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TOPICAL PAPER 2

DATA RESPONSE

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All Variants

MARK SCHEME

CAIE 2023-2024-2025 Syllabus

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PREFACE

This topical past papers book is designed according to new Cambridge Syllabus of Economics 2023-2024 and 2025 for Paper 2 (Variant 21, 22 and 23). A Level Economic book and teacher guide published or recommended by Cambridge are not sufficient for getting A* in CAIE exams but detailed practice of topical past paper questions from different variants is also essentials. These questions are categorized in chapters and sub-topics. I hope this book will be helpful for students and teachers.

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Write a comment.....

Your feedback is warmly welcomed. Feel free to suggest us for improvements if you have any comments; kindly send us at +92 300 4267 375 or +92 3234567 519

The Author

Unit 1

Basin Economic Ideas

Economics 9708 Topical Paper 2

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In this Unit

You will practice the following topics:

- 1.1 Scarcity, Opportunity, Cost, PPC
- 1.2 Classification of Goods & Policies to Deal with These Goods
- 1.3 Economic Systems, Nationalization, Privatization

1.1: Scarcity, Opportunity, Cost, PPC

2021

Question 1

9708/22/O/N/21/Q2a

Use a diagram(s) to explain how a production possibility curve can be used to show opportunity cost and why such a curve is usually drawn with increasing opportunity costs. [8]

MARK SCHEME

For knowledge and understanding showing a diagram of a production possibility curve with correctly labelled axes (up to 2 marks)

And application that explains how a movement along the curve illustrates opportunity cost. What opportunity cost is with reference to the products in the diagram(1), for showing a movement along the curve and the impacts on the output of the different products on the diagram (1) and explaining how this demonstrates opportunity cost (1) (up to 3 marks)

And an explanation of why increasing opportunity costs are expected, curve must be concave and the significance explained (1), increasing opportunity costs clearly demonstrated on the diagram (1) and explained, e.g. because resources cannot be easily switched between products (1) (up to 3 marks)

Clearly the candidate only needs to draw one diagram to answer this question

However, if the only diagram used shows a straight line PPC, then the maximum mark must be 5 as it cannot be used to answer the final part of the question

Note: candidates may not follow the sequence described in this MARK SCHEME, e.g. opportunity cost may be explained in the context of increasing opportunity cost, i.e. not separately. However, provided this is explained using a valid diagram, i.e. a concave PPC, then both marks must be awarded

Question 2

9708/21/O/N/21/Q2a

(a) With the aid of a diagram, compare what happens to an economy's resources to cause a movement along its production possibility curve with what happens to an economy's resources to cause a shift of its production possibility curve. [8]

(b) Discuss whether the advantages of a transition from a planned economy to a market economy always outweigh the disadvantages. [12]

MARK SCHEME

For correct diagram:

Axes correctly labelled: Good A and Good B or equivalent (e.g. capital goods and consumer goods or agricultural products and manufactured products) (1 mark)

PPC correctly drawn, touching both axes (1 mark)

KU: 2 marks maximum

Application of PPC in terms of a movement along a curve (up to 3 marks)

Application of PPC in terms of a shift of a curve (up to 3 marks)

APP: 6 marks maximum

The shift of the PPC can be to the right or to the left or both

A movement along a PPC shows different combinations of outputs that can be produced from the given resources; this movement along a PPC from one point to another will involve a re-allocation of those resources

A shift of a PPC, say to the right, comes about as a result of an increase in the quantity and/or quality of resource/s, leading to an expansion in the productive capacity or potential output of an economy, allowing more of one/both goods to be produced

Question 3

9708/22/F/M/21/Q2

(a) Use production possibility curve (PPC) diagrams to explain the effect on an economy's output of

(i) increased use of its existing labour, and

(ii) an increased availability of natural resources.

[8]

(b) Discuss the view that supply side policies to increase the supply of labour to an economy are likely to be more successful than those designed to increase the supply of entrepreneurship.

[12]

MARK SCHEME

(a) For knowledge and understanding of a production possibility curve and application to show an increased use of its existing labour.

For a diagram of a PPC with appropriately labelled axes (1) showing a movement from a point within a PPC to a point on or nearer to the PPC curve (1)

For an explanation of how an improved utilisation of resources results in the change shown

(Up to 2 marks)

(Up to 4 marks)

For knowledge and understanding of a production possibility curve and application to show an increased availability of natural resources.

For a diagram of a PPC with appropriately labelled axes (1) showing a shift outward of the curve (1)

For an explanation of how an increased availability of natural resources results in the change shown

(Up to 2 marks)

(Up to 4 marks)

(b) For analysis of at least two supply side measures that are designed to increase the supply of labour to an economy. If only one measure considered then 3 maximum

(Up to 4 marks)

For analysis of at least two supply side measures that are designed to increase the supply of entrepreneurship to the economy. If only one measure considered then 3 maximum

(Up to 4 marks)

For evaluative comment on which policies are likely to be successful (3) that reaches a reasoned conclusion (1)

2020

Question 1

9708/22/M/J/20/Q2a

Use a production possibility curve diagram(s) to distinguish between the growth of an economy and a reduction in the number of unused resources in an economy and explain one reason that might cause each to occur.

[8]

MARK SCHEME

- For **knowledge and understanding** of a production possibility curve with appropriate and correctly labelled axes. (2 marks)
- For **application** using a production possibility curve diagram that shows the growth of an economy illustrated through a shift outward of the curve with a valid example (1 mark) and explanation (1 mark) of what might cause this to happen (Up to 3 marks)
- For **application** using a production possibility curve diagram that shows a reduction in the number of unused resources illustrated through a movement from within the curve to a point on or nearer to the curve together (1 mark) with a valid example (1 mark) and explanation (1 mark) of what might cause this to happen (Up to 3 marks)

Question 2

9708/21/M/J/20/Q2a

Explain, with the aid of a production possibility curve (PPC) diagram, why scarcity makes choice inevitable for firms and how each choice has an opportunity cost.

[8]

MARK SCHEME

Explain, with the aid of a production possibility curve (PPC) diagram, why scarcity makes choice inevitable for firms and how each choice has an opportunity cost.

