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| <b>1</b> | <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms | <b>The only correct answer is D</b><br><b>A</b> is not correct because this illustrates that the market is functioning correctly<br><b>B</b> is not correct because this is an example of market failure<br><b>C</b> is not correct because this is government intervention succeeding in eliminating the market failure | <b>(1)</b> |
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| <b>3</b> | - | A | <b>(1)</b> |
|----------|---|---|------------|

| Question Number | Quantitative skills assessed | Answer                                                                                                                                                                                                                 | Mark       |
|-----------------|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| <b>1</b>        |                              | <b>The only correct answer is B</b><br><b>A</b> is not correct as this is successful government intervention<br><b>C</b> is not correct as this is market failure<br><b>D</b> is not correct as this is market failure | <b>(1)</b> |

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| <b>2</b> | <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms | <b>The only correct answer is D</b><br><b>A</b> is not correct because this is market failure<br><b>B</b> is not correct because this is market failure<br><b>C</b> is not correct because this is market failure | <b>(1)</b> |
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| <b>5</b> | <b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms | <b>The only correct answer is A</b><br><b>B</b> is not correct because the government intervention causes the net welfare loss not the market<br><b>C</b> is not correct because this is positions above the PPF<br><b>D</b> is not correct because this is when consumers do not have the energy to find better deals | <b>(1)</b> |
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| <b>1</b> | - | <b>The only correct answer is B</b><br><b>A</b> is not correct because this is a market failure<br><b>C</b> is not correct because this is a function of the price mechanism<br><b>D</b> is not correct because this is the government intervening to correct the market failure | <b>(1)</b> |
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| Question Number | Answer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Mark       |
|-----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| 9               | <p><b>Knowledge 1, Application 1, Analysis 2</b></p> <p><b>Knowledge</b></p> <p>1 mark for defining regulation, e.g.:</p> <ul style="list-style-type: none"> <li>• rules or laws put in place to influence behaviour <b>(1)</b></li> </ul> <p>Or</p> <p>1 mark for identifying an impact e.g.:</p> <ul style="list-style-type: none"> <li>• The quantity consumed will fall</li> <li>• The revenue earned by energy drink manufacturers will fall</li> <li>• Government failure/ Unintended consequences may occur</li> <li>• Lower costs of treating health problems caused by energy drinks</li> <li>• Consumers will substitute to alternatives <b>(1)</b></li> </ul> <p><b>Application</b></p> <p>Up to 1 mark for applying to energy drink market, e.g.:</p> <ul style="list-style-type: none"> <li>• Children/ Those under 18 will be prohibited from purchasing energy drinks <b>(1)</b></li> </ul> <p><b>Analysis</b></p> <p>Up to 2 marks for explaining the likely impact e.g.:</p> <ul style="list-style-type: none"> <li>• The quantity consumed will fall as the quantity of customers falls with under 18s now unable to buy <b>(1)</b> leading to contracting supply / caused by decreased demand <b>(1)</b></li> <li>• The revenue earned by energy drink manufacturers will fall as they will no longer sell products to those under the age of 18 <b>(1)</b> thus a smaller number is multiplied by the price and revenue falls <b>(1)</b></li> <li>• Government failure/ Unintended consequences may occur as under 18s move to the informal sector to get access to these products <b>(1)</b> and some of this supply may be of inferior quality <b>(1)</b></li> <li>• Fewer health problems caused by energy drinks meaning less need for health services <b>(1)</b> and lowering the cost to the government <b>(1)</b></li> </ul> |            |
|                 | <ul style="list-style-type: none"> <li>• The Government will have costs associated with monitoring and policing the regulation <b>(1)</b> these costs will incur an opportunity costs to the government as they cannot spend these funds elsewhere <b>(1)</b></li> <li>• Consumers will no longer consume energy drinks and will buy alternatives instead <b>(1)</b> increasing demand and revenue for the firms <b>(1)</b></li> <li>• Diagram showing leftwards shift of demand curve <b>(1)</b> and corresponding impact on both lower quantity and lower price <b>(1)</b></li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <b>(4)</b> |

