

**A LEVEL**

*Exemplar Candidate Work*

# **ECONOMICS**

H460

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 H460/01 Microeconomics:

<http://www.ocr.org.uk/Images/170857-unit-h460-1-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.

**In the UK 7% of children are privately educated compared with 24% in Japan.**

**Evaluate whether the provision of education should be left solely to market forces. [25 marks]**

## Candidate G

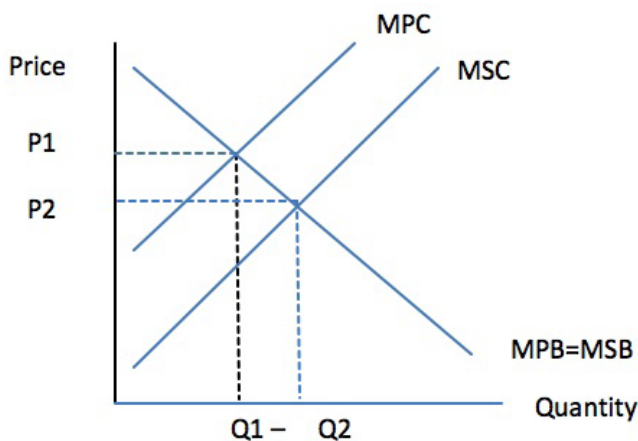
Education can be seen as a merit good. A merit good or service is a product that the government feels that people will under-consume and which ought to be subsidised or provided free at the point of use so that the consumption does not primarily depend on the ability to pay for it. Education should therefore be consumed by all children in the economy and furthermore, in the majority of the countries, including the UK and Japan. It is compulsory to attend education for a certain number of years.

*An introduction which illustrates an understanding of education as a merit good.*

It can be argued, because education is a merit good, if it was provided by the free market goods it would be under-provided and also under consumed. This may be because consumers don't realise the benefits of it or it may be because consumers cannot afford the free market price, therefore being priced out of the market. This would mean that only 24% of Japan and 7% in the UK could attend education.

*The understanding of education as a merit good is developed with effective use of some economic terminology.*

The government should therefore try to increase the provision of education which can be seen in the diagram below...



However, firms may absorb the subsidy and do not pass it on to the consumer as they are likely to have inelastic demand because everyone in the economy is obliged to consume it. This would be government failure. Furthermore, it depends upon if the subsidy is large enough to decrease the price by so much that all children in the economy can attend education. Moreover, it may be difficult to know the value of the positive externality in monetary terms and therefore know the size of the subsidy. Furthermore it depends on the government's budget whether they can subsidise the companies to increase the provision.

*A number of evaluative points which could have been explored in more depth.*

Alternatively, the government could introduce regulations to ensure that private schools are allocatively efficient and that the price is so low that everyone in the economy can afford it. However, private schools may then not make enough profit to keep going or the profit is so low that the firms are not incentivised enough to stay in the market. Furthermore the government would run the risk of regulatory capture.

*Valid alternative explored which reasonable analysis.*

## Candidate G

Instead the government should have a public provision of education, so that education is free at the point of use and that everyone in the economy can consume it. It could be argued that education then becomes a quasi-public good because it is non-rejectable and non-excludable. The government may have to increase taxes to make the whole society pay for it and avoid free riders, depending on the size of the government budget. However, this may be unpopular and could lose them voters.

Furthermore, public provision may not be as good as private provision because the government does not have enough money. This may cause inequalities because the privately educated students may have higher skills and higher marginal revenue product resulting in greater demand for their labour. This could cause negative externalities such as protests and social unrest which could cause government failure. However, lower quality education would still be better than no education.

It can also be argued that if education was provided by the free market forces and only 7% in the UK and 24% in Japan were educated, this could cause strong income inequality. Income inequality is measured by the gini coefficient and the Lorenz curve. The economy would be very unequal because those with education would have more skills and therefore higher MRP and therefore receive higher wage rates and relatively more inelastic demand for their labour whilst those with no education will only get jobs where few skills are required and demand for labour is relatively elastic, pushing down average wage rates and in turn can't pay for education for their children either, resulting in a widening of the income inequality gap.

Even though income inequality may provide an incentive for people to work harder to be able to afford education, the negative externalities are likely to be greater. People on really low incomes may not be able to afford necessities and there would be increased poverty. This would increase crime and decrease the ability to get good healthcare. This would decrease the quality and quantity of labour and therefore decrease the LRAS and the productive potential of the economy. It could furthermore worsen the budgetary position of the government through higher JSA payments and lower income tax receipts (due to automatic stabilisers) However, it would depend how unequal the distribution is but arguably it would be very unequal in this case if only 7%/24% received education.