Up to 2 marks for Knowledge and Understanding

For correct diagram:

- Vertical axis correctly labelled, e.g. Good A, agricultural goods/consumer goods, and horizontal axis correctly labelled, e.g. Good B, manufactured goods/capital goods (1 mark)

- PPC drawn as a curve or a straight line, showing trade-off between production of two goods (1 mark)
- Up to 6 marks for Application**
Use of the production possibility curve to **explain**:
- scarcity (up to 2 marks)
 - choice (up to 2 marks)
 - opportunity cost (up to 2 marks)

2019

Question 1 **9708/21/M/J/19/Q2a**
Explain, with the help of diagrams, how (i) constant and (ii) increasing opportunity costs determine the shape of an economy's production possibility curve. [8]

MARK SCHEME

Knowledge and Understanding:

Explanation of opportunity (1 mark)
 Explanation of production possibility curve (1 mark)

(KU: up to 2 marks)

Application:

Explanation of the distinction between constant and increasing opportunity costs:

- constant opportunity costs involves a movement from one point on the PPC to another with an equal sacrifice of resources; this will be shown by a straight line PPC **Up to 3 marks**
- Increasing opportunity costs involves a movement from one point on the PPC to another where ever increasing amounts of one good will need to be sacrificed to produce more of the other; this will be shown by a curved PPC **Up to 3 marks**

(APP: Up to 6 marks)

Constant opportunity costs will lead to a straight line PPC being drawn, whereas increasing opportunity costs will lead to a curved PPC being drawn.

Question 2 **9708/22/F/M/19/Q2a**
Show how a production possibility curve can be used to explain scarcity, choice and opportunity cost. [8]

MARK SCHEME

For **knowledge and understanding**: an accurate diagram of a production possibility curve with appropriate axes. **(Up to 2 marks)**

For **application**: using the production possibility curve to **explain**

- scarcity **(up to 2 marks)**
- choice **(up to 2 marks)**
- and opportunity cost **(up to 2 marks)**

The PPC can be used to illustrate scarcity as a production frontier. It can also illustrate choice and opportunity cost as an economy moves along the PPC with different combinations of goods and services chosen.

2018

Question 1

9708/21/O/N/18/Q2a

- (a) Explain how capital goods contribute to production in a modern economy and how capital is rewarded. [8]
- (b) Discuss whether enterprise is crucial to the outward shift of the production possibility curve in a mixed economy. [12]

MARK SCHEME

- (a) For **knowledge** and **understanding** of the factor capital.

Capital refers to the factor of production that includes all the human-made aids to production, e.g. tools, equipment, plant, machinery and factories. Capital is a factor of production that can be used in the production process. It can be combined with the other factors of production to produce goods and services which can be sold in the market.

Note: Do not credit answers that refer to capital as money.

(KU: up to 4 marks)

For **application** showing how capital is rewarded in a modern economy through interest payments.

(APP: up to 4 marks)

- (b) For **analysis** of an outward shift of the production possibility curve in a mixed economy.

A production possibility curve shows the different combinations of products that can be produced if an economy is working at full capacity. Over a period of time, it is possible for there to be economic growth resulting from the availability of more resources and/or the more productive use of existing resources. Decisions in relation to the quantity and the quality of resources in a mixed economy can be taken by either the public sector, i.e. the government, or the private sector, i.e. firms.

Decisions taken by entrepreneurs could contribute to the outward shift of an economy's production possibility curve. **(Up to 4 marks)**

An outward shift of the production possibility curve of a mixed economy could take place as a result of investment decisions taken by a government. **(Up to 4 marks)**

(AN: up to 8 marks total)

For **evaluative comment** on whether enterprise is crucial to the outward shift of a mixed economy's production possibility curve. **(EV: up to 4 marks, reserve 1 mark for a conclusion)**

Question 2

9708/22/F/M/18/Q2a

Explain how governments face increasing opportunity cost in their decision-making. Use a production possibility curve diagram to support your answer. [8]

MARK SCHEME

AO1: knowledge and understanding illustrated with a correctly labelled diagram with a concave PPC **(Up to 2 marks)**

For an explanation of the choice and opportunity cost facing governments in deciding which goods and services to produce in their economy **(Up to 2 marks)**

AO1: maximum 4 marks

AO2: application recognising that the opportunity cost increases as resources shift from the production of one type of good to another **(1 mark)**

Explanation of why costs increase as the combination of goods produced changes with due reference to the suitability of resources. **(Up to 3 marks)**

AO2: maximum 4 marks

Opportunity cost is the cost in terms of the next best alternative foregone. Governments face opportunity cost when they have to decide what to produce. This can be expressed using ppc diagrams. For example, the opportunity cost of government spending on health is the spending on defence that has to be foregone. As resources are shifted from the production of one good to another the cost increases. The sacrifice becomes greater as less appropriate resources are used to produce alternative goods and services.

2017

Question 1

9708/23/O/N/17/Q3a

Explain how a production possibility curve with increasing opportunity costs illustrates the consequences of a government's choice to produce more military goods. Use a diagram to support your answer. [8]

MARK SCHEME**For Knowledge and Understanding:**

For an accurate ppc diagram with increasing opportunity costs showing military goods on one axis and some other appropriate category of goods on the other. E.g. merit goods

(Up to 2 marks)

For illustration showing that a movement along the ppc **(1 mark)** means an opportunity cost in terms of the next best alternative forgone. **(1 mark)** **(Up to 2 marks)**

4 marks maximum**For Application:**

For a clear explanation that the 'increasing opportunity costs' means that the opportunity cost is rising as resources are re-allocated to the production of more military goods.

(Up to 2 marks)

For a clear explanation of why opportunity costs will rise as resources are reallocated to produce more military goods **(Up to 2 marks)**

4 marks maximum

Candidates need to provide a diagram of a ppc showing military goods on one axis and other products for example, consumer goods or merit goods on the other. They then need to go on to show how more spending on military goods will result in less spending on the alternative. In the process they will need to demonstrate a clear understanding of opportunity cost. The ppc should be drawn with a convex curve to illustrate increasing costs.

Question 2

9708/22/O/N/17/Q3a

Show the difference between a movement along, and a shift in, a production possibility curve. Explain what might cause each to occur. Use diagrams to support your answer. [8]

MARK SCHEME**For Knowledge and Understanding and Application of a movement along a PPC:**

For an accurately labelled diagram **(1 mark)** that shows a movement along a PPC curve representing a change in the composition of output **(1 mark)**. **(Up to 2 marks)**

And explaining that this might be **caused** by government direction in a centrally planned economy or through the operation of market forces in a free market economy. **(Up to 2 marks)**

4 marks maximum**For Knowledge and Understanding and Application of a shift in a PPC**

For an accurately labelled diagram that shows a shift in a PPC curve **(1 mark)** and that this means that more (or less) of both goods can be produced **(1 mark)** **(Up to 2 marks)**

And explaining that this could be **caused** by a change in the quantity and/or quality of resources or a change in technology. **(Up to 2 marks)**

4 marks maximum

Candidates need to provide appropriate diagrams that show the difference between the two changes. They then need to explain that a shift in the curve could be caused by a change in the factors available to an economy or a change in technology. The movement along the curve represents a change in the composition of goods produced. The decision to change this composition could be a result of market forces or through government policy.