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

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| Question Number | <p>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.</p> <p>Evaluate possible causes of government failure in a market of your choice.</p> <p>Indicative content</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 13              | <p><b>Indicative content guidance</b></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><b>Knowledge, application and analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>Government failure– where government intervention leads to a net welfare loss</li> </ul> <p>Possible causes of government failure include:</p> <ul style="list-style-type: none"> <li>Information gaps- where the government lacks perfect information and sets the wrong level of regulation/taxation/subsidy</li> <li>Lack of incentives- where the policy fails to create the incentives for firms and consumers to change their behaviour appropriately</li> <li>Unintended consequences- where a policy leads to an outcome that was not anticipated, this could include smuggling</li> <li>Excessive administrative costs- where the costs of administering the regulation or tax are greater than any benefit of the government intervention</li> <li>Moral hazard- where the costs of an action are likely to be experienced by someone else causing riskier actions</li> </ul> <p>Possible responses linked to the stem</p> <ul style="list-style-type: none"> <li>The 65% higher price in Thailand gives those in Thailand the incentive to travel to Malaysia to buy cheaper diesel</li> <li>Even taking in to account the costs associated with travelling the significant difference in price means this activity can be profitable</li> <li>The returns may be so large that smugglers are willing to take the risk of being caught</li> <li>300 000 litres in one night suggests that the smuggling is commonplace</li> <li>Diesel will have the same properties in both countries so the appearance and smell will be identical making it difficult to discover its origins</li> <li>This makes it easier to smuggle undetected</li> </ul> |

|                |      | <ul style="list-style-type: none"> <li>• If the value of smuggling is greater than the tax revenue earned then this is an example of government failure</li> <li>• Smuggled diesel results in a loss of tax revenue to the Government</li> <li>• If the smuggling funds organised crime then this could be a further unintended consequence</li> </ul> <p><b>NB Maximum Level 3 if candidate does not refer to at least two causes of government failure related to a market of their choice</b></p> |
|----------------|------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level          | Mark | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                | 0    | No rewardable material.                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Level 1</b> | 1–3  | <p>Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Use of generic material or irrelevant information or inappropriate examples.</p> <p>Descriptive approach which has no chains of reasoning.</p>                                                                                                                                                                                                       |
| <b>Level 2</b> | 4–6  | <p>Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Limited application of knowledge and understanding to economic problems in context.</p> <p>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.</p>                                                                                                                                                                   |

|                |       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <b>Level 3</b> | 7–9   | <p>Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.</p> <p>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.</p>                |
| <b>Level 4</b> | 10–12 | <p>Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.</p> <p>Ability to link knowledge and understanding in context, using appropriate examples which are fully integrated to address the broad elements of the question.</p> <p>Analysis is clear, coherent, relevant and focused. The answer demonstrates logical and multi-stage chains of reasoning in terms of cause and/or consequence.</p> |

**Evaluation (8 marks) – indicative content**

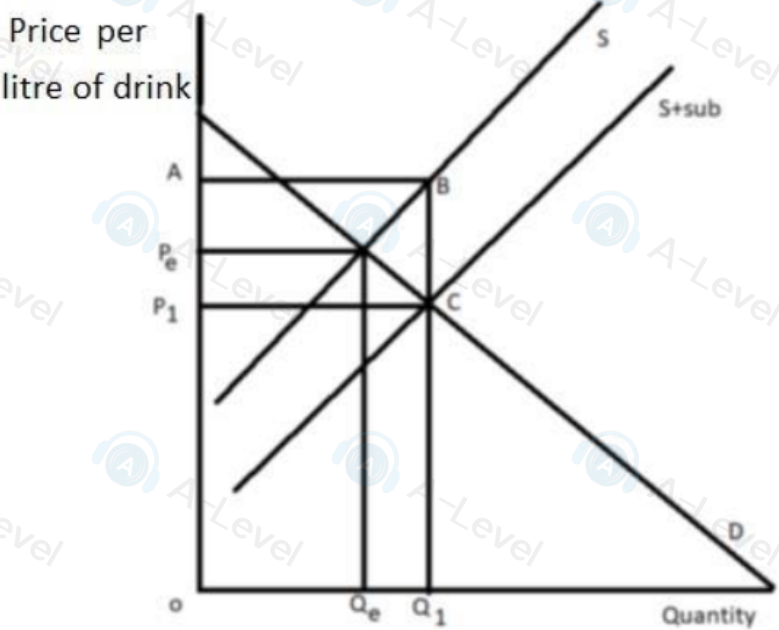
Evaluation should be rewarded when linked to the relevant cause of government failure

