wrong level of regulation/taxation/subsidy • Lack of incentives- where the policy fails to create the incentives for firms and consumers to change their behaviour appropriately • Unintended consequences- where a policy leads to an outcome that was not anticipated, this could include smuggling • Excessive administrative costs- where the costs of administering the regulation or tax are greater than any benefit of the government intervention • Moral hazard- where the costs of an action are likely to be experienced by someone else causing riskier actions
	Possible responses linked to the stem • The 65% higher price in Thailand gives those in Thailand the incentive to travel to Malaysia to buy cheaper diesel • Even taking in to account the costs associated with travelling the significant difference in price means this activity can be profitable • The returns may be so large that smugglers are willing to take the risk of being caught • 300 000 litres in one night suggests that the smuggling is commonplace • Diesel will have the same properties in both countries so the appearance and smell will be identical making it difficult to discover its origins • This makes it easier to smuggle undetected

	• If the value of smuggling if greater than the tax revenue earned then this is an example of government failure • Smuggled diesel results in a loss of tax revenue to the Government • If the smuggling funds organised crime then this could be a further unintended consequence **NB Maximum Level 3 if candidate does not refer to at least two causes of government failure related to a market of their choice**	
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 Evaluation should be rewarded when linked to the relevant cause of government failure • Information gaps • Lack of incentives • Excessive administrative costs • Moral hazard Evaluation linked to stem • Measurement problem- difficult to value the level of smuggling as it goes unrecorded • Magnitude- sizeable tax so likely to have a large impact on generating smuggling • Depends on efforts to detect • Depends on punishment as to whether it continues • Possible rewards of smuggling may far exceed any penalties • Time- the current efforts to detect smuggling may in time reduce the unintended consequence • Malaysian sellers of diesel will earn more revenue and the Malaysian Government more tax revenue

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.