Question 3

9708/21/O/N/17/Q4a

Use production possibility curves to explain the different impact on an economy of a rise in the unemployment rate and an increase in the working population. [8]

MARK SCHEME**For Knowledge and Understanding (and Application)**

Using an accurately labelled PPC showing movement from a point on the curve to a point within the curve (2 marks) to explain that this represents a rise in unemployment (2 marks).
(Up to 4 marks)

For Knowledge and Understanding (and Application)

Using an accurately labelled PPC showing a shift outward of the curve (2 marks) to explain that this represents a rise in the working population (2 marks).
(Up to 4 marks)

8 marks maximum

A rise in unemployment can be shown as a movement from a point on the curve to a point within the curve.

An increase in the working population will cause a shift outwards in the curve.

2016**Question 1**

9708/23/O/N/16/Q3

(a) Explain with the help of a diagram why production possibility curves are usually drawn with increasing opportunity costs, and show how they can be used to illustrate scarcity. [8]

(b) Discuss whether it is likely that economies that have an increase in labour and a high rate of technological innovation will come nearer to solving the economic problem. [12]

MARK SCHEME

(a) For **knowledge and understanding** of production possibility curves and why they are usually drawn with increasing costs. (up to 4 marks)

For a production possibility curve accurately drawn with appropriate axes (1 mark) and displaying increasing opportunity costs (1 mark) (up to 2 marks)

For an explanation of why increasing opportunity costs arise as a movement along the opportunity cost curve takes place. (up to 2 marks)

For **application** showing how production possibility curves can be used to illustrate scarcity with due reference to choice and opportunity cost and that points outside the curve are unattainable. (up to 4 marks)

For **analysis** of the impact of an increase in the labour supply and a high rate of technological innovation upon the goods and services produced. This could be illustrated with a diagram showing an outward shift in the production possibility curve. (up to 8 marks)

(b) For **analysis** of the impact of an increase in the labour supply and a high rate of technological innovation upon the goods and services produced. This could be illustrated with a diagram showing an outward shift in the production possibility curve. (up to 8 marks)

For explanation of the 'economic problem' in terms of unlimited wants and scarce resources. (up to 2 marks)

For explanation of the impact of an increase in the labour supply on the capacity of an economy to produce goods and services. (up to 4 marks)

For explanation of the impact of a high rate of technological innovation on the capacity of an economy to produce goods and services. (up to 4 marks)

For **evaluative comment** on whether the economic problem can be solved. (up to 4 marks)
(8 marks maximum)

2015

Question 1

9708/23/O/N/15/Q2b

Discuss whether an outward shift in an economy's production possibility curve is more likely to occur in a free market economy or a centrally planned economy. [12]

MARK SCHEME

The extent to which free enterprise economies and centrally planned economies generate growth depends upon a range of factors. In free enterprise economies, growth will occur through the activities of entrepreneurs who are in pursuit of profit and who are responding to the wants of consumers. Entrepreneurs will be encouraged to invest in capital goods or human resources to generate profits. Some economies are short of entrepreneurs so growth is inhibited. Whether growth will occur in centrally planned economies depends upon the policies of decision makers. They may choose for example to produce capital goods or consumer goods. This raises the question of whether they are prepared to sacrifice current living standards for future living standards.

For analysis showing how growth will occur through choices made in a free market economy.

(Up to 6 marks)

For analysis showing how growth will occur through choices made in a centrally planned economy.

(Up to 6 marks)

(8 marks maximum)

For evaluative judgement on whether growth is most likely to occur in one rather than another type of economy.

(Up to 4 marks)

2014

Question 1

9708/23/O/N/14/Q2

(a) Show how the economic problem can be explained with the use of a production possibility curve. [8]

(b) Discuss whether an outward shift in a country's production possibility curve will always raise the welfare of the citizens of that country. [12]

MARK SCHEME

(a) For knowledge and understanding of the economic problem and the production possibility curve (Up to 4 marks)

For an explanation of the economic problem. (Up to 3 marks)

For an explanation of the production possibility curve. (Up to 3 marks)

For application explaining how the economic problem can be illustrated through the use of the production possibility curve. (Up to 4 marks)

Application marks will be awarded for good use of the production possibility curve in illustrating various aspects of the economic problem.

- For explanation that a movement along the production possibility curve, shows choice and opportunity cost and that this stems from the economic problem. (Up to 3 marks)

- For explanation that the production possibility curve shows the limits to production and that this arises from the fact that resources are scarce. (Up to 3 marks)

(b) For **analysis** explaining that an outward shift in the production possibility curve will increase the goods and services produced. This has the potential to raise the welfare of the citizens of a country. There are several reasons, however, why welfare might not be raised despite this increase in goods and services. For example, the shift in the PPC might have occurred because of technology changes which result in negative externalities. In addition, it might be the case that the increase in goods and services might be available only to a few citizens in the country as inequality increases. Candidates need to show a good understanding of why the outward shift in the PPC might not raise welfare for all marks. (Up to 8 marks)

For evaluative comment on the 'always raise the welfare' aspects of the question. (Up to 4 marks)

Candidates need to make a judgement based upon an assessment of the likelihood that the benefits of the extra production might outweigh the problems that might arise from the production of the extra goods and services. Some might draw a distinction between the short-term and the long-term effects of the change.

2013

Question 1 **9708/23/M/J/13/Q2a**
With the help of a diagram, explain how a production possibility curve can illustrate the concepts of opportunity cost and economic growth. **[8]**

MARK SCHEME

This question tests the grasp of some basic concepts in Economics that can be demonstrated through the Production Possibility Curve.

- For a knowledge and understanding of the production possibility curve supported by an appropriate diagram. Up to 4 marks.
- For application showing how a production possibility curve can illustrate both opportunity cost and choice. Up to 4 marks (allow 3/1 or 1/3 split).

2012

Question 1 **9708/22/O/N/12/Q2a**
Explain, with the help of a production possibility diagram, how the opportunity cost of producing different combinations of goods can be measured. **[8]**

MARK SCHEME

For knowledge and understanding of the ppc and opportunity cost (Up to 4 marks. Allow 3/1 or 1/3 split). For an analysis of how the ppc can be used to measure opportunity cost (Up to 4 marks).

