

AS LEVEL

Exemplar Candidate Work

ECONOMICS

H060

For first teaching in 2015

Component 1 Microeconomics

Version 1



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Introduction

We asked students to answer Section C of the Sample Question Paper for H060/01 Microeconomics:

<http://www.ocr.org.uk/Images/170860-unit-h060-1-microeconomics-sample-assessment-material.pdf>

The sample answers in this resource have been extracted from original candidate work to maintain their authenticity. They are supported by examiner commentary, both in annotations and in summary at the end of the document.

Please note that this resource is provided for advice and guidance only and does not in any way constitute an indication of grade boundaries or endorsed answers.

It is now compulsory for young people in England to remain in some form of education or training until they are 18.

Evaluate, using an appropriate diagram(s), the effectiveness of state provision as a method of correcting education market failure. [20 marks]

Candidate A

Market failure is when the free market mechanism fails to achieve economic efficiency. There is either excess demand or supply and therefore the market is in disequilibrium and not operating at the socially optimum level of output. Education market failure will mean that not enough is being consumed and or produced if left to the free market alone to achieve efficiency therefore it requires state provision to help it achieve economic efficiency.

State provision is done by the government and they essentially provide what cannot be provided or not provided sufficiently by the free market. It is more likely that there is excess demand for education and the free market alone cannot cope with this excess demand therefore the government needs to help by supplying education to deal with the excess demand. This state provision has both good and bad effects.

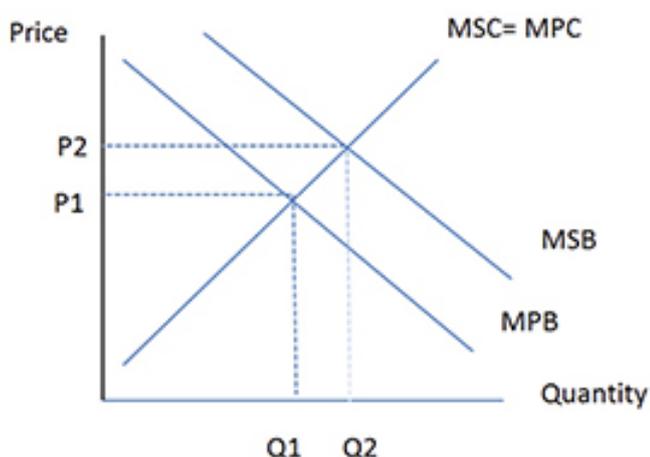
State provision is beneficial because education is a merit good, under consumed (and under provided) if left to the free market because the external benefits are not realised by the private decision maker. As the diagram below illustrates, there is a divergence between the marginal private benefit and the marginal social benefit due to the positive spillover effects which aren't realised.

Good knowledge of market failure as an introduction to the essay.

The candidate begins with a good knowledge of the concept of state provision.

Good economic knowledge of the reasons for state provision. The candidate analyses the need for government intervention.

However, there could be more analysis of the consequences of state provision, how it will correct education market failure.



Education has many benefits to society, such as increasing the occupational mobility of labour and increasing the flexibility of the labour market which enables the economy to respond to both demand and supply side shocks. However, because there is a divergence between social and private benefits the government needs to intervene into the market and provide the necessary supply making education free at the point of use and so accessible to all within society – reducing excludability. This would increase demand and ensure social benefits meet private benefits and that output is at the socially optimum level, thus correcting market failure.

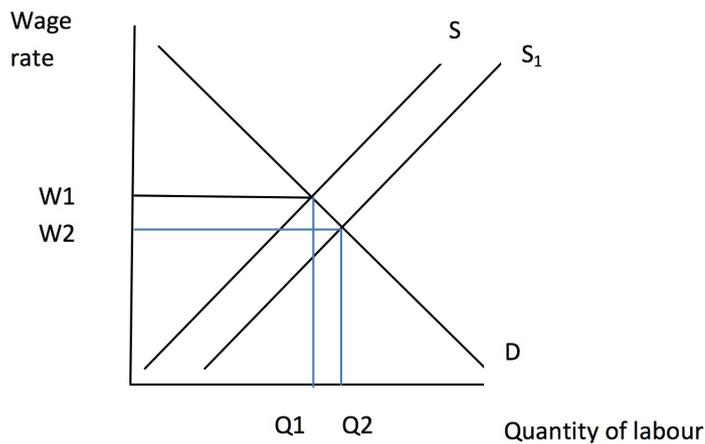
The diagram is correct but could have been explained a little more to truly illustrate where the socially optimum output is and the amount of under consumption of education.

There is further analysis of the benefits of education, using economic terms. This then takes the analysis of state provision further to strong analysis as there is a clear chain of argument.

Candidate A (cont)

This state provision could correct this market failure by supplying to the excess demand however if this happens then there will have to be a high level of demand and it must be made compulsory by the government for this provision to be effective and for the market to achieve economic efficiency. If it was not made compulsory then there would be excess supply of education and there would be market failure again. It is hard to understand how much education needs to be supplied to meet the excess demand and if too much is supplied then government failure would occur instead of market failure. It is difficult for the government to judge well on what to supply as well. Whether it is schools, or books or teachers that are needed.