If the provision of education was left solely to market forces, this could have severe consequences for the economy such as inequality and a lack of social cohesion. The government ought to intervene and the best method would be with state provision of education. How successful this is depends upon the government budget and the quality of state education.

*Analysis of the case against – this has a clear chain of argument on the positive and negative consequences and takes this answer to good analysis.*

*There is strong analysis of the negative consequences of education being provided solely by market forces because the explanation of consequences fully develops the links in the chain of argument.*

*The analysis is again strengthened here with good use of economic concepts to underpin their argument.*

*The discussion gets off to an okay start but picks up as the candidate becomes more confident with the subject matter. There is recognition of the various ways the government could intervene and provide access to education and also the drawbacks of leaving it solely to market forces.*

*The candidate could have spent more time analysing the rationing function of the market as a way of making a comparison between free market forces and government intervention. There is only analysis of the arguments against free markets rather than any analysis of why this may be beneficial.*

*Overall, there is strong analysis and good evaluation; it just lacks enough sophistication and depth of evaluation to tip into L5 and strong evaluation.*

**Level: 4**

**Mark: 20**

## Candidate H

Market forces are the economic factors affecting the price, demand and availability of a commodity. It can be said that provision of education is a merit good as it has positive externalities of consumption, this means that the free market will always under consume this good, as they will not realize the benefits of studying. Therefore the government must intervene to increase provision to try and increase consumption.

Due to the fact that education is a merit good, if left to the free market it will be underprovided and under consumed. This means that the government should step in to increase the provision of education in the UK so that eventually the consumption will increase. To do this the government can use a range of techniques, firstly providing grants and subsidies to private schools so the increase the size of the school but also reduce the amount each person has to pay. This could increase the amount of children that are now able to join private schools as they now have more spaces and also more people can now afford the prices.

However the amount this will increase by will depend upon how much the government gives to the schools and how much they drop their prices, because in some cases the schools may just use the money to develop not actually reduce prices, to combat this the government must ensure that the subsidy and grant is use in an effort to reduce the prices to go to the school. If this is done successfully then the amount of children in private education may increase thus increasing the consumption of the merit good, thus increasing positive externalities. In this sense with more people being educated it means that they will be more productive when they get a job. Therefore they can be more efficient and produce more, which in the long run will benefit the UK as their LRAS would shift outwards thus increasing real GDP and increase economic growth.

If this were left to market forces there is no way that the private schools would just lower prices simply because they are mainly concerned about making supernormal profit and lowering the price would reduce this. However they may increase in size if they have enough profit to do so, but this expansion would just result in the price increasing not decreasing as they have to try and make back the profit they spent on expanding, this may actually cause a fall in the amount of children in education as more and more parents will be unable to pay for private education. To deal with the high cost situation is the government could provide more students with scholarships to attend these private schools but this only allows for a certain group of people, the ones who are excellent at a particular area to be able to attend these schools meaning that not all of the population is covered meaning many people will still not be able to consume the merit good but yet again this is an extreme cost for the government, and the entire problem would not be solved.

Another option the government could do is increasing the amount of state funded schools, which recently they have been trying to do with the free schools concept, this would allow for more of the less well of families to be able to send their children to school. However this is an extremely high cost for the government and there is no actual way of telling how much increase in state funded education is needed due to imperfect information which could lead to government failure of too much or too little is provide. But this is still a better option than leaving it to market forces because if it was nothing would actually improve because no one else would be able to fund the free education system in the uk.

To evaluate, I believe that the provision of education should not left to the market forces but the government must intervene. Simply based on the fact that it is a merit good and therefore it will always be under consumed by the public, so the government must intervene to try and increase both provision but also consumption. This could be done through grants and subsidies to private schools or even trying to increase the amount of state schools. This would be potentially increasing the consumption of education thus increasing the positive externalities. However this will be a great cost to the government and they may under or over provide the education still thus resulting in market failure, but there will still be a misallocation of resources.

