1	–	**The only correct answer is B** **A** is not correct because statement 2 is normative and not positive **C** is not correct because statement 1 is positive and not normative **D** is not correct as statement 1 is positive and statement 2 is normative	**(1)**

5	**QS8**: Make calculations of elasticity and interpret the result	C	**(1)**

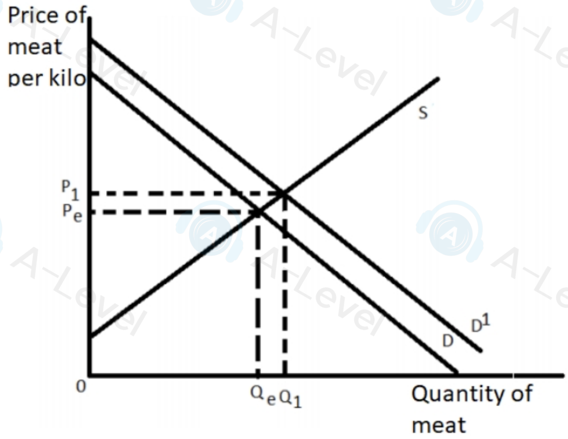
6	**QS8**: Make calculations of elasticity and interpret the result	**The only correct answer is C** ***A*** *is not correct as demand would increase 24.6%* ***B*** *is not correct as demand would increase 14.8%* ***D*** *is not correct as demand would fall as the good is inferior*	**(1)**

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 D** **A** is not correct because Q_1 is the market equilibrium output **B** is not correct because Q_2 is the social optimum output **C** is not correct because ABC is the welfare gain	**(1)**

2	–	**The only correct answer is C** ***A*** *is not correct as this economy only has price mechanism allocating resources* ***B*** *is not correct as this economy only has the government allocating resources* ***D*** *is not correct as this is where firms do not maximise profit and consumers do not maximise utility*	**(1)**

4	**QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms	**The only correct answer is B** ***A*** *is not correct as utility is maximised at 4 glasses of milk* ***C*** *is not correct as consumption of the fifth glass results in decreasing marginal utility* ***D*** *is not correct as utility is maximised at 4 glasses of milk*	**(1)**

Question	The cross elasticity of demand for meat with respect to fish is estimated to be +0.13 in Bangladesh Explain the likely impact of a 10% increase in the price of fish on the demand for meat in Bangladesh. **Answer**	Mark
11	**Knowledge 1, Application 1, Analysis 2** Quantitative skills assessed: **QS8**: Make calculations of elasticity and interpret the result. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** • 1 mark for definition or formula of cross elasticity of demand e.g.: Responsiveness of demand for one product to a change in the price of another product $\frac{\text{\% change in quantity demanded of good x}}{\text{\% change in price of good y}}$ **(1)** **Application** 1 mark for application to meat and fish • Meat and fish are substitutes **(1)** • XED between fish and meat is positive **(1)**	
	Analysis Up to 2 marks for calculating the likely impact on demand for meat • An increase in demand **(1)** of 1.3% (0.13 x 10) **(1)** **Or** Up to 2 marks for using a diagram to show the likely impact on demand for meat	



- For showing increase in demand **(1)**
- For showing increase in equilibrium price/quantity **(1)**

Or

2 marks for alternative written explanation.

- If the price of fish increases consumers will buy more meat causing the demand for meat to increase **(1)** the percentage increase will be less than 10% as the cross elasticity is inelastic **(1)**
- Not close substitutes **(1)** so the impact so will result in a less than proportionate impact on quantity of meat demanded **(1)**

(4)

Question Number	With reference to the change in how electricity was generated, explain the difference between 'renewable resources' and 'non-renewable resources'. Answer	Mark
8	**Knowledge 2, Application 2** **Knowledge** 2 marks for defining 'renewable resources' and 'non-renewable resources' • Renewable resources are resources that can be used again and again/used repeatedly/resources that do not diminish/do not deplete/replenished naturally in short time **(1)** • Non-renewable resources are resources that deplete with use/resources that do diminish/used up quicker than it can be replenished/supply is finite **(1)** **Application** 2 marks for applying to the data in the table e.g.: • Hydro/wind/solar are renewable **(1)** • Coal/gas are non-renewable **(1)**	**(4)**