There is also an opportunity cost in state provision of education because the money spent on it could also have been spent on other things that the government provides like healthcare or defence. However it can be more effective to correct education market failure because in the long term, with more people in education for longer it means they are better trained and therefore there is a reduction in the amount of occupation immobility of labour that occurs as people have a wider variety of skills and the quality of labour will be greater.



Here this diagram shows how if education is made compulsory for longer then the supply of workers available to companies who they are willing and want to employ will increase therefore the company is able to increase its supply. The supply curve shifts to the right from $S-S_1$.

In conclusion, in the short term state provision may not be the most effective way to correct education market failure however in the long term, if the state does provide the education then the effects it has on the economy are much greater and it can be a positive result as long as education is made compulsory and free at point of use, therefore being assessable to all, rather than those that can afford to pay for it.

Level: 4

Mark: 16

There is evaluation of state provision by recognising that education needs to be made compulsory if state provision is to be effective. This is reasonable evaluation.

Further, brief analysis on the opportunity cost of state provision, but this isn't explored.

Further evaluation which includes a judgement on the extent to which state provision will correct education market failure with good recognition of the long term benefits of state provision.

This diagram could have been included earlier to add depth to the analysis of the arguments for state provision.

Overall, the evaluation is just strong but could have been more developed in places. There is a tendency to state points of evaluation rather than explore ideas in depth. Although the discussion around the opportunity cost of state provision does consider the short and long term aspect which has more depth. The candidate offers a supported judgement at the end.

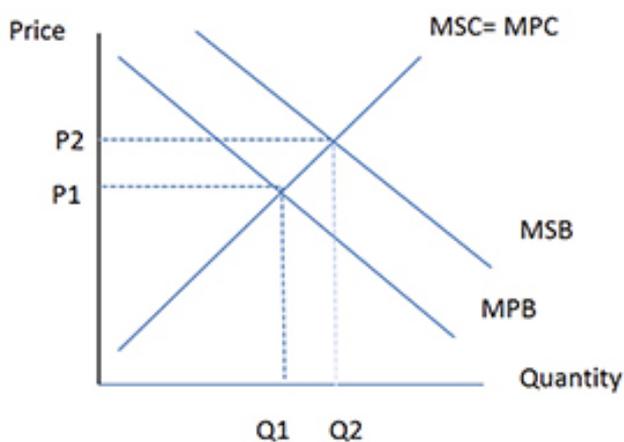
Candidate B

Left to the free market, education is underprovided. It is not provided to the socially optimum level of output. Therefore, there is market failure. However, it is considered partial market failure. There is a market for education, however there is a misallocation of resources due to private schools offering higher quality education who use a rationing function to maximise profit of their scarce resources. As a result governments have to intervene to provide education, making it more available to people. Education is considered to be a merit good as it has positive impacts with its consumption, similarly there are positive externalities with its consumption.

By the government intervening in the market failure for education, it will help to increase the consumption of the good by making it a quasi-public good. Firstly, by the government intervening to correct market failure the good will bring positive impacts along with it.

The candidate is setting the scene, showing some good of market failure and the rationale for state provision.

There is only reasonable analysis of state provision and some confusion about what effect government intervention is having on the nature of education as a good.



As you can see by the government of providing the market with this merit good (education), it will positive impacts on parties outside the transaction. The quantity of education would increase from Q1-Q2. Education can increase skills of workers therefore making them more flexible and versatile to do skills. As a result, it enable firms to be more productively efficient and create more output and achieving macroeconomic objective of economic growth. Similarly, this will help to improve the factor immobility of labour, especially occupational mobility. The workforce may be able to transfer jobs more easily which will in turn solve the problem of excess labour demand in one industry potentially.

There is an appropriate diagram which is just about linked to the analysis – the analysis is good because it has a chain of argument but lacks sophistication.

Similarly, what the government is essentially offering is a quasi-good this good will be excludable but won't have rivalry. As a result under 18 will be able to gain access to this good. Therefore this will be able to solve the problem of reaching the socially optimum level of output and likewise improve the allocation of resources.

No explanation of why education will be excludable.

However, by providing a public-quasi good it can result in a market failure as it creates the problem of free riders. By being a public-quasi good the market mechanism are destroyed as there is no rationing function on the consumers. Consumers are able to consume this product which doesn't solve the problem of the allocation of scarce resources. Therefore, by there being no market mechanisms, the scarce resources (teachers) will be put under huge pressures to allocate their resources to the huge number of students obtaining this free public good.

This argument doesn't seem to be going anywhere, muddled understanding of the reasons for state provision.

Furthermore, the cost benefit analysis still needs to be taken into account on this case. By providing education to every child under 18, it will then incur huge administration costs on the government. However, the costs aren't a problem as long as the return on the benefits of providing this good is far greater than the costs.

A valid, reasonable analysis of the arguments against state provision and which is the most effective.

Candidate B (cont)

To conclude, by providing education through the state essentially does improve the market failure of education. The intervention helps to improve the market to the socially optimum level of output. However, the problem of free riders and cost benefit analysis can make the intervention a government failure. The provision of education by the government comes at a cost and shows its effectiveness only over time.