**Level: 4**

**Mark: 16**

*Introduction to the issue of education provision which suggests the pros and cons of the free market solely providing education.*

*Suggestion of how government provision could occur*

*Good analysis of the positive and negative consequences of government provision of education. There is a chain of argument which develops most of the chains of argument. There is some evaluation at the beginning by saying it depends on how much the government subsidy is.*

*Further analysis of the consequences, positive and negative.*

*There is good evaluation; the candidate makes a judgement on whether education should be state or market provided with some recognition of what this depends on; however, it isn't strongly supported and could have been developed further in a number of places, so this answer is just L4.*

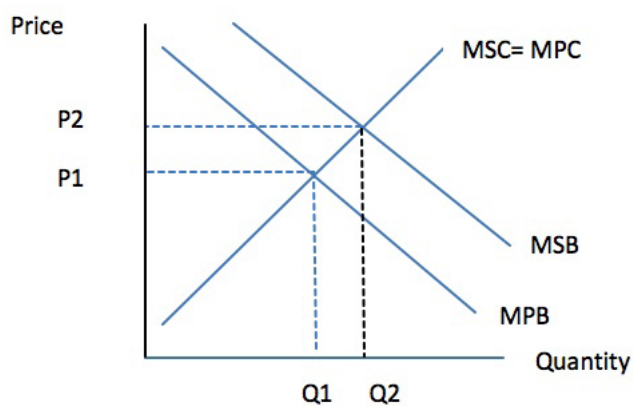
## Candidate 1

Merit goods are those goods and services that the government feels that people will under-consume, and which ought to be subsidised or provided free at the point of use so that consumption does not depend primarily on the ability to pay for the good or service such as education. Both the state and private sector provide merit goods and services. The UK have an independent education system and people can buy private health care insurance.

Education is a long-term investment decision. The private costs must be paid now but the private benefits take time to emerge. Education should provide a number of external benefits including rising incomes and productivity for current and future generations. An increase in the occupational mobility of the labour force which should help to reduce unemployment. Furthermore consumption of merit goods can often lead to positive externalities, where the social benefit from consumption exceeds the private benefit. There are positive spill over effect into the society.

*General introduction to the issue of education provision but limited knowledge of the economics of market failure.*

*There is good analysis here; the candidate addresses the issues of market provision against government provision making effective use of a range of economic terms and concepts.*



The diagram is showing where the MSB is greater than the MPB leading to the socially optimum efficient.

*Limited use of the diagram but the question doesn't explicitly require a diagram so this doesn't affect their analysis.*

However education should not be solely controlled by the market force since some people may be unaware of the long term benefits therefore less demand of the education leading to information failure. Market failure is another factor that may effect the demand for merit good. Actual prices and profits may not reflect the true prices and profits to different economic activities, putting out the wrong signal therefore lead to misallocation of resources. So therefore the solution to this is government intervention such as giving subsidy to education this may have a long term effect on the society since this may increase economic growth as a whole and more people are willing and able to purchase life sustaining goods and overall a welfare gain to the society. In addition Increased spending on education should also provide a stimulus for higher-level research which can add to the long run trend rate of growth. Other external benefits might include the encouragement of a more enlightened and cultured society. Providing that the education system provides a sufficiently good education across all regions and sections of society, increased education and training spending should also open up more equality of opportunity. however this depend on the PED and may have government failure depending the current situation of the economy.

*There is a good chain of argument on both the merits of education and the rationale for government provision. Therefore good analysis.*

Overall, I think merit good should not be left solely to market forces as information failure occurs and government should help by giving subsidy or reducing tax on merit good.

*However, there is only just reasonable evaluation. This is seen within the main argument below the diagram. It is a pity that the candidate stops so abruptly, this had the potential to be a good answer.*

**Level: 3**

**Mark 13**

## Examiner's summary comments

### Candidate G

The discussion gets off to an okay start but picks up as the candidate becomes more confident with the subject matter. There is recognition of the various ways the government could intervene and provide access to education and also the drawbacks of leaving it solely to market forces.

The candidate could have spent more time analysing the rationing function of the market as a way of making a comparison between free market forces and government intervention. There is only analysis of the arguments against free markets rather than any analysis of why this may be beneficial.

Overall, there is good analysis and good evaluation; it just lacks enough sophistication to tip into L5 and strong evaluation and analysis.

### Candidate H

Good knowledge of market forces and market failure. The candidate offers an analytical and evaluative answer which is focused on the question. There is good analysis; a chain of argument is used as are a range of economic terms but there are places where arguments could be explored in more depth. There is good evaluation; the candidate makes a judgement on whether education should be state or market provided with some recognition of what this depends on; however, it isn't strongly supported.

### Candidate I

There is good analysis here; the candidate addresses the issues of market provision against government provision making effective use of a range of economic terms and concepts. There is a good chain of argument on both the merits of education and the rationale for government provision. There is limited use of the diagram within the analysis.

However, there is only just reasonable evaluation. This is seen within the main argument below the diagram. It is a pity that the candidate stops so abruptly, this had the potential to be a good answer.





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