Question 2 **9708/22/M/J/12/Q2b**
Discuss whether an economy's production possibility curve is more likely to move inward or outward over time. **[12]**

MARK SCHEME

For a knowledge and understanding of the 'production possibility curve'. Up to 2 marks
 For analysis explaining the causes of inward and outward shifts of the production possibility curve. Up to 8 marks (up to 6 marks for analysis of each direction of shift)
 For evaluative comment on whether the production possibility curve is more likely to move inward or outward. Up to 2 marks

Question 3 **9708/21/M/J/12/Q2a**
Explain how the loss of confidence in money will affect an economy's production possibility curve. **[8]**

MARK SCHEME

Money is anything that is generally acceptable as a means of payment and has four functions. The production possibility curve (ppc) shows the maximum possible combinations of outputs when an economy operates at full employment. The loss of confidence will prevent money being acceptable and its functions will not operate effectively. This will restrict specialisation and output. The result will be lower potential production so fixing the curve nearer to the origin than one with the use of money.
 Understanding of money and the ppc 4 marks
 Explanation of the impact on the position of the ppc 4 marks

2011

Question 1 **9708/23/O/N/11/Q2a**
Explain, with the help of a diagram, how an economy can in the short run and long run enjoy consumption beyond its current production possibility curve. **[8]**

MARK SCHEME

A production possibility curve (ppc) shows the maximum possible combination of two goods that can be produced using all its resources. Points outside of the ppc are unattainable by the economy itself. In the short run international trade enables a country to enjoy more than it can produce by running a trade deficit. In the long run technical progress and additional resources can move the ppc out beyond its current position as it achieves economic growth. Understanding of ppc and short-run limitation on production (4 marks).

Short-run (up to 3 marks) and

Long-run (up to 3 marks) ability to increase production possibility.

4 marks maximum for consideration of short run and long run. (4 marks)

Question 2

9708/22/O/N/11/Q2

- (a) Show how production possibility curves may be used to explain any two economic ideas. [8]
- (b) Discuss whether the combination of improved technology and globalisation will result in solving the basic economic problem. [12]

MARK SCHEME

(a) A production possibility curve (ppc) shows the alternative combinations of two goods that can be produced when an economy fully uses its resources. Likely economic ideas are scarcity (contrast within and without curve) and opportunity cost (movement between points on curve) although unemployment and growth may also be considered.

Meaning of PPC (2) and choice of two valid concepts (2) Explanation of use of PPC to illustrate each economic idea. Up to 3 marks for one idea explained well, but 4 maximum for this part of the question.

(b) The basic economic problem is the allocation of limited resources between unlimited wants and the existence of scarcity. The need for choice and the operation of opportunity cost follow from this. Improved technology increases output by raising productivity. Globalisation brings many advantages including the benefits of specialisation. These result in a rise in the standard of living and may reduce poverty and hardship. Some groups may be harmed by the two influences. Scarcity will continue as new wants will arise and benefits may not be spread equitably. The position may improve as a result of the changes but the economic problem will continue to exist.

Understanding of the basic economic problem (2 marks)

Analysis of the impact of improved technology (up to 4 marks) and globalisation (up to 4 marks)

6 maximum for this part of the question

Discussion of the continued existence of the economic problem. (Up to 4 marks)

Reserve 1 mark for a reasoned conclusion.

2010**Question 1**

9708/02/O/N/10/Q2a

Explain how microeconomic and macroeconomic issues may be represented using production possibility curves. [8]

MARK SCHEME

Microeconomics studies individual units while macroeconomic issues involve aggregates for the economy. The production possibility curve (ppc) can show the possible combinations of two outputs that can be produced with full employment of resources. Economic growth, unemployment are macro representations while opportunity cost and scarcity can be micro applications. Some aspects can be shown either for an economy or an individual firm.

Understanding of micro/macro distinction and ppc

4 marks

Use of ppc to show macro and micro issues

4 marks

Question 2

9708/02/M/J/10/Q2a

Explain how a country's production possibility curve depends upon its factors of production. [8]

MARK SCHEME

A production possibility curve (ppc) shows the combination of outputs that a country can produce when fully employing its resources. Factors include land, labour, capital and enterprise. Some countries have greater quantities and better quality of factors. Land may include a favourable climate and valuable minerals, labour may be skilled, capital may embody modern technology and, enterprise may be readily available. The way the factors are combined to work productively will determine the quantities of different outputs produced. This will be reflected in the absolute and relative levels of output, which may be shown as diagrams.

Understanding of the ppc and factors of production

4 marks

Explanation of the different impact of the factors

4 marks

2009

Question 1

9708/02/M/J/09/Q2a

An economy can produce agricultural and industrial goods. Explain the possible effects on its production possibility curve if there is an increase in the productivity of its agricultural workers. [8]

MARK SCHEME

A ppc shows an economy's maximum output of two goods when using all of its resources. Productivity is the measure of output per worker. Assuming the production of agricultural goods and industrial goods, the ppc would be expected to pivot outwards, as workers produce more, indicating greater quantities of agricultural goods. Further possibilities include greater production of industrial goods as well because better food supplies increase overall productivity or as restriction on agricultural total output shifts resources to industrial production, which in turn expands.

For knowledge of ppc and productivity

up to 2 marks

For understanding of pivot with more agricultural output

up to 4 marks

For explanation of alternative outcomes

up to 2 marks

2006

Question 1

9708/02/O/N/06/Q4-2a

Explain how production possibility curves might be used in assessing a country's economic performance. [8]

MARK SCHEME

A ppc shows the possible combinations of two goods which can be produced by an economy when it uses all of its resources fully and efficiently. A ppc slopes down to the right and is usually drawn concave to the origin. Points within show unemployment and inefficiency, points without are unattainable. Shifts in the curve show growth or loss of productive potential. The larger the contained area the greater the level of production potential.

For knowledge of a ppc

up to 2 marks

For explanation of static position

up to 3 marks

For explanation of move in curve up to 3 marks

2004

Question 1

9708/02/O/N/04/Q2a

An economy is faced by the exhaustion of an important natural resource at a time when it is introducing improved technology.

Explain how these events will affect the economy's production possibility curve. [8]

MARK SCHEME

Improved technology gives greater efficiency and rising productivity(output per worker per time period) so should move the production possibility curve outwards, depending upon where the improvement impacts. The exhaustion of a resource should reduce an input and the resulting output and move the ppc inwards. The overall effect will depend on their relative strengths but results from the change in available inputs and their effect on production possibilities. These changes can be shown by diagrams.

