3	–	D	**(1)**

5	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is C-** Excess demand will be equal to Q_0Q_2 **A** is not correct because quantity supplied contracts from Q_1 to Q_0 **B** is not correct because quantity supplied extends from Q_1 to Q_2 **D** is not correct because excess supply would occur if a minimum price was introduced	**(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)**

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)**

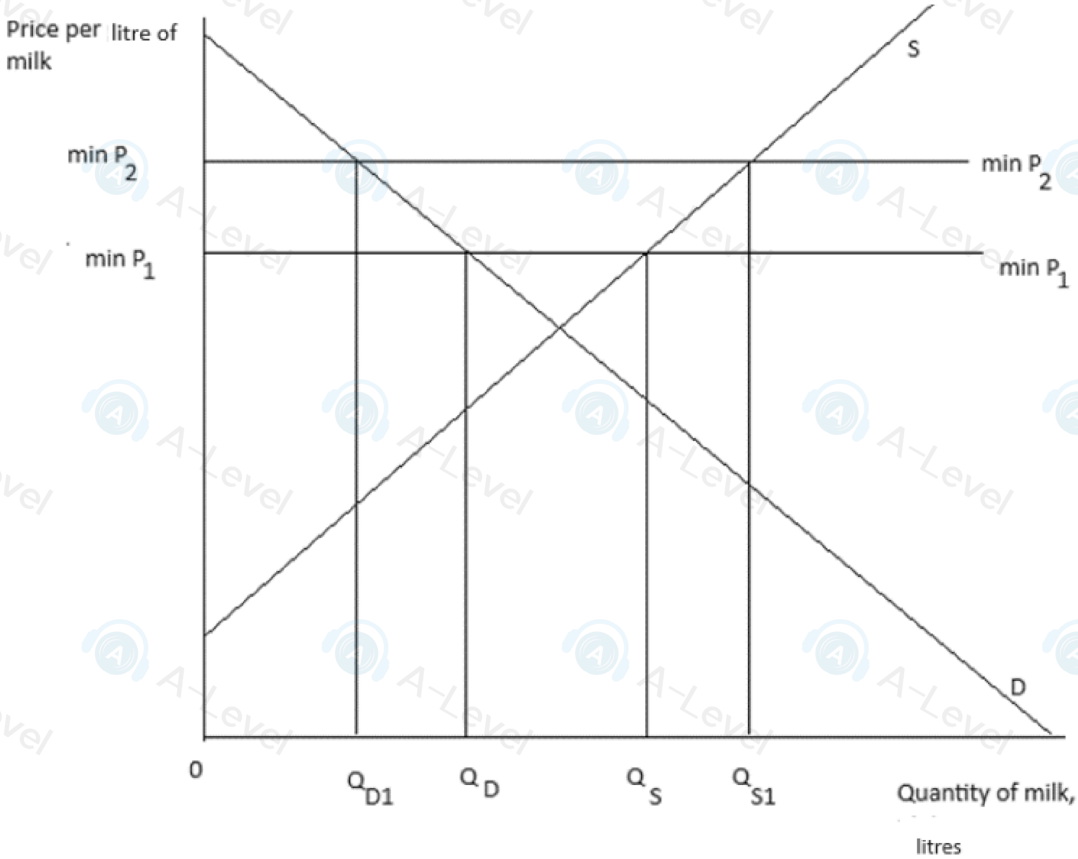
4	**QS4**: Construct and interpret a range of standard graphical forms **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is A** **B** is not correct because this is the area of consumer surplus **C** is not correct because the area the government will spend is GHKJ **D** is not correct because this is the total revenue to farmers	**(1)**

Question	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	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	With reference to Munich's housing market, explain what is meant by a 'market bubble'. **Answer**	Mark
8	**Knowledge 2, Application 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 2 marks for understanding 'market bubbles' • A bubble is created by speculation/consumers buying in the hope of selling at higher price/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/price is higher than true/real value **(1)** • A market bubble is an examples of a market failure **(1)** **Application** 2 marks for applying to Munich's housing market e.g.: • Munich has the highest risk of a housing market bubble **(1)** • Between 2010 and 2020 the average price of a house more than doubled **(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 health insurance, explain what is meant by moral hazard. **Answer**	**Mark**
8	**Knowledge 1, Application 1, Analysis 2** **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for understanding moral hazard e.g.: • Where the consumer does not suffer from the consequences of their action/ • Where the costs associated with risks of an action are transferred to another party **(1K)** **Application** 1 mark for applying to health insurance e.g.: • 68% of those without health insurance visited a dentist but 88% of those with health insurance visited a dentist/ • Those with health insurance visited the dentist more often than those without health insurance **(1AP)** **Analysis** up to 2 marks for linked expansion • The consumers that are insured take more risks with their health **(1AN)** and are therefore more likely to need healthcare and make a claim/ so they are less careful with their health **(1AN)** • The consumer is more likely to smoke/eat sugary food/drink fizzy drinks **(1AN)** as any healthcare costs to treat teeth are covered by the insurance policy **(1AN)**	**(4)**