- Information gaps
- Lack of incentives
- Excessive administrative costs
- Moral hazard

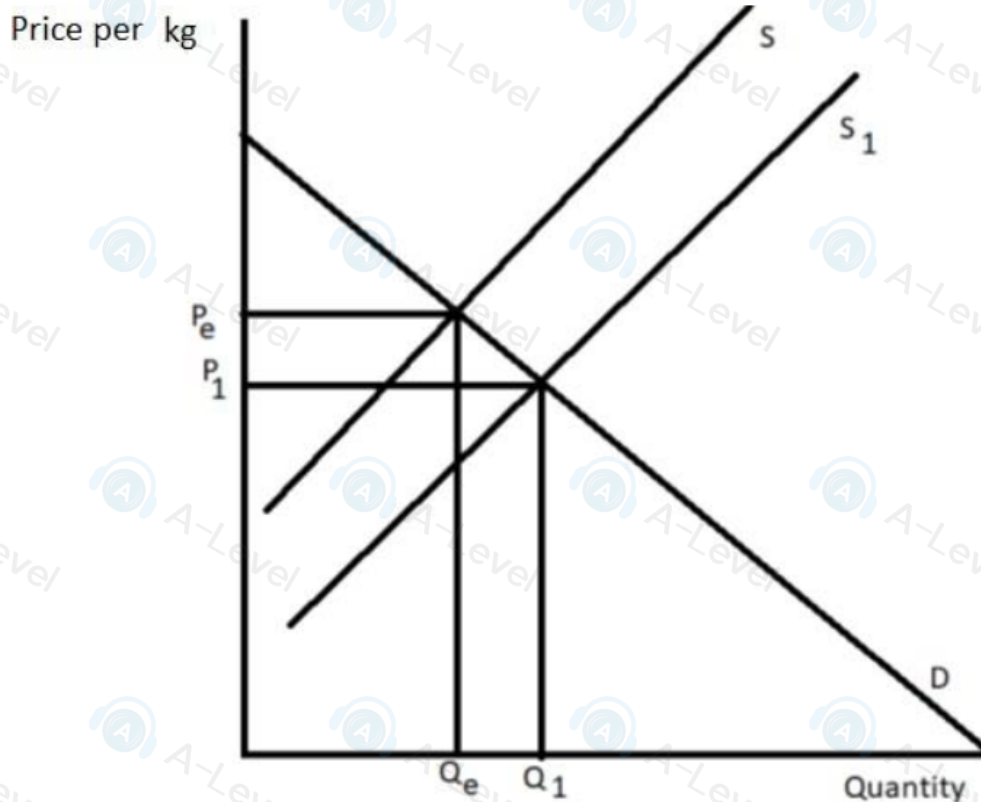
Evaluation linked to stem

- 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.                                                                                                                                                                                                    |
| <b>Level 1</b> | 1–3  | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                                                                             |
| <b>Level 2</b> | 4–6  | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.                                                |
| <b>Level 3</b> | 7–8  | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |

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| <p><b>Question</b></p> | <p>Between May 2021 and May 2022 some global commodity prices increased significantly. For example:</p> <ul style="list-style-type: none"> <li>• fuel prices increased by 83.8%</li> <li>• food prices increased by 23.6%</li> <li>• beverage (drink) prices increased by 20.3%.</li> </ul> <p>Evaluate possible methods of government intervention that might reduce the impact of increasing commodity prices.<br/>Include at least one diagram in your answer.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p><b>14</b></p>       | <p><b>Quantitative skills assessed</b><br/> <b>QS4:</b> Construct and interpret a range of standard graphical forms</p> <p><b>QS9:</b> Interpret, apply and analyse information in written, graphical, tabular and numerical forms.</p> <p><b>Indicative content guidance</b><br/>         Answers must be credited by using the level descriptors (below) in line with the general marking guidance.<br/>         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><b>Knowledge, application and analysis (12 marks) – indicative content</b></p> <ul style="list-style-type: none"> <li>• Subsidies-cash grant for producers             <ul style="list-style-type: none"> <li>◦ Lowers costs of production</li> <li>◦ Shifts supply to the right <math>S</math> to <math>S+\text{sub}</math></li> <li>◦ Decreases price charged to consumers <math>P_e</math> to <math>P_1</math></li> <li>◦ Increases quantity of commodity consumed, <math>Q_e</math> to <math>Q_1</math></li> <li>◦ Cost of subsidy to the government <math>ABCP_1</math></li> </ul> </li> </ul>  <p>Reduce taxation on commodities</p> <ul style="list-style-type: none"> <li>• Indirect tax- expenditure tax</li> <li>• Increase supply <math>S</math> to <math>S_1</math></li> </ul> |