Understanding of the ppc concept

up to 2 marks

Awareness of the outcomes

up to 4 marks

Balance of the effects/differentiated impact

up to 2 marks

2003

Question 1

9708/02/O/N/03/Q2a

Explain what is meant by labour productivity, and show how changes in labour productivity may affect an economy's production possibility curve. [8]

MARK SCHEME

Labour productivity is output per worker (per time period) and is calculated by total output/number of workers. The ppc shows the maximum output of one good possible with the available resources, given the output of other goods. The effect on the ppc will depend upon the assumptions made. It may result in a move to the curve from within, a shift outwards or inwards of the curve or a pivoting of the curve. The assumptions need to be clarified.

Knowledge of the terms	up to 3 marks
Understanding of the effect	up to 3 marks
Explanation of the effect	up to 2 marks

Question 3

9708/02/O/N/02/Q 2a

Explain the link between the basic economic problem of scarcity and opportunity cost. [8]

MARK SCHEME

Limited resources and unlimited wants mean that scarcity will always exist. Scarcity involves choice which means the sacrifice of the next best alternative where opportunity cost comes in.

Knowledge of the terms	up to 3 marks
Explanation of the terms	up to 3 marks
Explanation of the linkage	up to 2 marks

1.2: Classification of Goods & Policies to Deal with These Goods

2021

Question 1

9708/22/M/J/21/Q2a

(a) In 2018 the UK government, concerned about the rise in obesity, particularly amongst young people, imposed a tax on producers of sugar-sweetened drinks.

State what is meant by a demerit good, and with the help of a diagram(s) explain how a tax on producers can improve the allocation of resources in the market for sugar-sweetened drinks.

[8]

(b) Compare the likely effectiveness of a policy of imposing minimum prices on demerit goods with one other policy to improve public health and consider which policy is more likely to be successful.

[12]

MARK SCHEME

(a) For knowledge and understanding of a demerit good which explains that the term refers to a good that has the cost of consumption underestimated/worse for the consumer than they realise/because of information failure (1 mark) and is overconsumed (1 mark)

Application that uses a correctly labelled diagram to explain the impact of an indirect tax on price and quantity. Diagram showing a left shift in the S curve (1 mark) the fall in quantity consumed (1 mark) and the increase in price (1 mark) (up to 3 marks)

An explanation that the tax is increasing the cost of production for producers (1 mark), which increases the price and reduces the consumption (1 mark) which removes the market failure/problem of information failure/improves the allocation of resources (1 mark) (up to 3 marks)

The answer provided must show knowledge and understanding that a demerit good is one that is worse for the consumer than they realise because of information failure. The diagram(s) should show that demerit goods are under-priced and over consumed and also how a tax can improve allocation.

(b) For analysis that explains the likely effectiveness of a minimum price on a demerit good. Maximum of 3 marks if only benefits or drawbacks are considered (up to 4 marks)

For analysis that explains the likely effectiveness of one other policy. Maximum of 3 marks if only benefits or drawbacks are considered (up to 4 marks)

And for evaluation that clearly compares the effectiveness of both policies (3 marks) that leads to a reasoned conclusion as to which policy is more likely to be successful (1 mark)

The effectiveness of a minimum price is dependent upon the ability to control prices and the likelihood that unauthorised / illegal / underground / informal / hidden markets might arise.

Other policies include indirect taxes, education campaigns, subsidisation of alternatives.

No credit for simply referring to part (a)

Question 2

9708/21/M/J/21/Q2a

(a) Explain whether private goods, free goods and public goods will all be sold in a free market economy.

[8]

(b) Discuss whether the direct provision of goods and services by the government prevents the price mechanism from working effectively.

[12]

MARK SCHEME

(a) For Knowledge and Understanding

For knowledge and understanding of private goods, free goods and public goods. (Up to 2 marks)

For knowledge and understanding of just two types of good. (Up to 1 mark)

2 marks maximum

For Application

Explanation of the market mechanism in relation to the three types of good

Up to 2 marks for an explanation of each type of good)

6 marks maximum

Free goods are not sold in a free market economy:

- are not scarce and so do not have a market price attached to them
- the supply equals the demand at zero price
- have no property rights associated with them

- require no factors of production for their enjoyment

Private goods are sold in a free market economy:

- economic goods that are consumed by an individual for their own benefit
- there is rivalry in consumption, i.e. when a product is consumed by one person, it cannot be consumed by another
- there is excludability in consumption, i.e. when a product is consumed by one person, all others are excluded from it

Public goods are not sold in a free market economy:

- are non-rival
- are non-excludable
- are non-rejectable

Examples of free goods: air, sunshine

Examples of private goods: most products in an economy, such as food and clothing;

can include examples of merit goods/demerit goods

Examples of public goods: street lighting, defence and police

(b) For Analysis

Analysis of the prevention of the price mechanism from working effectively. (Up to 4 marks)

Analysis of the potential fact that it does not prevent the price mechanism from working effectively.

(Up to 4 marks)

8 marks maximum

For Evaluation

For exercising some judgement on whether the direct provision of goods and services by the government prevents the price mechanism from working effectively. (Up to 4 marks)

Reserve 1 mark for a conclusion

4 marks maximum

The effect of direct provision of goods and services by the government:

- does it prevent the price mechanism from rationing?
- does it prevent the price mechanism from signalling?
- does it prevent the price mechanism from transmitting preferences?

The direct provision of goods and services by the government will be financed through the tax system, e.g. education and health care, and so will not be allocated through a price mechanism.

However, education and health care can also be provided through a price mechanism and in this situation the mechanism can function as a rationing and signalling device and as a way of transmitting preferences

2020

Question 1

9708/21/O/N/20/Q2a

Explain, with the help of examples, how imperfect information among consumers affects their consumption of merit goods and demerit goods. [8]

MARK SCHEME

Up to 2 marks for Knowledge and Understanding

- Knowledge and understanding of imperfect information in relation to a merit good and a demerit good, with the help of suitable examples (Up to 2 marks)

2 marks maximum

Up to 6 marks for Application

- Application of the idea of imperfect information to the underconsumption of a merit good (Up to 3 marks)

- Application of the idea of imperfect information to the overconsumption of a demerit good (Up to 3 marks)

6 marks maximum

Merit good:

- a particular type of private good

- it is rival and excludable
- it has intrinsic benefits for an individual
- examples include education or health care

Demerit good:

- a particular type of private good
- it is rival and excludable
- it is potentially damaging for an individual
- examples include alcohol or tobacco

Imperfect information and a merit good:

- problem of information failure
- merit goods are likely to be under-consumed and under-produced
- consumers do not fully appreciate the value of a merit good

Imperfect information and a demerit good:

- problem of information failure
- demerit goods are likely to be over-consumed and over-produced
- consumers do not fully understand the potential dangers of a demerit good

Question 2

9708/22/M/J/20/Q4

- (a) Explain, using examples, the difference between private goods and public goods and why public goods will not be supplied by private enterprise. [8]
- (b) Consider the problem of the provision of merit goods in a market economy and assess whether direct provision of such goods is the most effective way to deal with this problem. [12]

MARK SCHEME

(a) Up to 2 marks for Knowledge and Understanding

- For **knowledge and understanding** of the distinction between the two types of good based upon excludability (1 mark) and rivalry in consumption (1 mark)

Up to 6 marks for Application

- For **application** explaining why public goods will not be supplied in a free market economy because of non-excludability and the lack of rivalry in consumption (4 marks) with due reference to the free rider issue (2 marks)

(b) Up to 8 marks for Analysis

- For **analysis** explaining the underproduction and under-consumption of merit goods based upon information failure in a market economy (Up to 4 marks)
- For **analysis** that compares direct provision of merit goods with at least one alternative means of provision, e.g. subsidisation of these goods or public education campaigns (Up to 4 marks)

Up to 4 marks for Evaluation

- For **evaluative comment** and a reasoned conclusion on the most effective policy (4 marks)

Question 3

9708/21/M/J/20/Q2b

Discuss the view that the only goods a government should produce are public goods. [12]

MARK SCHEME

Up to 8 marks for Analysis

- Analysis of the production of public goods by a government, with the use of appropriate examples (Up to 4 marks)
- Analysis of the production of other goods by a government, such as merit goods, with the use of appropriate examples (Up to 4 marks)

For exercising some judgement on whether the only goods that a government should produce are public goods Reserve 1 mark for a conclusion

Question 4

9708/22/F/M/20/Q3a

The government raises taxes to provide a toll road bridge and streetlights in a country. Explain how an economist would classify each of these provisions. [8]

MARK SCHEME

For **knowledge and understanding** of the characteristics that allow the classification of goods i.e. excludability (1 marks) and rivalry in consumption (1 marks) (KU: up to 2 marks)

For **application** that

- classifies a toll road bridge as a private good (3 marks)
- and streetlights as a public good (3 marks) (APP: up to 6 marks)

The classification relies upon whether the goods are excludable and rival in consumption. It does not matter how they are paid for.

Reference to merit goods should still conclude that these are private goods in terms of excludability and rivalry.

2019

Question 1

9708/21/O/N/19/Q3b

Discuss, with the use of examples, whether a government should directly provide certain goods and services in an economy. [12]

MARK SCHEME

- analysis of reasons for a government to directly provide certain goods and services in an economy, using appropriate examples (up to 4 marks)
- analysis of reasons for a government **not** to directly provide certain goods and services in an economy, using appropriate examples (up to 4 marks) (AN: up to 8 marks)
- assessing whether a government is justified in directly providing certain goods and services in an economy – public goods have to be provided by the government as these otherwise would not be provided at all (up to 3 marks); and a concluding comment (1 mark) (EV: up to 4 marks)

Reasons for:

- To enable benefits in terms of economies of scale if a large firm is created, lowering cost and possibly price
- Justifiable where the goods and services are public goods
- To encourage consumption of merit goods
- To take account of externalities, both positive and negative
- Justifiable if high levels of capital expenditure are required
- Justifiable in the case of a natural monopoly, avoiding a wasteful duplication of Resources
- Possible strategic argument
- Prevention of private sector monopoly power
- Reasons against:
 - Lack of incentive to be efficient and innovative
 - There may be an absence of competitive pressure
 - Political, not economic, decision

Question 2

9708/23/M/J/19/Q2

(a) **Using examples, explain why merit goods are said to be under-consumed and demerit goods are over-consumed.** [8]

(b) **Discuss whether merit goods should always be subsidised and demerit goods always taxed.** [12]

MARK SCHEME

(a) **Knowledge and understanding** of the nature of information failure (1 mark) and that this leads to under-consumption and overconsumption of some goods in the market (1 mark) (KU: up to 2 marks)

Application:

Explaining why merit goods are under-consumed (2 marks) and with an appropriate example. (1 mark).

Explaining why demerit goods are over-consumed (2 marks) and with an appropriate example. (1 mark). (APP: up to 6 marks)

The main point here is to recognise the nature of information failure and why it leads to under and over consumption.

Examples of each type of good with a relevant applied explanation of information failure are required to enhance the quality of the answer.

(b) Analysis: Of the benefits of subsidisation of merit goods (**up to 3 marks**) compared with other methods to increase their consumption (**1 mark**).
And of the benefits of taxation of demerit goods (**up to 3 marks**) compared with other methods to decrease their consumption (**1 mark**). **(AN: up to 8 marks)**

Evaluation:

Of the idea that merit goods should always be subsidised and demerit goods should always be taxed. Reserve **1 mark** for a reasoned conclusion. **(EV: up to 4 marks)**

It is usual but by no means always true that merit goods are subsidised and that demerit goods are subject to indirect taxation. This happens a lot but there are other means of increasing and decreasing consumption. The clue in the question is 'always' which can form the basis of the evaluative judgement.

Question 3

9708/22/M/J/19/Q3b

Discuss whether subsidies on the production of all types of good will lead to an improved allocation of resources. [12]

MARK SCHEME

Analysis:

Explaining that merit goods are under-consumed because of information failure and that subsidies will reduce price and increase their consumption improving resource allocation. **Up to 4 marks**

Explaining the impact of subsidies on other types of goods for e.g. demerit goods, public goods or private goods where resource allocation will not be improved. **Up to 4 marks for each case explained (AN: up to 8 marks)**

Evaluation:

Comparing the impact of providing subsidies on different types of goods (**Up to 3 marks**) and for a conclusion on whether they will improve the allocation of **all** types of good (**1 mark**)

(EV: up to 4 marks)

Candidates need to recognise that subsidies can improve the allocation of resources if they are imposed upon merit goods. They will go some way to improving the under-consumption of the good. If subsidies are imposed upon demerit goods however they will exacerbate the over-consumption of these goods.

Subsidies will not improve resource allocation if applied to public goods because they still need to be provided by the public sector. In the case of other goods that cannot be classified as merit, demerit or public goods subsidies will reduce the price below the equilibrium determined in a free market.