Evaluation is reasonable, there is an awareness of what state provision depends on to be effective at correcting education market failure. However, it lacks real depth and a supported judgement.

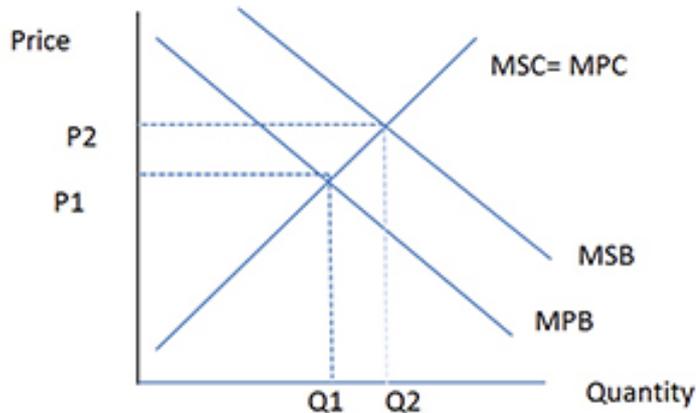
Level: 3 (bottom)

Mark: 11

Candidate C

Positive externalities exist when the effect is beneficial to outsiders. Merit goods are goods that are under-provided and under-consumed by the market mechanism.

Recognition that education can be classified as a merit good.



Education is a merit good with many positive externalities. If the government choose to use state provision as a way of correcting educations market failure there will be an increased social benefit. As education is a long term investment and as the age limit of 18 is now compulsory, it could be more cost effective to some households. The diagram shows the welfare gain if education effects and benefits were consumed at the socially optimum level. This could be helped by improving advertisement or could provide more opportunities for people who will struggle to send their child to school until the age of 18 or at least in training. The same affect as a public good would have. With the idea of the job guarantee system put in by Labour for 18-24 year olds, I think this would have an effect on short term unemployment, this would reduce the youth employment levels for that six months that they are in work for and we would see a decrease in the amount of structural unemployment because people will have the skills to do the job. However after those six months you will have people who will be looking past just the minimum wage and therefore will go looking for work else where and I think the UK would see and increase in frictional unemployment due to there being a greater amount of people in between jobs. Therefore I think we see a decrease in the short run and a slight increase in the long run.

Some (reasonable) knowledge of market failure and of state provision as a method of intervention to correct it. Reasonable analysis of the arguments for the use of state provision, there is some use of economic terms and recognition of concepts such as the free rider problem. There isn't any reference to the diagram in the analysis.

However, improving advertisement and providing education as a public good could prove costly for the government. The government is trying to reduce it's spending after experiencing a recession, it doesn't have the money to spend more on education such as this. The provision of any good by the government also can mean there are free riders.

Confusion with a public good.

Although subsidies to schools such as a bursary, or a payment to students, such as EMA, could help education to be more affordable, it may not sort out market failure. What if students don't want to study until they're 18, what if they don't want to get the most from education?

A very basic attempt to address the other side of the argument, no use of economic terms or a chain of argument.

In conclusion, using state provision as a way of correcting education market failure is an effective way as the MSB is greater than the MPB meaning the long term benefit of good education is positive and it could be at the socially optimum level.

The evaluation is (just) reasonable, the candidate suggests how the government could make education more affordable and recognises that not all students will engage with education – therefore what the effectiveness of state provision depends on. There is a judgement but it isn't supported and really summarises the previous arguments.

Level: 2

Mark: 6

Examiner's summary comments

Candidate A

The candidate begins with a good knowledge of the concept of state provision, market failure and then provides analysis of why education can be considered to be a merit good and how that results in market failure. They could have expanded on the reasons why education is under-consumed

The diagram is correct but could have been explained a little more to truly illustrate where the socially optimum output is and the amount of under consumption of education.

The candidate then goes on to provide strong analysis of state provision as an effective method of correcting education market failure – there is an effective use of economic terms, and a clear chain of argument.

Overall, the evaluation is strong but could have been more developed in places. There is a tendency to state points of evaluation rather than explore ideas in depth. Although the discussion around the opportunity cost of state provision does consider the short and long term aspect which has more depth. The candidate offers a supported judgement at the end.

Candidate B

There is some understanding of education market failure at the start although there could have been a more extensive use of key terms. There is an appropriate diagram which is just about linked to the analysis – the analysis has some chain of argument but lacks sophistication.

Evaluation is reasonable, there is an awareness of what state provision depends on to be effective at correcting education market failure. However, it lacks real depth and a supported judgement.

Candidate C

Some (reasonable) knowledge of market failure and of state provision as a method of intervention to correct it. Reasonable analysis of the arguments for and against the use of state provision, there is some use of economic terms and recognition of concepts such as the free rider problem. There isn't any reference to the diagram in the analysis.

The evaluation is (just) reasonable, the candidate suggests how the government could make education more affordable and recognises that not all students will engage with education – therefore what the effectiveness of state provision depends on. There is a judgement but it isn't supported and really summarises the previous arguments.



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