- Reduces costs of production
- Results in reduced price  $P$  to  $P_1$
- Increases quantity of commodity,  $Q_e$  to  $Q_1$
- Reduced tax revenue for the government



#### Introduce maximum price

- Maximum price is a price ceiling above which firms cannot charge
- Maximum price set below the equilibrium price
- Price paid is reduced
- Makes the product more affordable
- Leads to an extension of demand
- Results in higher quantity demanded
- Leads to a contraction in supply
- Results in lower quantity supplied
- Creates a disequilibrium
- Excess demand results

Accept other interventions e.g.

- State provision- nationalising suppliers
- Cash payments to households/businesses

**NB Level 4 requires at least one relevant diagram**

**Level 4 requires at least two methods**

| Level          | Mark  | Descriptor                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------|-------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                | 0     | No rewardable material.                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Level 1</b> | 1–3   | Displays isolated, superficial or imprecise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Use of generic material or irrelevant information or inappropriate examples.<br>Descriptive approach, which has no chains of reasoning.                                                                                                                                                             |
| <b>Level 2</b> | 4–6   | Displays elements of knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Limited application of knowledge and understanding to economic problems in context.<br>A narrow response or superficial, only two-stage chains of reasoning in terms of cause and/or consequence.                                                                                                                          |
| <b>Level 3</b> | 7–9   | Demonstrates accurate knowledge and understanding of economic terms, principles, concepts, theories and models.<br>Ability to apply knowledge and understanding to some elements of the question. Some evidence and contextual references are evident in the answer.<br>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. |
| <b>Level 4</b> | 10–12 | Demonstrates accurate and precise knowledge and understanding of economic terms, principles, concepts, theories and models.<br>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.                                                               |
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|                | <b>Evaluation (8 marks) – indicative content</b> <ul style="list-style-type: none"> <li>• Magnitude of the increase in price is large- so significant subsidies/tax cuts needed</li> <li>• Opportunity costs associated with government spending</li> <li>• The intervention may need to last a long time if prices stay high</li> <li>• Food manufacturers and farmers may absorb some of the decreases in costs from subsidies and not hand on price decreases</li> <li>• Price elasticity of demand- if inelastic there will be only small changes in quantity but large reductions in price</li> <li>• Volatile prices so may well fall rapidly without government intervention</li> <li>• Government difficulty in controlling commodity prices when they have a global price</li> <li>• Risk of government failure- government intervention leads to net welfare loss:               <ul style="list-style-type: none"> <li>◦ information gaps result in wrong level of subsidy/tax/maximum price</li> <li>◦ lack of incentives for firms and consumers to reduce demand as reduction in price in the case of subsidies</li> <li>◦ unintended consequences</li> <li>◦ excessive administrative costs</li> </ul> </li> </ul> |                                                                                                                                                                                                                            |
| Level          | Mark                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Descriptor                                                                                                                                                                                                                 |
|                | 0                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | No rewardable material.                                                                                                                                                                                                    |
| <b>Level 1</b> | 1–3                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Identification of generic evaluative comments.<br>No supporting evidence/reference to context.<br>No evidence of a logical chain of reasoning.                                                                             |
| <b>Level 2</b> | 4–6                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Evidence of evaluation of alternative approaches.<br>Some supporting evidence/reference to context.<br>Evaluation is supported by a partially-developed chain of reasoning.                                                |
| <b>Level 3</b> | 7–8                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Evaluation recognises different viewpoints and/or is critical of the evidence, leading to an informed judgement.<br>Appropriate reference to evidence/context.<br>Evaluation is supported by a logical chain of reasoning. |