Question 4

9708/22/F/M/19/Q3b

Discuss whether indirect taxes and subsidies could be used to improve the consumption of merit and demerit goods if the demand for both of these goods is price inelastic. [12]

MARK SCHEME

For **analysis** that explains that merit goods are more beneficial for the consumer than they realise (**1 mark**) and as a result are under-consumed because of information failure (**1 mark**) and demerit goods are more harmful to the consumer than they realise (**1 mark**) and as a result are over-consumed because of information failure (**1 mark**). **(4 marks maximum)**

For **analysis** that explains the extent to which a subsidy can increase the consumption of merit goods when demand is price inelastic. **(Up to 2 marks)**

For **analysis** that explains the extent to which an indirect tax can decrease the consumption of demerit goods when demand is price inelastic. **(Up to 2 marks)**

For **evaluation** that assesses the effectiveness of these measures in improving consumption (**up to 3 marks**) and containing a conclusion (**1 mark**).

Merit goods are under-consumed and demerit goods are over-consumed in a free market. This is because of information failure. Merit goods are more beneficial than consumers realise and demerit goods are more harmful than consumers realise. If the price elasticity of demand for merit and demerit goods is inelastic then the response of demand to the change in price is less than proportionate. This weakens the impact of the subsidies and indirect taxes, but they could still be used to improve consumption because there will be some rise in the consumption of merit goods and some fall in the consumption of demerit goods as a result of their imposition.

2018

Question 1

9708/23/O/N/18/Q2

- (a) Using examples, explain why some goods cannot be provided as private goods. [8]
(b) Discuss whether all forms of transport should be subsidised by the government. [12]

MARK SCHEME

(a) For a **knowledge and understanding** of private goods in terms of excludability and what that means (1 mark) and rivalry in consumption and what that means (1 mark) (KU: up to 2 marks)
For **application** of why some goods are non-excludable and therefore cannot be provided as private goods (Up to 3 marks)
For **application** of why some goods are non-rival are therefore cannot be provided as private goods (Up to 3 marks)

If no example is provided then **2 marks maximum** for each type of good.

A private good has the characteristics of excludability and rivalry. This is normally achieved through the price mechanism and once a good is purchased, it cannot be consumed by others. Rivalry could also raise the price of a good. If a consumer does not have the resources, they cannot consume certain private goods. Public goods are provided to overcome this problem; they are nonexcludable and non-rival. Their provision does through raise the issue of free riders. Reward relevant examples of private and public goods. Credit those candidates who include a consideration of rejectability if this adds to the quality of the answer.

(b) For an **analysis** of the costs/benefits of a subsidy on those forms of transport that might be considered as merit goods (Up to 4 marks)

For an **analysis** of the costs/benefits of a subsidy on those forms of transport that are not considered as merit goods (Up to 4 marks) (AN: up to 8 marks)

For **evaluative comment** on whether **all** forms of transport should be subsidised with 1 mark reserved for a conclusion (EV: up to 4 marks)

There are various arguments for subsidising transport. The arguments depend upon the extent to which different forms of transport could be considered as merit goods.

Question 2

9708/21/O/N/18/Q4a

Explain the features of a public good. Consider whether a motorway (highway) provides an example of a public good. [8]

MARK SCHEME

For **knowledge and understanding** of the features of a public good. Public goods are non-excludable: what this means (1 mark) and non-rival in consumption: what this means (1 mark) (KU: up to 2 marks)

For **application** that considers whether a motorway could be classified as a public good through an examination of whether it is excludable or nonexcludable. For example, free riders can be excluded through tolls but it may not be practicable to erect toll-booths. (Up to 3 marks)

For **application** that considers whether a motorway could be classified as a public good because there is rivalry in consumption. Traffic jams for example may occur. These however might only occur at peak periods. (Up to 3 marks)

If a candidate simply says that it is a public good because it is provided by the government then no marks are to be awarded for application. The consideration must test the classification of the motorway against the features of a public good. (APP: up to 6 marks)

Public goods have the features of nonexcludability, non-rivalry in consumption. A motorway is often cited by candidates as a public good, but consumers can be excluded from motorways through tolls and there is rivalry in consumption as traffic jams prove.

If a candidate provides a reasoned argument that under some circumstances a motorway might be non-excludable and/or there is no rivalry in consumption this can be an acceptable approach. Some might argue that a motorway could be classified as a quasi-public good.

Some candidates might refer to nonrejectability as a feature of public goods. Please allow credit for this if it adds to the general quality of the application.

Question 3

9708/21/M/J/18/Q2a

(a) Explain why both merit goods and demerit goods are examples of private goods. [8]

(b) Discuss whether merit goods and demerit goods are best provided by a market economy. [12]

MARK SCHEME

(a) For knowledge and understanding of merit goods and demerit goods. Knowledge and understanding of merit goods as an example of a product that is under-consumed as a result of information failure. (Up to 3 marks)

Knowledge and understanding of demerit goods as an example of a product that is over-consumed as a result of information failure. (Up to 3 marks)

(KU total: Up to 4 marks)

For **application** showing how merit goods and demerit goods are examples of a private good.

Application to examples of merit goods, such as education and health care. (Up to 3 marks)

Application to examples of demerit goods, such as cigarettes and alcohol. (Up to 3 marks)

(APP total: Up to 4 marks)

Reward appropriate reference to information failure in relation to both merit goods and demerit goods.

Both merit goods and demerit goods are examples of a private good because:

There is rivalry in consumption, i.e. once a product has been consumed by one person, it cannot be consumed by another person. There is excludability in consumption, i.e. it is possible to exclude a person from consuming a product if another person has consumed it and they have not paid for it.

(b) For analysis of the provision of merit goods through a market economy. (Up to 4 marks)

For **analysis** of the provision of demerit goods through a market economy. (Up to 4 marks)

(AN total: Up to 8 marks)

For **evaluative comment** on whether the provision of merit goods and demerit goods through a market economy will always be the best form of provision. (1 mark for a conclusion)

(EV total: Up to 4 marks)

Advantages of a market economy:

Possible advantages of a market economy, such as decisions taken by individual consumers, who aim to maximize utility/satisfaction, and by individual producers, who aim to maximise profits. Important role of a price mechanism to allocate resources efficiently, with prices acting as a signaling device. There is likely to be greater efficiency arising from the existence of a profit motive and of competition, with no government intervention.

Disadvantages of a market economy:

A market economy, as well as having potential benefits, can also have potential drawbacks, such as the under-production of merit goods and the over-production of demerit goods.

Question 4

9708/21/M/J/18/Q2

(a) Explain why both merit goods and demerit goods are examples of private goods. [8]

(b) Discuss whether merit goods and demerit goods are best provided by a market economy. [12]

MARK SCHEME

(a) For knowledge and understanding of merit goods and demerit goods. Knowledge and understanding of merit goods as an example of a product that is under-consumed as a result of information failure. (Up to 3 marks)

Knowledge and understanding of demerit goods as an example of a product that is over-consumed as a result of information failure. (Up to 3 marks)

(KU total: Up to 4 marks)

For **application** showing how merit goods and demerit goods are examples of a private good.