11	**Knowledge 1, Application 1, Analysis 2** 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 definition of minimum price e.g.: • Minimum price is the lowest price that firms can sell a good **(1)** **Application** 1 mark for increasing the minimum price **(1)**  **Analysis** Up to 2 marks for showing/describing/explaining the change in excess supply Original excess supply Q_S-Q_D **(1)** increases to Q_{S1}-Q_{D1} **(1)** The increase in excess supply **(1)** is Q_D to Q_{D1} and Q_S to Q_{S1} **(1)** Contraction of quantity demanded **/**Q_D to Q_{D1} **/** Extension of quantity supplied **/**Q_S to Q_{S1} **(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.

Question	In the UK the maximum price for a unit of electricity for domestic consumers was £0.28 per kilowatt hour in September 2022. This was increased by the Government to £0.34 per kilowatt hour in October 2022. Evaluate the microeconomic effects of an increase in the maximum price of electricity. Indicative content

13

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.

Indicative content guidance

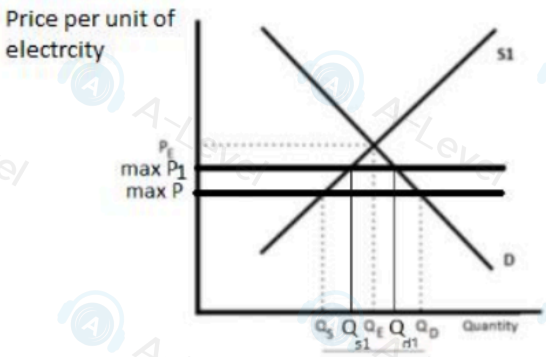
Answers must be credited by using the level descriptors (below) in line with the general marking guidance.

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

Increase the maximum price

- Maximum price is a price ceiling above which firms cannot charge
- Maximum price set below the equilibrium price
- Maximum price is increased from max P to max P_1
- Maximum price for a unit of electricity was £0.28 per kilowatt hour in September 2022. This was increased by the Government to £0.34 per kilowatt hour in October 2022
- Makes the product less affordable than it was but more affordable than equilibrium price
- Consumers have less income available for consuming other goods and services
- Leads to a contraction of demand – Q_D to Q_{d1}
- Results in lower quantity demanded compared to lower maximum price
- Leads to an extension of supply- Q_s to Q_{s1}
- Results in higher quantity supplied compared to lower maximum price
- Creates a disequilibrium
- Excess demand is reduced Q_D-Q_S to Q_{d1}-Q_{s1}



- The lower maximum price may have resulted in some electricity companies shutting down- the higher maximum price should result in fewer firms shutting down
- This was due to reduced profitability and loss making of smaller firms in the market before the maximum price was increased
- Consumers are likely to buy more energy saving devices e.g. electric blankets and to invest in home insulation

	• Reduced electricity consumption would result in lower electricity generation and reduced levels of external costs	
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
	• Magnitude of the increase in maximum price is large- so significant impact
	• Electricity companies are more likely to survive
	• Maximum price of electricity affects domestic consumers and not businesses
	• Price elasticity of demand- if inelastic there will be a smaller impact on demand
	• Volatile prices so the price could fall below the maximum price
	• Risk of government failure- government intervention leads to net welfare loss:
	  ○ information gaps result in wrong level of maximum price
	  ○ unintended consequences
	  ○ excessive administrative costs
	• Overall impact depends on how much real incomes change
	• Consumers may not pay more as they may reduce their usage of electricity	

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.

<table>
<tr><td>Question</td><td>Many consumers do not buy travel insurance before going on holiday abroad despite substantial costs if they need medical care.
Many car drivers do not provide complete and accurate information to car insurance companies when insuring their cars.

Evaluate the microeconomic effects of imperfect information on insurance markets.

Indicative content</td></tr>
<tr><td>14</td><td>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.

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

Information failure- where economic agents lack the information to make optimal decisions
Asymmetric information- where economic agents have different levels of informtion
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
</td></tr>
</table>

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.
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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.