Question	*Ceteris paribus,* calculate the income elasticity of demand for cinema tickets. Show your working. **Answer**	Mark
10	**Knowledge 1, Application 3** Quantitative skills assessed: **QS8:** Make calculations of elasticity and interpret the result. **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms **Knowledge** 1 mark for definition/the formula for income elasticity of demand $\frac{\text{\% change in quantity demanded}}{\text{\% change in income}}$ **(1)** **Application** Up to 3 marks for calculations: • Change in quantity 7.6-4.7=2.9 Change in quantity ÷ original quantity x 100 2.9÷4.7 x 100= 61.70 **(1)** • Change in income 4 166-4 022= 144 Change in income÷ original income x 100 144÷4 022 x 100= 3.58 **(1)** $\frac{\text{\% change in quantity demanded}}{\text{\% change in income}}$ 61.70÷3.58 = 17.23 **(1)** **NB: if correct answer (e.g. 17.23 to 2 d.p.) is given, award full marks regardless of working.** **Accept reasonable rounding from full calculation or from earlier stages in calculation i.e. 17.2 (61.7021277÷3.58030383= 17.2337686)** **Award 3 if % sign is added to correct YED value**	**(4)**

Question	With reference to switching banks, explain the difference between 'herding' and 'inertia'. **Answer**	Mark
8	**Knowledge 2, Application 2** Quantitative skills assessed: **QS9**: Interpret, apply and analyse information in written, graphical, tabular and numerical forms. **Knowledge** 1 mark for understanding of 'herding' • Where consumers make choices based on the decisions of others /friends/family **(1)** 1 mark for understanding of 'inertia' • Where people think the effort of switching is too great / are too lazy to switch **(1)** **Application** 2 marks for reference to data • Herding - 39% use the same bank as their parents **(1)** • Inertia - 13% said that switching was too much time and effort **(1)**	**(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)**

<table>
<tr><th>Question</th><th>Evaluate the advantages of a free market economy.

Indicative content</th></tr>
<tr><td>13</td><td>
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

Free market economies- where price mechanism/supply and demand determine resource allocation/where government has minimal involvement in decisions
Hong Kong closest to free market- low tax rates, low government spending and the low level of business regulation

Advantages

Incentives to work hard in order to increase incomes
Profit incentive means firms have incentive to be efficient
Consumers are free to choose the goods and services they desire
Producers are free to create products to meet customer needs
Firms are likely to use profits to develop new processes helping to reduce costs and improve efficiency/productivity
Profits invested in innovative new products which better meet consumer needs
Government failure avoided e.g.

surpluses & shortages resulting from price controls
information gaps meaning the intervention is not always the best option
can create unintended consequences such as smuggling
creates excessive administrative costs.

No expensive central planning
Competition between firms may help lower price and increase quantity of goods available
Market forces (invisible hand) helps to clear the market when there is excess demand/excess supply/disequilibrium
Disadvantages of command economy

</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.
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
	Disadvantages
	• Underprovision of public goods- non-rivalry and non-excludability creates a free rider problem and private sector firms cannot generate profits- impacts on the provision of streetlights, roads, defence, sea defences
	• Underprovision of healthcare/education- services with external benefits where people underestimate the benefit
	• Overconsumption - people may consume goods ignoring external costs of their consumption e.g. pollution and congestion have negative impacts on third parties
	• Private sector health care can be inefficient and expensive- US health insurance costs
	• Can create inequality:
	  o where the rich inherit and have more wealth
	  o low skilled/unskilled/disabled/sick have low income with no support from the state in the form of welfare payments
	  o free market may result in high levels of unemployment
	• Large powerful firms can emerge that exploit customers by charging high prices and restricting output
	• When demand is low unemployment may rise leaving some with no income
	• Markets can be unstable:
	  o Market bubbles can emerge and burst
	  o Creates uncertainty for businesses
	• Depends on the extent to which an economy acts as a free market economy- even Hong Kong still has taxes and regulation so is not a pure free market economy.

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.