Application to examples of merit goods, such as education and health care. (Up to 3 marks)

Application to examples of demerit goods, such as cigarettes and alcohol. (Up to 3 marks)

(APP total: Up to 4 marks)

Reward appropriate reference to information failure in relation to both merit goods and demerit goods.

Both merit goods and demerit goods are examples of a private good because:

There is rivalry in consumption, i.e. once a product has been consumed by one person, it cannot be consumed by another person. There is excludability in consumption, i.e. it is possible to exclude a person from consuming a product if another person has consumed it and they have not paid for it.

(b) For analysis of the provision of merit goods through a market economy. (Up to 4 marks)

For **analysis** of the provision of demerit goods through a market economy. (Up to 4 marks)

(AN total: Up to 8 marks)

For **evaluative comment** on whether the provision of merit goods and demerit goods through a market economy will always be the best form of provision. (1 mark for a conclusion)

(EV total: Up to 4 marks)

Advantages of a market economy:

Possible advantages of a market economy, such as decisions taken by individual consumers, who aim to maximize utility/satisfaction, and by individual producers, who aim to maximise profits. Important role of a price mechanism to allocate resources efficiently, with prices acting as a signaling device. There is likely to be greater efficiency arising from the existence of a profit motive and of competition, with no government intervention.

Disadvantages of a market economy:

A market economy, as well as having potential benefits, can also have potential drawbacks, such as the under-production of merit goods and the over-production of demerit goods.

2017

Question 1

9708/22/M/J/17/Q2b

Discuss two methods of increasing the provision of merit goods in a mixed economy. Consider which is more likely to be effective. [12]

MARK SCHEME

For analysis

- of any method of increasing the provision of merit goods such as direct provision or subsidies **explaining the strengths and weaknesses of each approach selected** (Up to 6 marks for each method) **(8 marks maximum)**

For evaluation that assesses and compares

- the relative strengths and weaknesses of each approach (3 marks)
 - to reach a conclusion concerning which policy is more likely to be effective (1 mark)
- (4 marks maximum)**

A number of methods are used to increase the supply of merit goods in a mixed economy. These include direct provision, producer subsidies and education campaigns to increase the demand for the merit good. Each has advantages and disadvantages based Upon for example, the cost of provision, the time period under consideration and the difficulty in implementation. The MARK SCHEME indicates that candidates need to explain two methods to obtain full marks for the analysis. This should include the strengths and weaknesses of each approach. They then need to provide evaluative comment to reach a conclusion on which method is likely to be most effective.

Question 2

9708/21/M/J/17/Q2

(a) Using examples, explain the difference between a merit good and a public good. Explain why a profit can be made from the provision of one of these types of good, but not the other. [8]

(b) Discuss whether it is better to impose an indirect tax or conduct an awareness campaign to deal with the problem of demerit goods such as alcohol. [12]

MARK SCHEME

(a) For knowledge and understanding

- Of the meaning of a merit good (Up to 3 marks)
 - And a public good (Up to 3 marks).
- (4 marks maximum)**

For application showing

- Understanding of the reasons that profit can be made in the supply of merit goods,
 - But not in the supply of public goods.
- (4 marks maximum)**

The goods should be distinguished through the qualities of excludability, diminishability and rejectability.

The explanation should be based upon the free-rider problem that occurs in the supply of public goods.

(b) For analysis that explains:

- The way in which an indirect tax is used to reduce the consumption of alcohol with due reference to the strengths and weaknesses of this approach. (Up to 6 marks)

- The way in which an awareness campaign is used to reduce the consumption of alcohol with due reference to the strengths and weaknesses of this approach. (Up to 6 marks) **(8 marks maximum)**

For **evaluation** that **assesses and compares**

- the relative strengths and weaknesses of each approach (Up to 3 marks)
 - and for reaching a conclusion on which approach is likely to be most effective. (1 mark)
- (4 marks maximum)**

A demerit good should be explained in terms of incomplete information of the harm that it can cause.

An indirect tax is designed to reduce supply and increase price.

An awareness campaign is designed to decrease demand for the demerit good.

Evaluative points include the following:

- the fact that the demand for alcohol might be price inelastic
- the fact that an awareness campaign might be costly
- the fact that an awareness campaign might take a long period to take effect

Question 3

9708/22/F/M/17/Q2

- (a) **Explain the difference between public goods and private goods. Consider why profit can be made through the supply of one type of good, but not the other.** [8]
- (b) **Discuss why merit goods may be under-consumed in a mixed economy. Consider whether maximum prices or education campaigns would be more effective in ensuring that these goods are supplied in appropriate quantities.** [12]

MARK SCHEME

(a) For **knowledge and understanding** of

- public goods in terms of non-excludability and non-rivalry (Up to 2 marks) and
- private goods in terms of excludability and rivalry in consumption (Up to 2 marks) For **application** showing why profit can be made in the supply of private goods (Up to 3 marks) but not in the supply of public goods because of the free-rider problem that means that a price cannot be charged (Up to 3 marks).

(4 marks maximum for application)

Public goods, in contrast to private goods, are non-excludable and non-rival (and non-rejectable). As a result if they were provided by the private sector there would be the free-rider problem meaning that no profit could be made from their provision.

(b) For **analysis**:

- explaining how maximum prices might work to increase provision with due reference to the strengths and weaknesses of this approach. (Up to 6 marks)
- explaining how education campaign might work to increase provision with due reference to the strengths and weaknesses of this approach. (Up to 6 marks)

(8 marks maximum for analysis)

For **evaluation** assessing which is the most effective in increasing consumption with due reference to the strengths and weaknesses explained in the analysis. (Up to 3 marks) and providing a reasoned conclusion (1 mark)

Merit goods are under-consumed because of incomplete information.

The question relates to the under-consumption of merit goods and successful answers will focus upon the way in which policies can increase consumption as required. References to price are only relevant as they relate to the quantity consumed.

Maximum prices set the price of the merit good below equilibrium so that the merit good becomes more affordable. This will make consumers more willing to buy, but a shortage will develop so quantity consumed will actually fall unless the government takes further action such as subsidizing production.

Education campaigns are designed to improve information and as a result increase the demand for the merit good, raising price and leading to an extension in supply. The weakness of this method is that these campaigns tend to be expensive and they may not be successful if poorly designed.